

Portfolio Management Consultants

Perfecting the Portfolio™

ENVESTNET

PMC
PORTFOLIO MANAGEMENT
CONSULTANTS



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Perfecting the Portfolio with PMC

Envestnet | PMC has a proven tradition of “advising the advisor” by providing expert consulting and analytical investment solutions to financial advisors and their clients. PMC’s expertise includes asset allocation, manager and fund research and selection, portfolio construction, and numerous overlay options.

By leveraging Envestnet’s technology platform, PMC helps advisors solve a variety of investment challenges for their clients. PMC’s insight and solutions help advisors address a broad range of approaches and situations:

Allocation Strategy – Strategic, dynamic, and tactical approaches are offered

Style – Active and passive asset management vehicles, ranging from separately managed accounts (SMAs) to mutual funds to exchange traded funds (ETFs)

Account Size – Appropriate solutions for investments with minimums as low as \$10,000 up to multi-million dollar portfolios

Portfolio Overlay – Additions to portfolio construction, including tax optimization, socially responsible investing, and annuity allocations for retirement income planning

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PMC – Envestnet’s Portfolio Consulting Group

At PMC, the goal is to strengthen the relationship between advisors and their clients by providing proven portfolio consulting capabilities and delivering risk-sensitive investment solutions. PMC seeks to add value at all stages of the investment process by:

- Building customized portfolios for investors through insightful asset class allocation, diligent manager search and selection, risk-managed portfolio construction, and regular overlay management
- Conducting rigorous research on select asset managers and investment vehicles
- Creating effective tools to streamline an advisor’s practice
- Developing innovative strategies that address unmet investment needs

The Benefits of Working with PMC

PMC empowers financial advisors to:

- Create customized and optimized portfolios for clients and prospects
- Access the same level of investment talent used by the largest and most-demanding institutional and individual investors
- Gain confidence by knowing that PMC-Approved investment managers are pre-screened and regularly monitored by PMC research analysts
- Devote more energy and resources to expanding their business and strengthening key client relationships
- Communicate more effectively with clients
- Leverage a series of innovative portfolios designed to address specific client needs

With PMC, advisors gain a trusted partner who can help them make better decisions and grow their practice.





Advisors gain expert analysis and advice from PMC's team of leading investment professionals.

PMC's People

The PMC team works with advisors to craft appropriate, risk-managed portfolios following the PMC process.

Manager Research

- Performs all aspects of manager search, selection, and due diligence activities
- Conducts ongoing oversight of investment vehicles, including SMAs, mutual funds, and ETFs

Portfolio Management

- Develops capital markets assumptions
- Builds asset allocation portfolios at various risk levels
- Implements solutions by designing portfolios, selecting and combining managers, and monitoring and rebalancing portfolios

Portfolio Consulting

- Works side by side with advisors to craft appropriate, risk-adjusted portfolios using the PMC process
- Provides insight on investment managers and strategies and helps advisors manage their practices more efficiently

