LPL RESEARCH

DUE DILIGENCE

Part of understanding who we are at LPL Research comes from understanding our organizational and decision-making structure. However, perhaps even more important to answering the question of who we are is to understand:

- What is our investment philosophy?
- What is our motivation?
- What are our core beliefs?

WHO WE ARE: RESEARCH AS DUE DILIGENCE PROVIDER

LPL Research serves the following primary roles:

- Share economic and market insights
- Provide due diligence and asset allocation advice
- Manage discretionary portfolios
- Be a thought leader and creative luminary

DUE DILIGENCE

In our role as a due diligence provider we believe that not all investment managers and products are appropriate for everyone. As headlines have made clear to all of us, some investments are not appropriate for anyone—as they are based on fraud or fiction. Some investments appear sound, but are really based on luck instead of skill—and, at some point, luck will run out. Other investments are appropriate for those who understand the complexities and issues involved and are financially and emotionally willing to take on those risks. Our goal is to help vet the vast universe of available products and provide guidance about which ones we believe are sound and what types of investors they would appeal to.

A plethora of investment products are available to investors including mutual funds, separately managed accounts (SMA), exchange-traded products (ETP), variable annuities, third-party investment advisors, and alternative investments—all of which have many moving parts that can be a daunting task to track and monitor. In terms of diligence, we provide two levels of oversight:

- For relatively more complex products, we approve them prior to them being available to help mitigate risk.
- For other products, we provide recommendations to help narrow down the universe of available products.

Our role as due diligence provider is primarily carried out by our 20-person due diligence team based in Boston and Charlotte. Our diligence processes are predicated on three key tenets:

- Align depth of review with situational risk of the product.

- Combine traditional due diligence processes with thoughtful investment insights to help avoid buying a good product at the wrong time.
- Initial diligence is essential, but ongoing diligence and oversight is critical.

To meet these goals, our analysts conduct traditional due diligence, which consists of both quantitative and qualitative research. Our primary focus is to learn about the firm, portfolio managers, and other investment personnel, as well as their investment strategy and process. We use both proprietary and third-party analysis and tools to accomplish these goals. Our traditional investment due diligence team provides in-depth due diligence and recommendations on open-end mutual funds, SMAs, and variable annuity subaccounts. Additionally, this team approves all other ETPs, SMAs, third-party investment advisors, and outside strategists. Because of the different nuances involved, we have a diligence team dedicated to illiquid or alternative investments that provide the approvals and oversight of these products. ■

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