GREENLEAF® TRUST

Perspectives

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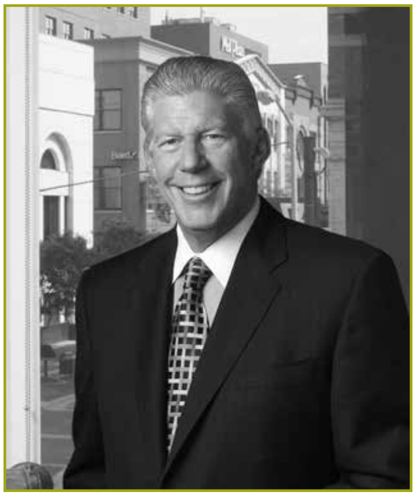

William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

Whenever I travel internationally, I always make an effort to delve into the local economic and political environment and do some gut level comparisons with economic and political happenings in the U.S. Recently, I had the opportunity to spend five weeks in Australia and their national elections provided an unusual opportunity to gain some real-time perspectives. Some definitions are in order to understand the players and make comparisons. Their "Liberal Party" are our Republicans and their "Labor Party" are our Democrats. To add some additional interest, they have a fairly strong "Green Party" which is centered around all things environmental. The "Green Party" is especially strong in the State of Tasmania, whose economy is dominated by agriculture, mining and timber. For the past three national election cycles the "Labor Party" has controlled, in combination with the "Green Party," both the executive and legislative branches of Australia's national government. During my visit, the polling was clearly against the current administration and by a wide margin in favor of the opposition or Liberal (Conservative) party. Why the discontent and why were the voters seemingly eager for change?

The economy, employment, taxes and immigration ranked highly amongst the electorate who, by the way, voted the sitting Premier out as well as enough of the legislature to hand the reigns to the Conservative party. In general, the themes of regulation and taxes hurting the economy were amplified by 6.5% unemployment and flotillas of Indonesian immigrants arriving on their shores. Australia had benefitted from being a strong supplier of raw materials to China. As their export economy grew, their manufacturing economy shrunk. Consistently low unemployment, in the 3.7% range, was only interrupted by the global recession in 2009. Even then, China's massive internal investment kept their importation of agricultural, timber and mining products humming and, thus, Australia's recession was far milder than most of the western hemisphere. China's GDP retreat from double digit growth to 7% in 2012 has, however, begun to impact the three largest sectors of Australia's economy, and given rise to some fundamental concerns and economic angst that were much easier to ignore when their economy was growing and unemployment was low. They

Economic Commentary, continued

are now mired down in a 2.5% GDP growth with 6.5% unemployment, an export economy, and a decline in manufacturing and inflation that is eating away at purchasing power. The result is an uneasiness that is palpable, and for which the solutions are difficult at best.

The comparisons to our economy are noticeable, as was the political theatre being played out in their election cycle. When people are hurting economically, they tend to vote with their pocketbook. Those in charge are blamed and the opposition doesn't really have to own a specific plan, they can simply say the current plan isn't working. Beyond the typical slogans and rhetoric were some discussions amongst analysts of real and troubling issues. Was Australia's future to be simply the bread basket to the east? Was manufacturing over for good in their country? What were the implications of Ford and General Motor Company's decision to close their remaining automotive plant in Australia? What future did Australian children have in a slow growth economy with a decline in advance manufacturing jobs? What factor did the increased regulation of the past twelve years have upon economic growth, and was the administration's relaxed stance on immigration hurting the Australian workforce? To me, it seemed the questions were repetitions of those often voiced in our own country. As a visitor, it was clear that it was very expensive to live in Australia. A fifty dollar bill seemed to have the purchasing power of a twenty. Although their minimum wage was over twice that of ours, their poverty rate was in excess of $30,000 per year for a household of four. Opinion polls suggested that, in greater numbers, Australians felt that high costs of labor and regulation relative to the rest of Pan Asia hurt their competitiveness as a manufacturing economy and threatened future opportunities. The debates that were happening amongst the analysts were centered around national public policy on education, the environment, wages and benefits and taxation.

> "The wage issue is political fodder and should be seen as such. Real and lasting public policy on enhancing opportunity for escaping poverty is hard work..."

