

Johnston Investment Counsel

Research • Analysis • Results

Johnston Investment Counsel (JIC) provides the full range of investment consulting and advisory services. JIC has experience working with many types of plans including (but not limited to) defined benefit and contribution plans, endowment and foundation funds, and Taft-Hartley funds.

While JIC's consulting clients tend to be institutional in nature (corporations, not-for-profit, public funds), we also provide consulting services to high net worth individuals. JIC's consulting services can either be based on a specific project(s) or combined into a single retainer relationship.

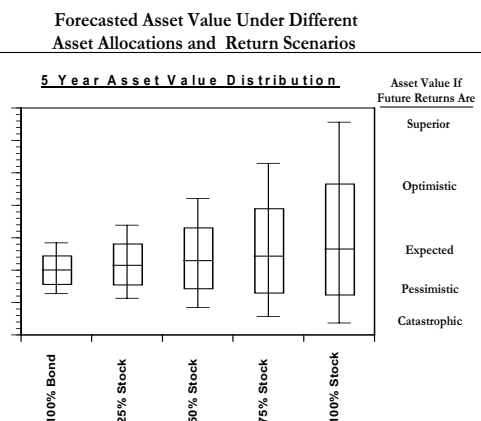
JIC is a 100% independent, fee-based investment advisory and consulting firm. Since JIC has no relationships with banks, brokerages, insurance companies, or mutual fund firms, JIC's advice and recommendations are always unbiased. JIC simply has no conflicts of interest. In addition, JIC's experience, analysis, and approach make us uniquely qualified to provide investment consulting services. JIC's investment consulting services include:

- Asset allocation development,
- Investment policy statement,
- Portfolio structure and diversification,
- Ongoing style recommendations,
- Manager search and selection, and
- Performance measurement and evaluation

Asset Allocation

The mix between various asset classes will likely have a significant impact on a portfolio's future return and risk characteristics. Therefore, it is one of the most important decisions a client can make. In assisting clients develop an appropriate asset allocation, JIC uses a combination of quantitative and qualitative inputs.

Quantitative inputs are generally cash-flow (contributions & disbursements) related. In conjunction with return and risk estimates, a financial model is created to determine the effect, over time, different asset allocations and return scenarios may have on a client's portfolio. The following chart highlights the range of 5-year asset values using different asset allocations and return scenarios.



Qualitative inputs are questions that, based upon the client's response, gauge their willingness to accept investment risk. In determining the "correct" asset allocation, JIC's goal is to maximize the probability that a client's financial goals are reached within their parameters for accepting risk.

Investment Policy Development

A well-developed investment policy statement will serve as a "roadmap" to guide the investment activities of the fund. Working together with the client, JIC assists in developing and maintaining this important fiduciary document.

The investment policy statement will:

- Define responsibilities,
- Describe the investment program,
- Establish performance objectives, investment guidelines, and restrictions, and
- Describe review procedures.

Portfolio Diversification and Structure

Once the asset allocation has been determined, JIC assists clients in achieving proper diversification. For stock investments, JIC believes allocations to different company size ranges, investment approaches, and international stocks are appropriate. Bond investors should consider different maturities, sectors, quality ranges, and international bonds.

The following chart shows a graphical representation of the stock market segmented by company size, investment approach, and international stocks. In order to identify any

		<u>U.S. Equity Market</u>	
		<u>Value-Style Stocks</u>	<u>Growth-Style Stocks</u>
<u>Large</u>		Large Value	Large Growth
	<u>Mid</u>	Mid Value	Mid Growth
	<u>Small</u>	Small Value	Small Growth

<u>International Equity Markets</u>	
	Developed International Stocks
	Emerging Market Stocks

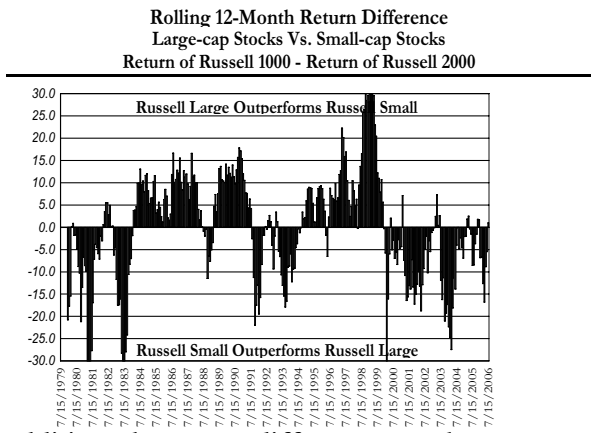
“diversification holes”, JIC will “plot” each of the client’s equity manager(s) on the equity style map. Based upon its analysis, JIC may recommend certain adjustments.

