

# Main Street Advisor, LLC's Due Diligence Research Process

## Approach

We are long-term patient, fundamental investors with an investment approach grounded in extensive research coupled with a disciplined process. We consider both short-term downside risk and potential long-term returns utilizing the following:

- Establish a strategic asset allocation for each risk-based portfolio that we believe offers the best long-term return potential given its target risk level, which we define as a maximum loss over a one-year period.
- Pursue highly compelling tactical opportunities. We switch from the strategic allocation when our research identifies a compelling investment opportunity. This approach seeks to capitalize on shorter-term divergences between the price of an investment and its underlying value.
- Select managers through intensive due diligence. A few critical elements we feel must be present when we perform our due diligence on managers:
  - ✓ A precise and well-articulated investment process backed by evidence of successful implementation over time.
  - ✓ Managers and teams who exhibit the presence of a high level of integrity, intellectual capability, honesty, and passion for investing.
  - ✓ A strong and collaborative team environment with clearly established duties and efficiencies implemented.

## Purpose

Selecting successful investment options is both an art and a science. An essential part of the value we provide is the multiple decades of experience we bring to bear in assessing and selecting exceptionally skilled managers. Main Street Advisors accomplishes this with a four-step due diligence process designed to take into account both qualitative and quantitative factors. Every fund and manager are scrutinized and must go through our extensive vetting process.

We feel it is our fiduciary duty to be extremely knowledgeable about the investments we are selecting for our client's portfolios. We aim to educate clients about each of the investment options and encourage them to learn about the benefits and limitations. The graphic below summarizes our due diligence process. The remainder of this section addresses the details and importance of each step.



### Step 1: Proprietary Screening Model

An overwhelming number of investment options are available to investors today. It is our job to narrow the pool to those who hold the most opportunity and we feel will serve our clients well. It is during this phase of the process that we look at factors such as alpha (measures the active return on an investment, the performance of that investment compared with a suitable market index), standard deviation (measures risk. The smaller the investment's standard deviation, the less volatile it is), Sortino ratio (measures risk-adjusted return), expense ratios/fees, sector weighting, investment style and more.

### Step 2: Deep Dive Analysis

We take a deeper dive during the second phase of the process. We thoroughly research the manager and dig even deeper into the investment itself. Here we assess the stability of the firm/team, the structure and soundness of the investment process, manager tenure, turnover, asset flows, performance (current and past), tax efficiency and more. MSA also utilizes the investment research capabilities of Y Charts. Fund performance tables, detailed manager/fund reports, top performers list, economic indicator updates, fund due diligence reports and more are at our fingertips daily.



### Step 3: Committee Approval

Once we have gotten to this point, the investment is either approved or denied. All research and supporting documentation are taken into account and reviewed by all members of the Investment Committee (IC). If there are concerns, they will be addressed through further data analysis until a consensus can be reached.

### Step 4: Ongoing Due Diligence

This is a process that is always in motion. Managers and funds are being screened and “watched” continuously. Market updates, commentaries, conference calls, and reports are all tools that are used to weigh the opportunities, risks, and rewards of each option. We monitor performance and investment decisions to ensure they remain committed to their investment process and disciplined in its execution. If for some reason, we are questioning whether an investment is still suitable for our clients, that investment will be put on a “watch” list. Length of time on the watch list will vary based on each investment’s individual circumstances. When we determine an investment is no longer serving the purpose for which it was intended, it will be terminated.