Last month we spent time focusing on our national minimum wage issue and the economic implications of raising it. The conclusion that I drew was that there was not a great deal of evidence on either side of the debate as to the economic impact of raising it, and that for people in poverty the real issue was not equality of wages but rather equality of opportunity. The wage issue is political fodder and should be seen as such. Real and lasting public policy on enhancing opportunity for escaping poverty is hard work, requires passion for the subject, and offers precious little political advantage — which is, in the main, why it is not done.

In our current condition the privilege of birth is powerful. The evidence is dramatic. Children born into middle class families are far more likely to become middle class themselves than those born into families in poverty. They do so because they are more educated, healthier and beneficiaries of systemic opportunities than those in poverty. They are less likely to have criminal records or to be victims of crime. They live longer and participate more in the political process. Given the description, why wouldn't we want to have effective public policy that reduces poverty? Unfortunately, the substance of our efforts and debate has been to perpetuate the condition and blame the victim. Children born into poverty don't choose to do so, yet they are twice as likely to be poor as adults than children who, by circumstances of chance, are born into middle class families. Can public policy replicate a middle class family for a child born into poverty? No, clearly not, but can effective public policy make access to education, affordable daycare, free preschool, family health center care, accessible and affordable public transportation happen? Yes, and with a cost. As with any effective public policy that benefits those that can't pay, others will pay. Our trips to the moon, national defense, National Institutes of Health, National Highway Infrastructure, seaports, airports, etc., are all the result of public payment for public good, and we had the political will to do so. Having the political will to do more and pay more for the most desperate of our society requires political will as yet untested, and so we resort to debates about raising the minimum wage, which we know from fact only impacts a very small percentage of those employed.

Those who argue against doing more for the poor tend to believe that government assistance to those in poverty hasn't worked, and they are absolutely right in the sense that current policy has not worked. It does not mean that new effective policy could not work. They also have a tendency to believe, because of anecdotal examples, that people can escape poverty by being more resolved, working harder, getting more education and simply persevering more. Once again, their anecdotal examples did all of that and, therefore, reinforced their belief that all born into poverty can if they have enough drive and desire to do so. The implications, benefits, privilege, circumstance, and challenge of birth are ignored. Successful people have a greater tendency, when asked, to explain their success by looking inward. It was their talent, work ethic, ambition etc. that allowed them to achieve. Advocating for public policy aimed at breaking systemic cycles of poverty requires that successful people accept and own that talent, work ethic and ambition, while required for success, are greatly enhanced by access, education, healthcare, and communities within society that provide support systems that allow for perseverance to survive.

The debate about inequality of wealth cannot be won by ignoring the data and denying that the privilege of birth is impactful. A frank

"A frank discussion of the inequality of opportunity to achieve middle class status is essential by national political leadership if we want to resolve the issue in any real way."

Economic Commentary, continued

discussion of the inequality of opportunity to achieve middle class status is essential by national political leadership if we want to resolve the issue in any real way. The solutions similar to minimum wage are solutions around the margins and will do nothing about inequality of wealth. Nationally we are seeing access to quality education diminish. State support of both public K through twelve grade education as well as higher education has declined, placing an ever greater burden on those seeking post-secondary education. Our national support of science, technology, research and transportation infrastructure is less than it was a decade ago. Accessible and affordable healthcare debates have all but frozen our political system.

> "It is not that middle class opportunities have diminished, rather the barriers to entry into those jobs has increased. What we must be really truthful about... is that opportunities to gain middle class status with third world skills and education in our economy no longer exist."

Too often we hear that there are not middle class opportunities anymore. It is, like many generalizations, not true — though easy to believe, given our perceptions about manufacturing within our economy. Labor statistics would reveal a different story. In state after state we don't see evidence of a lack of employment opportunity, but rather a gap between the skills and advantages such as education required, and those possessed by the unemployed. A study of job classifications reveals the creation of more job classifications than those lost over the past two decades. This is particularly true when coded for jobs paying $25 per hour or greater. It is not that middle class opportunities have diminished, rather the barriers to entry into those jobs has increased. What we must be really truthful about, and what we must address in our public policy surrounding the issue, is that opportunities to gain middle class status with third world skills and education in our economy no longer exist. If we do nothing in the face of that reality, we will achieve the same result only with greater velocity. If opportunity exists but requires more knowledge and training, yet we support education and students less, isn't that self defeating public policy?

