

PILLAR TO PERFORMANCE, COMPLIANCE AND OPERATIONS

June 2017





Mission Statement and Core Pillars

Raise investment standards for all stakeholders, Phocion Investment Services will never give any insincere counsel

Honesty

Accountability

Excellence in service



Phocion has been serving clients since 2010

- Leading authority in:
 - Performance
 - Due diligence
 - Compliance
- Differentiated by providing:
 - In-depth and customized solutions
 - Professionals experienced across the full breadth of the finance industry
 - Experts with a great depth of collective experience



Management Team

Experience with depth and breadth

Ioannis Segounis, B.Eng, MBA, CFA, CIPM

Founder and Managing Director

Industry Experience: Performance and Research

Career began: 1999

Founded firm: 2010

David Rowen, CFA, FRM

Managing Director

Industry Experience: Investment Management and Research

Career began: 1994

Joined team: 2015

Kosta Segounis, CPA, CA, CFA

Managing Director

Industry Experience: Compliance and Operations Due Diligence

Career began: 1995

Joined team: 2015



Importance of Performance Quality

- Valuable feedback mechanism into portfolio management
- Increased demand for transparency in performance reporting
- Reputational risk owing to erroneous calculations
- Communication tool to investors



Performance Management

Assist clients to achieve the highest quality of performance measurement and avoid the costly impact of cumulative errors

Provide the feedback necessary to invest with skill rather than luck

Our approach includes:

- Portfolio Strategy and Benchmark Review
- Quantitative Performance Evaluation
- Qualitative Investment Thesis Appraisal
- Evaluation of the Effectiveness of the Strategy and its Execution



Performance Operations Consulting

Develop performance operations process and assist in implementation

Identify operational risks and propose procedures to mitigate risks

Areas of focus include:

- Performance Systems Evaluation & Implementation Consulting
- Back Office Operations Examination
- Data Management Review
- Performance Policies and Procedures



GIPS Consulting

Designed to provide an ethical framework in the preparation and presentation of performance

Areas of focus include:

- Policies and procedures
- GIPS Compliance GAP analysis
- Calculation methodology
- Composites construction
- Disclosures
- Presentation and reporting



Performance Training

Provide training services to assist clients in obtaining knowledge to use and improve performance

Customized topic areas include:

- Performance Measurement
- Benchmarks and Composites
- Attribution Analysis
- Performance Appraisal
- Ethical Standards



Due Diligence Services

Comprehensive and tailored due diligence reviews ensures your firm and team make informed decisions. Reviews include:

- Custom service to meet unique needs of each client's
- Programs for traditional investment managers and alternative investments managers
- Detailed review of key investment manager documents, on-site meeting with staff, evaluation of service providers and ongoing monitoring following initial due diligence

Due Diligence Example

A liquid long/short fund managing \$100 million operated by a team of 5 and managed two products through a master feeder structure (with both its onshore and offshore feeder).

Topics	Strengths	Weaknesses
Structure	<ul style="list-style-type: none"> - Simple Structure - Alignment of owners of the fund with investors regarding fees 	<ul style="list-style-type: none"> - Key man risk - Employee turnover - No equity participation offered to other employees
Portfolio and Performance Appraisal	<ul style="list-style-type: none"> - Investment Research generated internally - Reported performance numbers show positive, absolute returns over 1 year, 3 years, 5 years and inception 	<ul style="list-style-type: none"> - Owner has sole responsibility to the investment decisions - Volatile performance returns - Benchmark comparison not suited to the actual strategy
Control Environment	<ul style="list-style-type: none"> - Firm registered with SEC - Independent administrator performs verification of the portfolio's pricing - Strong signatory policy regarding movement of assets 	<ul style="list-style-type: none"> - No verification on the quality of the performance measurement - Compliance policies and procedures not current - Multiple NAV errors in two different occasions.

Phocion's DD Differentiates From The Industry

	Phocion's customized approach	Larger DD Firms' generic approach
Professionals' industry knowledge	Full breath of experience in the front, mid and back offices of the finance industry. Work performed by seasoned industry professionals with depth of experience.	Work performed by junior level professionals each with limited industry experience.
Focus	Due diligence on front-end strategy, performance (i.e. appraising accuracy) and operations.	Due diligence on operations only.
Service Approach	<ul style="list-style-type: none"> - DD review customized to clients' needs. - Focus to provide the highest quality. 	<ul style="list-style-type: none"> - Provide only operational DD review with follow on generic report. - Focus to deliver volume.



High Net Worth (HNW) Advisory Services

Independent due diligence services for high net worth clients that evaluate current and/or prospective investment advisor offerings

Ensuring the safety of investor capital includes:

- Review the client's profile, risk/return objective and asset allocation
- Review of the investment advisor strategy and proposals, including their model portfolios, marketing material and performance report
- Background checks on the investment advisor and their team, including any regulatory disciplinary sanctions
- On-site review of the investment advisor's premises

HNW Advisory Services – Observations/Findings Example

POSITIVES	NEGATIVES
<ul style="list-style-type: none"> • Client comfort with the institution due to his long-standing business relationship. • Client investments are held in his name and not street name. • Investments are held in custody at reputable firm for safekeeping. 	<ul style="list-style-type: none"> • Multiple conflicts of interest and limited finance industry knowledge and experience. • The investment performance has been poor; a low-cost passive strategy performed better over all time periods. • The wealth manager has 450 relationships which is large; difficult for him to provide service. • Concentration of managers that have significant cross stock holdings in both Canada and the United States. • Total estimated fees of \$21,000 which represents 1.05% of the client's investable wealth of \$2,000,000. • A significant portion (40%) of the proposed portfolio consists of fashionable investments that are not necessary: High-Yield, Emerging Markets Equity, Real Assets, Hedge Funds, Tactical Deviation and Pref. Shares.