Once the equity and bond portfolios are diversified to the various style categories, the next decision is the use of active and/or index (passive) management. JIC reviews the advantages and disadvantages of using index funds as well as the various style segments in which they may be the most advantageous.

Ongoing Style Recommendations

At JIC, maintaining diversified portfolios is a core belief. However, that does not imply that all equity and bond market segments offer similar fundamentals and future return potential. The following chart highlights how,

over rolling 1-year periods the *return difference* between large- and small-company stocks may be substantial. It is interesting to note that, once a “style trend” starts, it tends to be in favor for perhaps several years. In



addition, the return difference may be substantial. JIC attempts to take advantage of these style trends by adjusting the portfolio’s investment style allocation.

In making its investment allocation decision, JIC relies on several factors, including:

- Fundamental analysis (valuation, growth, and profitability characteristics),
- JIC’s forecasting models that incorporate various macroeconomic, fundamental, and technical factors,
- Technical analysis, and
- Judgement.

Manager Search and Selection

JIC’s manager selection process uses a combination of quantitative criteria and qualitative analysis.

In selecting appropriate candidates, JIC puts its primary emphasis on a firm’s ability to consistently outperform their style-based benchmarks on both an absolute and risk-adjusted basis. Firms that exhibit long tracks records of consistent outperformance are eligible for further consideration.

Other factors used in JIC's analysis include:

- An investment philosophy and process that is understandable, explainable, and is consistently applied,
- Moderate growth in assets under management,
- Low investment professional turnover,
- Fees that are reasonable and in-line with competitors, and
- Historical portfolio characteristics that are consistent with the investment manager's investment style and process.

Based upon these factors, JIC develops a finalist list of three to four firms. JIC's manager search report will provide information on each firm's ownership, professional turnover, growth in assets, fees, a description of investment philosophy and process, portfolio characteristics, and a thorough risk and return analysis versus appropriate style-based peer groups and indices. In addition, JIC will provide what it believes are the key advantages and disadvantages of each firm.

Performance Measurement & Evaluation

In evaluating investment performance, JIC's goal is to determine whether each investment manager is meeting their stated performance objectives (as outlined by the investment policy statement) and, based upon an analysis of available information, the manager's *future* performance is expected to meet objectives.

JIC's performance reports includes the following:

- Executive summary of results including any of JIC's recommendations,
- Total fund, stock, and bond-only allocation versus policy objectives and index benchmarks,

- Total fund, stock, and bond segment returns and rankings versus investment policy defined universe and index benchmarks,
- Manager performance and rankings versus styles specific peer group and indices, and
- Portfolio characteristics versus appropriate benchmarks.

About Johnston Investment Counsel

Johnston Investment Counsel (JIC) is an employee-owned firm founded in 1997 by Gregory A. Johnston, CFA, CFP. Greg has nearly 20 years of investment consulting and advisory experience. He has earned both the prestigious Chartered Financial Analyst (CFA), and Certified Financial Planner (CFP) designations. In addition, he has a B.A. from the University of Illinois, and an MBA from DePaul University.

We are a 100% fee-based investment advisory and financial planning firm. We are fiduciaries. We put our clients interests first, act with integrity and honesty, and strive for excellence in every facet of our practice. ***JIC's recommendations are solely based on our client's needs, circumstances, and goals.***

JIC is a 100% independent firm, and has no affiliations with any other firm. As an independent firm, JIC has no conflicts of interests and can seek the most attractive investment alternatives. JIC's interests are totally aligned with those of its clients.

JIC is a research based organization that uses its own proprietary research, supplemented with outside viewpoints, in making investment decisions.

JIC's sole source of revenue is from its client-based fees. Our clients include individuals as well as institutions (corporations, endowment/foundations, and Taft-Hartley funds).

JIC has three major service categories:
investment advisory and consulting, financial
planning, and working with retirement plans.

To learn more about the specific services of
JIC you may:

1. Contact JIC at (309)674-3330,
2. Email us at info@jicinvest.com, or
3. Go to the JIC website at www.jicinvest.com.