My trip to Australia confirmed what I sensed and knew from reading global economic news. The debate on wealth inequality is global and, unfortunately, centered on marginal solutions that don't focus on equality of opportunity. We are residents of a global economy that requires the ability to have and use information. The creation of the knowledge class is real. Those with it have power and access to education. Public policy that diminishes support for education, science, technology and increases the barriers to the middle class opportunities, both now and in the future, will pay a heavy price.

Northern Michigan Growth

Michael F. Odar, CFA
President

Have you ever started something new at the same time and alongside someone else? Maybe it was a training program for your new job or your freshman year of college with your new roommate? Whenever I found myself in those types of situations, I seemed to develop a certain kinship with that other person. There was a level of connectedness with them that could be referenced over time.

Eight years ago, we started growing Greenleaf Trust's presence in Traverse City at the same time as The Bank of Northern Michigan's expansion there from Petoskey. As fellow newcomers to the Traverse City financial market, we got to know each other and found that we shared common values, a focus on the client, and a vision that a closer relationship could be mutually beneficial as we grew our respective organizations in Northern Michigan. Greenleaf Trust could provide wealth management and trust services to Northern Michigan residents and partner with The Bank of Northern Michigan for clients' potential deposit and lending needs.

As our business grew, we began the search for a teammate to lead our efforts in Northern Michigan. We needed a professional from the communities in which we were doing business and whose experiences could be leveraged to benefit clients. In 2009, after a stringent search, we hired John Welch, Senior Vice President. John's reputation and experience have helped open more doors and introduce more people to Greenleaf Trust. We have also benefitted from the arrival in 2009 of John Paul as the President of The Bank of Northern Michigan and his strong advocacy.

Since the summer of 2006, our business and presence in Northern Michigan has grown substantially. We currently provide holistic wealth management services for 53 families in Northern Michigan with total assets under management in excess of $118 million. Our Retirement Plan Division also serves nearly 700 participants in retirement plans administered by Greenleaf Trust with total assets approaching $47 million. This type of growth and our dedication to Northern Michigan means that we will soon be expanding our team in Traverse City.

We are excited to be growing in Northern Michigan, and it is especially meaningful to be doing it alongside The Bank of Northern Michigan. We look forward to getting friends and clients together at our next seminar in June at the Bay Harbor Yacht Club and again in July at the same location for our annual Northern Michigan Clambake.

"We are excited to be growing in Northern Michigan, and it is especially meaningful to be doing it alongside The Bank of Northern Michigan."

Dan J. Rinzema, CFA, CFP®
Executive Vice President
Chief Client Officer

"...we find that truly successful investors, whose lives are aligned with their wealth, never lose sight of the fact that money is a wonderful servant, but a poor master — a means not an end."

Aligning Life and Wealth

To paraphrase the philosopher Socrates, "Man pursues a great variety of goals, but the one he seeks as his ultimate end is a life worth living — everything else is a means not an end." Traditional money management, however, would have us believe that its end is simply growing one's assets. Instead, we find that truly successful investors, whose lives are aligned with their wealth, never lose sight of the fact that money is a wonderful servant, but a poor master — a means not an end. They appreciate that spending money, and not just growing it, may be appropriate. They realize that giving it away to charity or heirs may be what provides them with happiness and fulfillment. And they recognize that growth for the sake of growth is what causes many investors to lose sleep over daily market fluctuations. It's at this intersection of life and wealth where goals-based wealth management shines, by reorienting the focus from the portfolio to the person, allowing investors to be confident that their wealth is helping them achieve what they want most out of life.

Goals-based wealth management is the essential process of taking a step back to look at the big picture. Digging deeper and assessing financial hopes, fears, expectations, and resources to realistically align investment portfolios with actual life goals such as sustainably supporting a desired lifestyle, funding retirement, paying for grandchildren's education, or leaving a legacy. By pursuing what matters most, whether it be personal, dynastic, philanthropic, or a combination thereof, this approach helps investors reduce financial anxiety and find financial peace of mind. Goals-based wealth management encourages an open dialogue resulting in a comprehensive plan customized to the investor's situation in which success is defined as meeting the investor's personal and unique goals.

This definition of success intuitively makes sense. Yet in traditional money management, a successful portfolio is defined as an efficient portfolio — one that yields the greatest possible return given the level of risk an investor is willing to assume. Efficiency is commonly measured by comparing a portfolio's returns to those of a standard benchmark and by gauging the level of risk using statistics like standard deviation, alpha, and the Sharpe ratio. While these measures are certainly valuable to portfolio managers, the average investor doesn't find them particularly helpful without proper context. More common are real life concerns that investors face like, "Am I going to be able to retire on my own terms?" "Will I run out of money?" "Will my legacy be one worth leaving?" Or more generally, "Am I going to meet my short, mid, and long term goals?" In other words, they are more concerned with the reasons they're investing in the first place.

