Presentation to:

University of Florida

February 18, 2005
Part 1:  Our Firm

Part 2:  Why is asset allocation important?

Part 3:  How do we implement asset allocation?

Part 4:  Why does investment manager selection add value and how do we select our managers?
1) Our Firm
Our Mission

Our mission is to provide objective, independent counsel to select clients in order to manage their risk and optimize their investment strategies.

In accomplishing our mission, it is important to us that we:

• Maintain independence and objectivity from investment managers and products.
• Institute a disciplined investment process and manage risk through efficient asset allocation, manager selection/evaluation, and rebalancing policies.
• Provide a forward thinking dynamic approach to evolving global investment climates.
• Sustain stable, confident and personal client relationships by limiting clients to select individuals, entrepreneurs, families and foundations.
Why the Need for Independent Investment Advisors?

For almost three decades the institutional client, families over $100 million, corporations, pension funds, insurance groups, public for profit and not-for-profit foundations have had the use of consultants:

- Consultants provide a transparent, unbiased approach to asset allocation, investment policy, and manager selection.

- Consultants monitor the ongoing process of implementing the asset allocation, offering guidance on manager selection and scrutinizing the outcome of each allocation and how it impacts the overall strategy.

- Consultants provide ongoing support with performance measurement and analysis along with the ability to aggregate individual advisors’ performance results.

Integritas provides fee-based services that preclude us from earning any commissions, soft dollars, linked brokerages or attribution of any kind. We are not compensated by any transactions nor for the implementation of the plan.
Integritas Advisors is your source for independent, unbiased investment knowledge. We take your portfolio, analyze it and tell you the truth. Our information is data driven only.

- To evaluate a client’s current risk and return on current portfolio construction, Integritas Advisors provides tax-aware guidance and utilizes statistical research and empirical data that covers all asset classes.

- Integritas Advisors offers a comprehensive approach, coordinating a client’s activities and clarifying complex relationships with private banks, broker-dealers, and independent asset-management firms.

- Integritas Advisors does not receive any compensation from anyone other than the fee our clients pay. We give you the facts because our success depends on doing so.

- We do not invest your money. We do not represent any products or funds. We provide the information necessary for you to make prudent, knowledgeable decisions.

- We monitor on an ongoing basis the investments that are made and keep you informed of any changes in the investment world that could impact your portfolio.

- We know the investment and financial world and can guide you through the complex maze of relationships and promotions.
How do we do it?

1. Consolidated Reporting
   ↓
2. Portfolio Risk Analysis
   ↓
3. Asset Optimization
1. Consolidated Reporting

Answers the question: Where am I?

1) We gather all of your financial statement from your investment relationships and provide meaningful insight into your balance sheet in a simple presentation.

2) Allows you to understand your portfolio.

2) Strategy centered around absolute return instead of relative return.

3) Reduces unintended risk due to style overlap.

Through our consolidated reporting, we allow you to look at and understand your entire portfolio, enabling better risk control and performance measurement.
2. Asset Optimization

Answers the question: How am I doing?

- Asset Optimization involves a combination of 1) Asset Allocation and 2) Asset Location.
  - Asset Allocation analysis determines if your portfolio is under/over diversified and analyzes the performance of each manager within the allocation.
  - Asset Location analysis determines if investments are located in the accounts which will optimize after-tax returns.
    - In today’s complex world no single firm can deliver the best in class.
    - Integritas performs due diligence on over 5,000 investment-management firms to determine those managers who are most capable of implementing the portfolio’s particular investment policies.

Asset Optimization not only tells you how you are doing, but it also guides you through the maze of investment relationships to help you meet you your investment goals.
3. Portfolio Risk Analysis

Answers the question: What is my risk exposure?
1) Gather all marketable securities holdings data.
2) Analyze risk as compared to the market.
3) Analyze risk as compared to your investment goals.
4) Define how much you could lose (The Sleep Factor)

Our risk analysis tells you:
1) what are your actual returns?
2) what does it really cost to do business with ___?
3) what is your risk compared to your return
4) Will your asset allocation meet your needs?
2) Why is Asset Allocation Important?
Why Asset Allocation?

- Asset allocation refers to the types of asset classes held in a portfolio and the percentage weights assigned to each class.

- Asset allocation is the major determinant of the risk and future returns of diversified portfolios.

- The appropriate allocation policy for an individual will vary based on their risk tolerance and investment goals.

How are a portfolio's returns determined?