HNW Advisory Services – Observations/Findings Example

POSITIVES	NEGATIVES
<ul style="list-style-type: none"> • Team-based approach. • Only team across Bank in Canada with access to Bloomberg. • Largest investment advisory within Bank across Canada servicing 450 client relationships and over \$1 billion in assets under management. 	<ul style="list-style-type: none"> • Misspelled client's first name in proposal. • Proposal had no client customization. • Long time lag in getting proposal provides insight of things to come. • Proposal included high-fee mutual funds where the advisor did not provide proper disclosure. • Questionable and poor performing mutual fund selections, including high-yield debt and global equities. • No stock selection in Energy in Canada or Information Technology in the United States. • Poor asset mix. • Calculates and markets own discretionary model performance returns. • Poor investment credentials.



Compliance Program Review

Provide consulting services to enhance client compliance programs

Focus areas include:

- A review and assessment of the completeness and effectiveness of the compliance controls
- A review that the processes (i.e. gap analysis, risk assessment), systems and controls are in place in order to meet regulatory requirements
- Anti-Money Laundering program reviews
- Testing and analysis to determine the effectiveness of the firm's compliance monitoring and controls
- Detailed report identifying strengths and weaknesses



Chief Compliance Officer (CCO) Support Services

Allows for adherence to industry practices

Benefits of engaging Phocion include:

- Independence and objectivity
- Flexible, highly-professional solution
- Liaise with regulatory authorities on your behalf



Compliance Training

Train client team to implement customized compliance program that meets industry practices

Examples of areas where controls are required:

- Conflicts of Interest
- Anti-Money Laundering (AML)
- Fair Dealing
- Personal Trading
- Marketing Materials



United States Securities Regulations

Phocion's affiliation with Scitus Consulting accesses the regulatory expertise of a former SEC Senior Advisor

The services include:

- Registration requirements (i.e. SEC, FINRA, NFA, state level, etc.)
- Filings and other support with regulatory authorities (i.e. SEC, FINRA, CFTC, NFA and others)
- Capital requirements (i.e. SEC Rule 15c3-1)



Selected Clients

Phocion partners with the following institutions:

- Banks
- Family Offices
- Hedge Funds
- Investment Management Firms
- Pension Funds
- Providers of Data



Industry Affiliations

Phocion is a leading industry authority with influential roles within:

- CFA Institute's CIPM Advisory Committee
- AIMA Canada Operations and Compliance Committee



Who was Phocion?

- Athenian statesman from c. 402 BC – c. 318
- Nicknamed "The Good"
- Courage to stand up against popular opinion
- Avoided corruption
- Loyal to the best interests of all Athenians
- Never mistreated anyone
- Never gave insincere counsel



Appendix I

Biographies



Ioannis Segounis, B.Eng, MBA, CFA, CIPM

Ioannis' knowledge and experience spans the whole spectrum of the investment performance discipline. His dedication to bringing the best of this evolving field to the investment industry led him to the founding of Phocion Investment Services in 2010.

Ioannis previously held the position of Manager – Performance Measurement and Attribution at Intact Investment Management where he was responsible for building and growing the performance functions of the firm. He was also an integral part of structuring the performance operations at CN Investment Division.

Ioannis is an active participant in NYSSA's Performance & Risk Analytics Group Committee. His work has been published in *The Journal of Performance Measurement* and *The Finance Professionals' Post*. He is also a member of the Certificate in Performance Management Measurement (CIPM®) Advisory Committee.

Ioannis has earned the CFA® and CIPM® from the CFA Institute. In addition, he has earned an MBA degree with a specialization in Investment and Portfolio Management from HEC Montreal, and a Bachelor of Engineering degree from Concordia University.



Kosta Segounis, CPA, CA, CFA

Kosta's vast industry experience is most notable in the areas of compliance, due diligence and risk management. Prior to joining Phocion in 2015, he held the position of Senior Advisor at National Bank of Canada where he was responsible for performing compliance reviews of different lines of business.

Prior to National Bank, Kosta held a senior management position in a consulting firm, where he performed due diligence on a variety of alternative managers, from emerging managers to large and sophisticated hedge fund managers following complex strategies. Further, he was an integral part of building the compliance department at PSP Investments.

Kosta is been active member of the AIMA Canada Operations and Compliance Committee. Also through AIMA, he participated in a global working group that drafted *Guide to Sound Practices for Operational Risk Management for the hedge fund industry*. His work has been published in *The Finance Professionals' Post*.

Kosta is a member of the Chartered Professional Accountants of Canada and is also a CFA® charter holder. He has earned a Bachelor in Commerce and obtained a Graduate Diploma in Accountancy from Concordia University..



David Rowen, CFA, FRM

David's industry experience is most notable in the areas of portfolio management and equity research. Previous to joining Phocion in 2015, David was responsible for managing the wealth of high net worth investors at HSBC Holdings plc.

Prior to that, David worked at CN Investment Division where he successfully launched and managed a small-capitalization equity energy portfolio. This achievement was followed by him assuming the role of United States Portfolio Manager whose assets represented 10% of the Division's assets under management of some \$16 billion.

Further, he was a Senior Equity Analyst for two institutional securities firms that were subsequently acquired by Cantor Fitzgerald and Canaccord Genuity, respectively.

David is a CFA® charter holder and has the FRM® designation. He has earned a Bachelor in Commerce from McGill University. His work has been published in *The AIMA Journal* and *The Huffington Post*. He is co-Director for The Hedge Fund Association's Canadian chapter.



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