The lens of goals-based wealth management helps investors from falling into the trap of making a purely financial decision when a quality of life decision is more appropriate. After all, not all financial decisions are just financial. When clients ask if it would be prudent to pay off their low-rate mortgage, we ask them to ponder what would make them feel more comfortable or secure — being free from debt with less money in their portfolio or maintaining the additional debt and the additional money. In many cases, they are merely looking for approval to do something they feel is right and which someone who is considered "money savvy" may have told them was not financially optimal. To paraphrase Oscar Wilde, some people know the cost of everything, but the value of nothing.

Goals-based wealth management reinforces the fact that difficulty is not proportional to importance. In the practice of medicine, it's said that simply washing one's hands has proven second only to Penicillin in saving lives. Fortunately, one of the most valuable services that investment professionals provide can also be the least difficult: uncovering and prioritizing client goals by listening, guiding, educating, and serving in a way that is meaningful on a personal level. Galileo wrote, "All truths are easy to understand once they are discovered; the point is to discover them." We believe asking the right questions is a good place to start. Taking the time to understand who investors are and what they value allows for the development of a customized goals-based wealth management plan. Advisors can facilitate this process as a translator — listening to the investor express goals in his or her own words then translating them into financial and investment language. Building on this dialogue allows for the construction of corresponding portfolios tailored to the investor's unique goals.

A military adage holds that amateurs talk strategy while professionals talk logistics. In the context of this article, the equivalent saying might be, "amateurs talk the next hot stock while professionals talk long-term planning." After all, equal economic value exists from a dollar earned or a dollar not lost. The concept of "not losing a dollar" holds little allure to most traditional money management professionals and investors alike. Whereas, goals-based wealth management that focuses on the big picture

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Aligning Life and Wealth, continued

"When success is defined as meeting goals, and not just beating markets, a tremendous sense of clarity... can result."

understands that proper planning has the potential to preserve more wealth than some investments can create. A dollar that outperforms the market has the same economic consequence as (1) a dollar saved from taxes through asset location, loss harvesting, or proper estate planning, (2) a dollar invested that would have otherwise been spent, and (3) losses minimized through insurance protection against an unexpected outflow or a mitigated concentrated position.

By reorienting the entire process around discovering and satisfying an investor's multiple life goals, this approach combines behavioral finance with traditional investment practices. When success is defined as meeting goals, and not just beating markets, a tremendous sense of clarity about objectives, priorities, and resources can result. This helps maintain perspective and discipline especially during market volatility, thereby combating the emotions that all too often distract investors from the best laid financial plans. Goals-based wealth management certainly requires solid portfolio performance, but it first considers an investor's complete financial picture in a well-integrated fashion that incorporates the dynamic nature of assets and liabilities, the complexity of a tax and estate profile, and the nuances of behavioral biases.

As Harvard Business School professor Theodore Levit said, "People don't want to buy a quarter-inch drill. They want a quarter-inch hole." Too many traditional money managers are selling the drill (products and hot investments without context) and not the hole (prudent planning resulting in financial peace of mind). So, if money is a means, what is an end? At Greenleaf Trust, it is serving our clients in remarkable ways to align their wealth with their lives, reach their personal goals, and reduce anxiety about money. Our holistic approach to goals-based wealth management provides comprehensive and customized solutions tailored to each client's unique financial objectives. Our client-centric teams value personal relationships and take a highly consultative approach to provide our clients with more clarity and a sense of purpose to their financial and investment decisions, empowering them to achieve the life they envision.

Weighing Our Options

Andrew L. Riker, CFP®
Senior Wealth Management Advisor

Last year we decided to sell shares of Tiffany due to concerns that the stock had become overvalued. The stock had advanced over 30% during the first half of the year and was trading at a price-to-earnings multiple of 22, and exceeded other valuation metric levels we monitor. In most client accounts, we had held the position for more than the twelve-month time frame to qualify for long-term capital gains (a favorable tax rate). However, in a few accounts, the stock had been held for less than a year. Sales of a stock held less than a year are considered short-term and can be subject to an unfavorable tax rate. As a result, in some instances, we decided to hold on to the position and use options to either:

1) Enhance portfolio income, or
2) Mitigate risk.