- Asset Allocation Policy: 91.50%
- Other: 2.10%
- Security Selection: 4.60%
- Market Timing: 1.80%

Chart Source: “Determinants of a Portfolio Performance II: An Update,” Brinson, Singer, and Beebower.
1) **Strategic asset allocation (SAA)** is the process of choosing the optimal combination of various asset classes in an efficient market, based on an investor’s risk and goals.

2) **Tactical asset allocation (TAA)** refers to departures from the SAA with the belief that certain asset classes are misvalued.

- Alpha refers to a risk adjusted measure of a portfolio’s return in excess of the market return. A positive alpha indicates that the portfolio achieved a return above the expected risk.
- During the bull run of the 1990s, TAA fell out of favor as it did not add any value. However, during the volatile market of the 1970s and 1980s TAA produced significant alpha.
### Changing Market Leadership

Note that the blended portfolio is an equal weighting of all asset classes.

- Tactical Asset Allocation clearly adds value (alpha), as leading asset classes are constantly changing.
- As annualized returns in the future are depressed, return disparity should be even more pronounced.

*Source: PSN Database of Informa Investment Solutions*

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<td>VAL 14.0%</td>
<td>VAL 8.4%</td>
<td>VAL 10.3%</td>
<td>VAL 48.5%</td>
<td>VAL 19.4%</td>
<td>VAL 29.04%</td>
<td>VAL 21.6%</td>
<td>VAL 31.8%</td>
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<td>VAL 27.3%</td>
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<td>VAL 29.04%</td>
<td>VAL 19.4%</td>
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*2004 includes returns through November 30th.
# The Power of Compounding Interest

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<th>1 Year Loss</th>
<th>1 Year Return Needed to Break Even</th>
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<tr>
<td>-10%</td>
<td>11%</td>
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<tr>
<td>-20%</td>
<td>25%</td>
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<tr>
<td>-30%</td>
<td>43%</td>
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<tr>
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<tr>
<td>-60%</td>
<td>150%</td>
</tr>
<tr>
<td>-75%</td>
<td>300%</td>
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Single index portfolios may have a higher overall return during certain time periods, but the risk is also much higher. The Enhanced Blended Portfolio combines indices that are negatively correlated to lower the risk. Integritas develops an asset allocation that fits your investment goals using a disciplined risk management and manager due diligence process to lower the volatility of returns.
The Integritas Edge

Annualized Returns:
- S&P 500: 11.7%
- Russell 2000 Value: 14.9%
- CSFB/Tremont Hedge Fund Index: 12.5%
- Simple Blended Portfolio: 11.4%
- Enhanced Blended Portfolio: 11.8%
- Integritas Enhanced Blended Portfolio: 13.04%

Ending Worth for 10 years ended 11/30/2004
3) How do we implement asset allocation?
The implementation process

1) Historical analysis of asset class returns
   • Scenario analysis
   • Statistical studies
2) Ongoing monitoring of markets
   • Newsletters
   • Data feeds
   • External research
3) Client needs
4) Clients assets and the transaction cost trade-off
Investment Options/Vehicles

- **Equity**
  - Mutual Funds
  - REITS
  - Separately Managed Accounts
  - Co-mingled Funds
- **Fixed Income**
  - Treasuries
  - Corporates
  - Municipals
  - International
- **Alternatives**
  - Hedge Funds
  - Private Equity
4) Why does investment manager selection add value and how do we select our managers?
Alpha

Commonly discussed term in the investment industry, but it is often incorrectly applied.

- Many managers discuss alpha in the short-term without considering the sustainability of performance.
- Studies have shown that there is no consistency among top ten fund performers in any particular year for a given style.
- Must differentiate between manager skill and luck.
  - Minimum 5-year track record
  - Manager must have performed through a down market cycle.
  - Is return due to security selection or to being in the right sector (asset allocation)?

Correctly evaluating and predicting alpha is the key to adding value through investment manager selection.
Where do we get our data?

