

# Take Note

## US EQUITY FUNDS (RIC & Russell US Equity Fund L.P.) MANAGER CHANGE



In April 2008 we terminated Systematic Financial Management and hired JS Asset Management.

### Change Summary

- JS Asset Management conducts fundamental analysis focusing on 'deep value' stocks, i.e. compares stocks that have been significantly and potentially overly penalised by the market. The introduction of JS means that we now have a greater process diversified value segment which further complements the growth side of the portfolio.
- We continue to have a positive view of Systematic which performed well in 2007, but believe that this change improves the structure of the fund given the low correlation of JS's approach to the other managers used within the structure.

### Russell Research View

- We like the JS team's combination of industry level and stock specific analysis. We view the combination of lead portfolio manager John Schneider's disciplined approach to valuation along with the firm's focus on catalysts as favourable. We also have a positive view of Schneider's ability to identify attractive forward-looking fundamentals earlier than many managers. Schneider's discipline is also extended to selling stocks when the expected catalysts have failed to materialise or when valuations are no longer attractive. We find the disciplined early selling of unattractive stocks appealing.

### Manager Fit

- The inclusion of the JS Asset Management product complements the other value managers in the Fund. In contrast, ICAP focuses on more relative value stocks and makes greater use of top down analysis. Another point of distinction is that ICAP's global perspective means analysts compare US stocks with other stocks in similar industries globally. MFS focuses on higher quality stocks trading at lower valuations. The stocks it selects for its portfolios tend to have more defensive characteristics compared to JS Asset Management such as attractive dividend yields, strong balance sheets and a high return on equity. Meanwhile, Sound Shore's contrarian value approach which uses an intensive level of fundamental analysis to identify stocks that are strongly out of favour is the key differentiating aspect. It also uses a broader set of valuation factors than JS.

### JS Asset Management at a Glance

Key characteristics:	Fundamental analysis of stocks that have been significantly and potentially overly penalised by the market and are selling at a deep discount.
Parent Company:	100% employee-owned.
Location:	Pennsylvania.
Experience:	Lead portfolio manager John Schneider has 21 years' experience.
Founded:	2005.
AUM:	\$360m in total, as at 31 December 2007.

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## Changes to manager weights in the RIC US Equity Fund and Russell US Equity Fund L.P.

Manager	Fund Weights (%)		Role in Funds
	Old	New	
ICAP	12	13	Relative value, top down and bottom up analysis, global perspective.
Sound Shore	9	10	Contrarian value manager using a broad set of valuation factors.
Systematic	8	-	Value manager, quant screening and fundamental analysis.
JS Asset Management	-	5	Fundamental, deep value.
MFS	11	12	Value manager focusing on high quality companies.
ASB	5	7	Market-oriented with a value bias, absolute return orientation, event-driven.
Suffolk	12	12	Market-oriented investing in companies likely to generate positive earnings surprises.
Montag & Caldwell	10	9	Defensive growth manager employing a consistent growth strategy.
Columbus Circle	10	10	Growth manager, focus on companies in early earnings cycle stages.
Cornerstone	10	10	Core growth, emphasises stocks with higher than average growth rates.
Turner	8	7	High growth manager, investing in stocks with favourable earnings and price momentum.
Select Holdings	5	5	Represents the 'best ideas' of the fund advisors in aggregate.

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