Hypothetical examples of these two strategies are outlined below (I will use "we" and "us" to represent "the client" and actions we took on behalf of "the client").

"Sales of a stock held less than a year are considered short-term and can be subject to an unfavorable tax rate. [In some such instances] we use options to either enhance portfolio income or mitigate risk."

Scenario Summary

We purchased 5,000 shares of Tiffany stock in early January 2013 at $58.00 per share. We wanted to sell the stock, but needed to hold it until January in order to avoid realizing short-term capital gains. On August 19, 2013, when Tiffany was trading at $80.00, we executed two different option strategies.

Strategy 1—Enhance Portfolio Income

To generate portfolio income, we sold call options on the 5,000 shares of Tiffany stock owned with a strike price of $85.00 and an expiration date of 1/18/2014. The result of this is that we gave the buyer of the call options the right (but not the obligation) to buy 5,000 shares of Tiffany stock at $85 per share between when the contracts were sold and the expiration date. For this right, the buyer paid us a premium – in this case, $3.45 per contract for a total of $17,250.

At the expiration date in January, Tiffany stock was trading at $86.71. As a result, the buyer that we sold the call options to "called" the 5,000 shares from us at the agreed upon price of $85.00: $1.71 below the current market price. In other words, we were selling the shares at $85 instead of the January 18 market price of $86.71. However, recall that the buyer of the options gave us $3.45 per contract when purchasing the call options.

Weighing Our Options, continued

The table below summarizes the monies received for this strategy:

1) On 8/19/2013 we sold the call options and received premium income totaling $17,250
2) On 1/18/2014 (option expiration) we sold the 5,000 shares at $85.00 for a total of $425,000
3) Total received=$442,250

TRANSACTION DESCRIPTION	TRANSACTION DATE	STOCK PRICE ON 8/19/2013	STRIKE PRICE	PREMIUM INCOME	EXPIRATION DATE	STOCK PRICE AT EXPIRATION	TOTAL PROCEEDS
Sold 50 Tiffany Call Options	8/19/2013	$80.00	$85.00	$17,250	1/18/2014	$86.71	$442,250

As illustrated in the table below, our strategy worked out very well—$442,250 is more than we would have received had we sold all shares in August of 2013 (recall also that had we sold at this time, short-term gains would have resulted) and more than we would have received had we waited until January of 2014 to sell the shares.

"In order to provide downside protection, in addition to the call options sold in Strategy 1… we purchased put options…"

Sell All shares on 8/19/2013	$404,000
Sell All shares on 1/21/14	$433,550
Option Strategy	$442,250

It's important to note that had Tiffany stock risen dramatically higher than the $85.00 share strike price, we would have forfeited additional gains that could have been realized. Another key item to note is that the above strategy does not provide downside protection—if Tiffany stock had declined in value to say $50.00 per share we would still have the 5,000 shares worth only $250,000. This leads to our second strategy.

Strategy 2—Mitigate Risk

In Strategy 1, we were able to generate income using shares of Tiffany that we were willing to sell. However, as just mentioned, we were fully subject to any decline in the value of the stock. In order to provide downside protection, in addition to the call options sold in Strategy 1, on August 19, 2013, we purchased put options on the 5,000 shares with a $75.00 strike price and a 1/18/2014 expiration. The result of this is that we obtained the right (but not the obligation) to sell 5,000 shares of Tiffany stock at $75 per share between when the contracts were purchased and the expiration date. For this right, we paid a premium to the seller. Fortunately, the premium we paid was $3.45 per contract for a total of $17,250, which was offset by the income we received from selling the call options. This strategy is known as a costless collar where downside and upside exposure is limited. In this example the least we would have received would have been $375,000, or $75 per share, and the most would have been $425,000 or $85 per share. The table below illustrates the value of the 5,000 shares without the collar in place compared to having the collar in place.

	IF TIFFANY SHARES WOULD HAVE DECLINED IN VALUE TO:		NO CHANGE	IF TIFFANY SHARES WOULD HAVE INCREASED IN VALUE TO:		
	$70.00	$75.00	$80.00	$85.00	$86.71*	$90.00
Total Value WITHOUT Options Collar	$350,000	$375,000	$400,000	$425,000	$433,550	$450,000
Total Value WITH Options Collar	$375,000	$375,000	$400,000	$425,000	$425,000	$425,000
Difference	$25,000	$0	$0	$0	-$8,550	-$25,000

*Tiffany stock price on 1/18/2014—option expiration.