- Database of over 19,000 mutual funds, 5,000 SMA’s, 3,000 Hedge Funds, 1,000 CTAs and 500 Private Equity Deals.
- Through monitoring various newsletters, websites and networking we discover and research other investment products.
- As the primary contact person for our clients with the banks we are constantly presented with ideas.
Some basic qualities of a good manager

- Consistent investment approach so investor can count on the manager to provide a consistent role in diversifying the portfolio.
- Monetary interests in alignment with the fund.
- Management firm’s professional staff should be stable and provide strong backup to the manager.
- Management firm should have strong internal research capabilities, with limited to zero use of soft dollar arrangements.
- Show gradual growth in assets under management and not rely on a few major investors for the majority of assets managed.
- Competitive Management and operating fees.
Initial analysis involves data analysis of each firm. We look at various measures including:

- Sharpe Ratio
- Information Ratio
- Upside & Downside Capture Ratio
- Correlation
- Average Drawdowns and Duration of the Drawdown
- Sterling Ratio

Look at the raw data to look for indications of risk. Are fund returns due to lots of small gains and few losses or few big gains and many losses?

Analyze how the fund performed in various market scenarios.

Firm must be AIMR PPS or GIPS compliant.
Quartile rankings

QUARTILE RANKING BAR
SMALL CAP VALUE
DECEMBER 31, 1994 TO DECEMBER 31, 2004

-5 0 5 10 15 20 25 30 35 40 45 50 RATE OF RETURN

VALUE RANK VALUE RANK VALUE RANK VALUE RANK VALUE RANK

VALID COUNT 200 199 198 186 174 78

Source: PSN Database of Informa Investment Solutions
The risk/reward graph

TOTAL RISK REWARD

DECEMBER 31, 1994 TO DECEMBER 31, 2004

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<th>ROR</th>
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<th>ALPHA</th>
<th>OWN CAP RATIO</th>
<th>SHARPE S.</th>
<th>UPSIDE CAP RATIO</th>
<th>INFO RATIO</th>
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Source: PSN Database of Informa Investment Solutions
5-year risk/reward

TOTAL RISK REWARD

DECEMBER 31, 1999 TO DECEMBER 31, 2004

Source: PSN Database of Informa Investment Solutions
3-year risk/reward

TOTAL RISK REWARD

DECEMBER 31, 2001 TO DECEMBER 31, 2004

Source: PSN Database of Informa Investment Solutions
High style drift

STYLE ALLOCATION HISTORY
PERIODS ENDING DECEMBER 31, 2004

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Source: PSN Database of Informa Investment Solutions
Low style drift

STYLE ALLOCATION HISTORY
PERIODS ENDING DECEMBER 31, 2004

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<th>Style</th>
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<td>31.26</td>
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Source: PSN Database of Informa Investment Solutions
### MANAGER TOTAL PERFORMANCE

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### BENCHMARK TOTAL PERFORMANCE

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<td>9.07</td>
<td>1.68</td>
<td>10.06</td>
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<td>-2.97</td>
<td>2.62</td>
<td>13.17</td>
<td>3.32</td>
<td>2.07</td>
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<td>-0.46</td>
<td>-27.25</td>
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<tr>
<td>Full Year</td>
<td>22.25</td>
<td>46.02</td>
<td>-11.42</td>
<td>14.02</td>
<td>22.80</td>
<td>-1.49</td>
<td>-6.45</td>
<td>31.78</td>
<td>21.37</td>
<td>25.75</td>
<td>-1.55</td>
<td>23.84</td>
<td>29.14</td>
<td>41.70</td>
<td>-21.77</td>
<td>12.43</td>
<td>29.47</td>
<td>-7.11</td>
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</table>
Using Sharpe ratios

<table>
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<tr>
<th>Company</th>
<th>3 Yr</th>
<th>4 Yr</th>
<th>5 Yr</th>
<th>6 Yr</th>
<th>7 Yr</th>
<th>8 Yr</th>
<th>9 Yr</th>
<th>10 Yr</th>
</tr>
</thead>
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<tr>
<td>1</td>
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<td>0.89</td>
<td>0.95</td>
<td>0.86</td>
<td>0.63</td>
<td>0.75</td>
<td>0.86</td>
<td>0.94</td>
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<tr>
<td>2</td>
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<td>0.47</td>
<td>0.55</td>
<td>0.36</td>
<td>0.24</td>
<td>0.33</td>
<td>0.42</td>
<td>0.51</td>
</tr>
<tr>
<td>3</td>
<td>0.61</td>
<td>0.61</td>
<td>0.57</td>
<td>0.53</td>
<td>0.41</td>
<td>0.61</td>
<td>0.66</td>
<td>0.73</td>
</tr>
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<td>1.00</td>
<td>0.73</td>
<td>0.49</td>
<td>0.63</td>
<td>0.68</td>
<td>0.70</td>
</tr>
<tr>
<td>5</td>
<td>0.80</td>
<td>0.62</td>
<td>0.82</td>
<td>0.62</td>
<td>0.46</td>
<td>0.56</td>
<td>0.60</td>
<td>0.68</td>
</tr>
<tr>
<td>6</td>
<td>0.61</td>
<td>0.36</td>
<td>0.03</td>
<td>0.22</td>
<td>0.12</td>
<td>0.20</td>
<td>0.30</td>
<td>0.42</td>
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<tr>
<td>7</td>
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<td>0.22</td>
<td>0.21</td>
<td>0.14</td>
<td>0.27</td>
<td>0.34</td>
<td>0.43</td>
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</tbody>
</table>
## Asset flows