In summary, options can be used as an effective tool to enhance portfolio income and/or mitigate downside risk. However, there are many complex factors not mentioned in this article to consider before these or other option strategies should be used. These strategies need to be customized to meet specific investor needs and desires and investors should work with an experienced professional such as Greenleaf Trust before executing such strategies.

"In summary, options can be used as an effective tool to enhance portfolio income and/or mitigate downside risk."

If you'd like to join us in our efforts to conserve natural resources and create a greener environment, you may choose to save paper by receiving email notifications to view your statement online.
Simply give us a call at 269.388.9800 and ask to speak with a member of your client centric team.

Steven P. Phillips
Participant Services Specialist

Is a Target Date Fund Right for You?

In a world of ever increasing complexity, the number of working professionals who are also investment experts is pretty slim. To know the ins and outs of the market, proper allocation strategies, and sound investing principles is often beyond the scope of knowledge for everyday plan participants. The reality is, most retirement plan participants are not (and do not necessarily desire to become) investment experts. Yet as employer-sponsored retirement plans continue to put more and more responsibility on the employee to manage their own 401(k) investments, the need for investment advice and/or management continues to grow. Hence the continued domination and growth in the industry of a mutual fund known as a "target date fund."

With defined benefit plans (i.e., traditional pension plans) becoming more and more obsolete, the reality is most working professionals today are provided with a participant-directed, defined contribution plan to prepare and save for retirement. The participant is solely responsible for deciding how much to contribute to the plan and where to invest the assets. Typically, the participant will be provided with a few dozen mutual funds to choose from. For the average participant, looking at a mutual fund menu can be a daunting and intimidating task, and many participants desire help in managing their all-important retirement dollars.

> "... as employer-sponsored retirement plans continue to put more and more responsibility on the employee to manage their own 401(k) investments... the participant is solely responsible for deciding how much to contribute to the plan and where to invest the assets. "

During the 1990s, a brand new type of mutual fund known as a target date fund came into existence. The concept is pretty simple. Target date funds typically go in sequential 5 year increments (2030, 2035, 2040, etc.). You simply pick the year that is closest to the date in which you will retire, typically around age 65. The rest of the decisions are made for you. A portfolio manager will invest your money based on your assumed age. The younger you are, the more aggressive the fund will be. As you near your target retirement date, the fund will automatically shift to become more conservative. In addition, even though you are putting all of your money into one mutual fund, your account is fully diversified due to the underlying holdings of the fund.

The passage of the Pension Protection Act of 2006 has also greatly spurred the growth in the industry of target date funds. This act helped retirement plan fiduciaries reduce liability exposure by allowing them to name certain mutual funds as a Qualified Default Investment Alternative (QDIA). If a participant does not elect a certain mutual fund to invest in on their own, the plan is able to have designated QDIAs to place the participant into and not be held responsible for any potential losses in that fund. Target date funds became an obvious QDIA choice for many retirement plans because of their diversified and fully managed makeup.

All of this has led to an explosion in the popularity and growth of target date funds. According to Morningstar, in the first quarter of 2013 the assets invested in target date funds exceeded $500 billion. Three-fourths of these assets are with the three major players in the industry (Vanguard, Fidelity, and T. Rowe Price). With over half a trillion dollars now invested in these funds, the importance of these funds and their impact on retirement plans nationwide continues to grow. It is important to look closely at the individual makeup of the target date funds that may be provided within your retirement plan. While most target date funds operate pretty similarly to one another, there can sometimes be important differences in the expense ratio or the individual glide path of each fund. A glide path is simply how the investment makeup of the fund changes over time, slowly shifting from equities to safer assets like fixed income as the target date approaches. Make sure you are comfortable with how aggressive or conservative of a glide path your target date fund offers.

While more and more attention is being paid to target date funds and disclosures surrounding them, most investment experts welcome target date funds as a simple, managed solution for retirement plan participants who have limited knowledge pertaining to investing. There are no guarantees when it comes to investment returns. However, having an experienced portfolio manager investing your retirement dollars for you can bring a sense of organization and calmness to your retirement planning that you may not currently have. If you have any questions on target date fund offerings within your retirement plan, give Greenleaf Trust a call today.

"… most investment experts welcome target date funds as a simple, managed solution for retirement plan participants who have limited knowledge pertaining to investing."

Nicholas A. Juhle, CFA
Mutual Fund Analyst

Looking Them in the Eye

I recently spent a week in New York conducting diligence meetings with a long list of current and prospective asset managers. As you may be aware, we partner with third parties to manage assets in areas outside of our core equity and fixed income portfolios — international equity is one example, and alternative assets another. As Greenleaf Trust's manager selection analyst, I lead our efforts to evaluate, select, and monitor the third parties to whom we entrust a portion of our clients' assets.

"…we partner with third parties to manage assets in areas outside of our core equity and fixed income portfolios… but true partners that we align with as we endeavor to help you achieve your financial goals."

While the term "third-party" is technically accurate, it falls short of capturing the true nature and gravity of the relationship. After all, we bear full fiduciary responsibility for our clients' wealth and outsourcing (another word I'm not fond of) even a small part of the portfolio is not something to be taken lightly. Therefore, the managers we engage should not be "third-parties" to whom we "outsource" work, but true partners that we align with as we endeavor to help you achieve your financial goals.

In our efforts to source the best managers, our team spends a substantial amount of time compiling and analyzing data. We evaluate a manager's relative and absolute performance metrics and risk characteristics, we use specialized software to assess how a manager's strategy will contribute to (or detract from) portfolio construction, and we slice and dice this information over a wide range of time periods. The outputs generated and insights gained through rigorous data analysis serve as the foundation of our decisions.

Clearly, data is one of our most important resources and, while it is invaluable to our process, it also has two very meaningful shortcomings. First, data is inherently historical or backward looking — unfortunately we can't invest in the past. Second, it's easily accessible, so it doesn't necessarily give us a leg up on the competition. For these reasons, manager selection cannot and does not end here. Once we have extracted as much value from the manager's data as possible, we close our laptops and go look them in the eye.

With nearly $5 billion of clients' assets under management, our scale affords ready access to the managers we want to know better, and that access helps us address both of data's shortcomings. First, manager discussions provide a contextual backdrop for historical outcomes which can help inform forward-looking expectations. We also gain valuable insight into how the manager thinks, which may help us to be more predictive as to how the manager will behave under varying conditions. Second, we garner a clear competitive advantage over peers whose analysis never advances beyond a spreadsheet.

Personal interaction adds incremental value where data falls short, but the value added is actually much deeper than that. Specifically, it's just as important for managers to know us as it is for us to know the managers. Consider for a moment our own client relationships. If we don't understand what our clients value, and how our roots connect to their needs, then it will be difficult to understand the best ways to work together. Of course the corollary would be the manager's relationship with Greenleaf Trust. This value can only be realized and confirmed through face-to-face interaction which provides a baseline from which to measure seemingly small, but potentially significant, changes down the road. Face-to-face interaction is information rich for everyone involved.

Maybe it sounds old fashioned in this modern world of technology-enabled connectivity, but there remains significant and irreplaceable value in face-to-face meetings — especially as it relates to manager selection. Over time, we develop trust and a professional intimacy that makes the difference between "outsourcing" to a "third party" and "aligning with a true partner" for the benefit of our clients.

"Once we have extracted as much value from the manager's data as possible, we close our laptops and go look them in the eye."

Stock Market Pulse

Index	3/31/14	Total Return Since 12/31/2013
S&P 1500	435.08	1.88%
DJIA	16,457.66	-0.11%
NASDAQ	4,198.99	0.83%
S&P 500	1,872.34	1.81%
S&P 400	1,378.50	3.04%
S&P 600	671.12	1.13%
NYSE Composite	10,527.77	1.23%
Dow Jones Utilities	532.13	9.52%
Barclays Aggregate Bond	107.91	1.77%

P/E Multiples	3/31/14
S&P 1500	16.9x
DJIA	14.6x
NASDAQ	20.6x
S&P 500	16.5x
S&P 400	20.2x
S&P 600	21.1x

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days	0.03%
T Bond 30 Yr	3.56%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	435.08	16.9x	1.93%
S&P 500	1,872.34	16.5x	2.02%
DJIA	16,457.66	14.6x	2.19%
Dow Jones Utilities	532.13	NA	3.69%

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.63%

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