### COMPANY 1

<table>
<thead>
<tr>
<th>Year-End</th>
<th># Accts Gained</th>
<th># Accts Lost</th>
<th># Accts Total</th>
<th>$Mkt Value Gained(Mil)</th>
<th>$Mkt Value Lost(Mil)</th>
<th>$Mkt Value Total(Mil)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td>2000</td>
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<td>3</td>
<td>49.80</td>
<td>0.00</td>
<td>56.20</td>
</tr>
<tr>
<td>2001</td>
<td>N/A</td>
<td>N/A</td>
<td>3</td>
<td>N/A</td>
<td>N/A</td>
<td>57.60</td>
</tr>
<tr>
<td>2002</td>
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<td>6</td>
<td>18.00</td>
<td>0.00</td>
<td>94.20</td>
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<tr>
<td>2003</td>
<td>2</td>
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<td>20</td>
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<td>0.00</td>
<td>349.80</td>
</tr>
<tr>
<td>Dec-04</td>
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<td>54</td>
<td>144.30</td>
<td>0.00</td>
<td>1,372.70</td>
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</table>

### COMPANY 2

<table>
<thead>
<tr>
<th>Year-End</th>
<th># Accts Gained</th>
<th># Accts Lost</th>
<th># Accts Total</th>
<th>$Mkt Value Gained(Mil)</th>
<th>$Mkt Value Lost(Mil)</th>
<th>$Mkt Value Total(Mil)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>9</td>
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<td>73.00</td>
<td>1.00</td>
<td>324.00</td>
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<tr>
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<td>9</td>
<td>18</td>
<td>20.00</td>
<td>26.00</td>
<td>285.00</td>
</tr>
<tr>
<td>2001</td>
<td>1</td>
<td>1</td>
<td>18</td>
<td>9.00</td>
<td>3.00</td>
<td>346.00</td>
</tr>
<tr>
<td>2002</td>
<td>5</td>
<td>1</td>
<td>22</td>
<td>23.00</td>
<td>1.00</td>
<td>359.00</td>
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<tr>
<td>2003</td>
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<td>45</td>
<td>113.00</td>
<td>31.00</td>
<td>549.00</td>
</tr>
<tr>
<td>Dec-04</td>
<td>16</td>
<td>5</td>
<td>56</td>
<td>169.00</td>
<td>47.00</td>
<td>818.00</td>
</tr>
</tbody>
</table>
2nd round of due diligence

After screening firm based on data, we send a questionnaire to the manager. Questions include information about:

- The firm’s founders backgrounds
- Prime brokerage and administrators
- References
- Performance reporting
- Investment Research
- Fees
- Fund Promotion
- Other investors
3rd round of due diligence

Person or phone interview: 2 parts to the due diligence

- Qualitative
- Quantitative
Quantitative

• Repetition: is the fund’s investment process easily repeatable?
• Model: is it based on fundamentals or a black box? Discuss the best and worst investments.
• Risk controls: What type of risk management system do they employ? Position limits? Stress testing?
• Leverage: What is the amount of leverage used? Leverage caps? What banks extend the fund leverage?
• Taxes: What are the tax implications for investors?
• Fund formation and structure: Outside activities of the fund? Compensation? Fund terms?
• Subscriptions and redemptions: Terms? How are new funds received? How are redemptions processed? Carried interest?
• Manager profile: Verify facts of his resume. Obtain references. Stable personal life?
• Fund reporting: Who tracks the trades? How is cash reconciled?
• Administration: Separation of front and back office? Do the monitor that the terms of the offering are being upheld? How many clients do they have?
• Fund Auditor: How experienced are they? Have there been any problems with previous audits?
• Fund Attorneys: Cross-reference data given to you by the fund manager.
Intangibles

- Comfort level with the manager
- Level of transparency

If still unsure about the fund we do further due diligence through either office visits or outsourcing to a specialized firm.