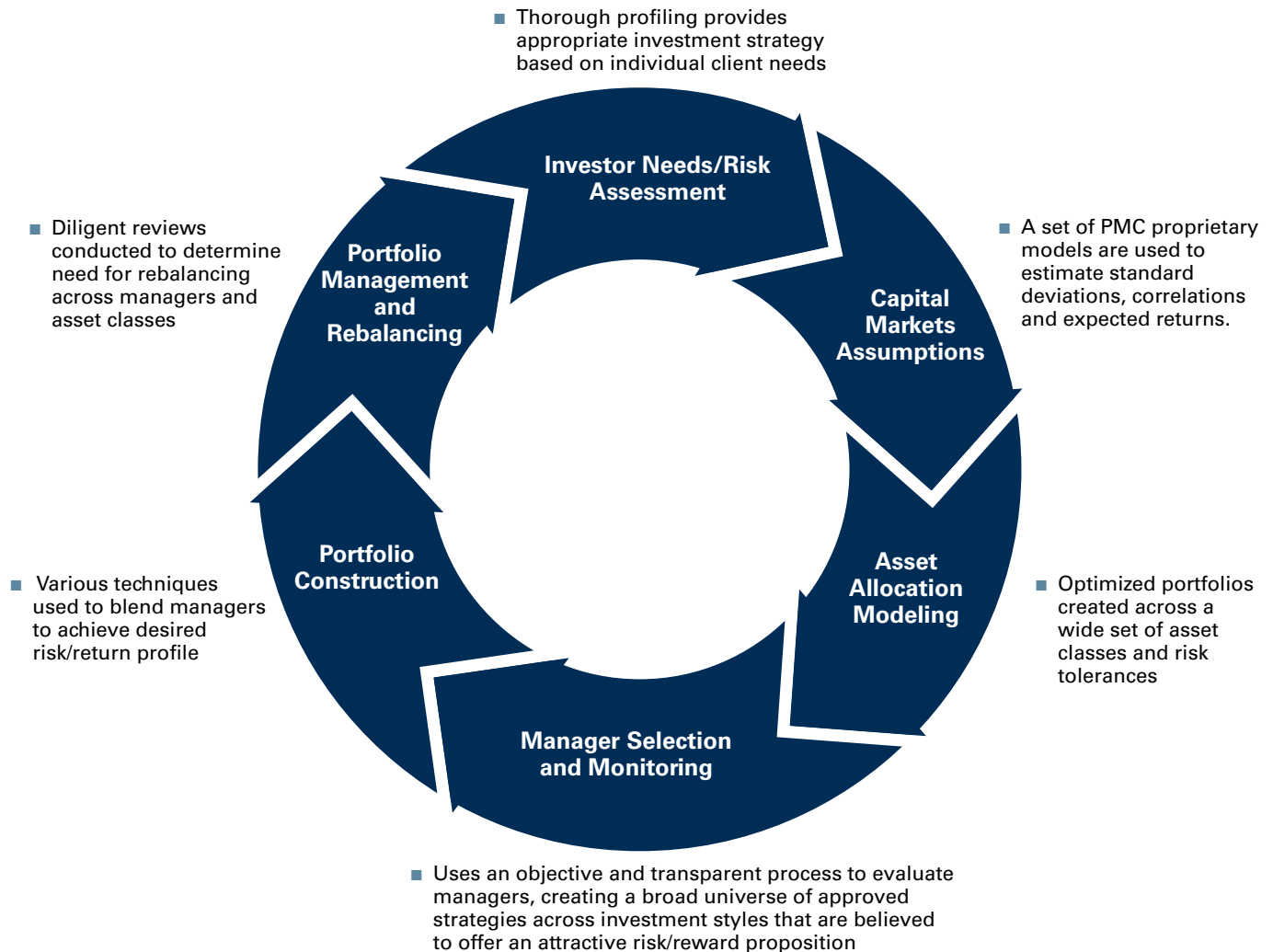
PMC's Investment Principles

PMC's investment principles provide the framework for building diversified, risk-managed portfolios across a broad spectrum of client requirements.

- The global capital markets are largely efficient in the long run
- Awareness of the inherent trade-offs in balancing risk and return is essential
- Investors are not compensated for risk that can easily be diversified away
- Active investment managers can and do add value
- Combining diversified asset allocation portfolios with intelligent selection of investment managers is the art of perfecting the portfolio

PMC's Process

PMC's process of building investment programs consists of six core elements.





Client Needs and Risk Assessment

The PMC consulting team, using Envestnet's proprietary questionnaires and proposal systems, enables thorough investor profiling, allowing advisors to provide their clients customized portfolios based on their individual situation.

The process focuses on several elements:

- Investor risk tolerance
- Investor time horizon
- Specific client needs
- Outcome-based forecasts
- Tax-related issues
- Portfolio transition issues
- Retirement-specific needs, including allocation to annuities

Advisors create customized portfolios – tailored to an investor's situation and risk tolerance.

Capital Markets Assumptions

PMC's philosophy is rooted in modern portfolio theory, emphasizing that asset allocation is the most critical determinant of an investment program's success and that history does not repeat itself but can be used to help develop estimates of future market behavior.

Estimating standard deviations and correlations

- Standard deviation and correlation estimates are developed for each asset class using a Bayesian framework¹
- The forecasts account for estimation risk that arises from using only historical data in the calculations

Estimating long-term expected returns

- Expected returns for all asset classes are calculated using a Black-Litterman methodology under the assumption that the prices reflected in the overall market portfolio are the best predictor of future returns
- The Black-Litterman methodology uses the market portfolio weights and the estimated standard deviation and correlations to extract the expected returns set by the market

¹A Bayesian statistical approach allows for integration of data (e.g., returns for an asset class) with external information, such as uncertainty about the model parameters and other views imposed by an analyst.

Asset Allocation Modeling

PMC's rigorous asset allocation models combine PMC's capital markets forecasts with advanced mathematical tools, resulting in optimized, diversified portfolios across a wide set of risk tolerances and preferences.

PMC's rigorous asset allocation process is composed of the following steps:

- PMC's asset allocation models are constructed using a re-sampled, mean-variance optimization approach
- The re-sampling process generates hundreds of efficient frontiers by taking many sample combinations of expected returns, standard deviations, and correlations
- The portfolios created from these multiple frontiers are averaged to generate final portfolios at various risk levels
- PMC portfolio managers and consultants use the resulting allocations as the base to assist advisors in crafting solutions for individual investor needs



Investors receive portfolios optimized across a spectrum of potential capital market outcomes.

Manager Selection and Monitoring

PMC believes that finding top asset managers and rigorously analyzing their performance adds value to portfolios.

The PMC manager approval process uses an objective, transparent methodology consistent with industry best practices to provide a broad universe of investment managers across investment styles that are believed to offer an attractive risk/reward proposition.

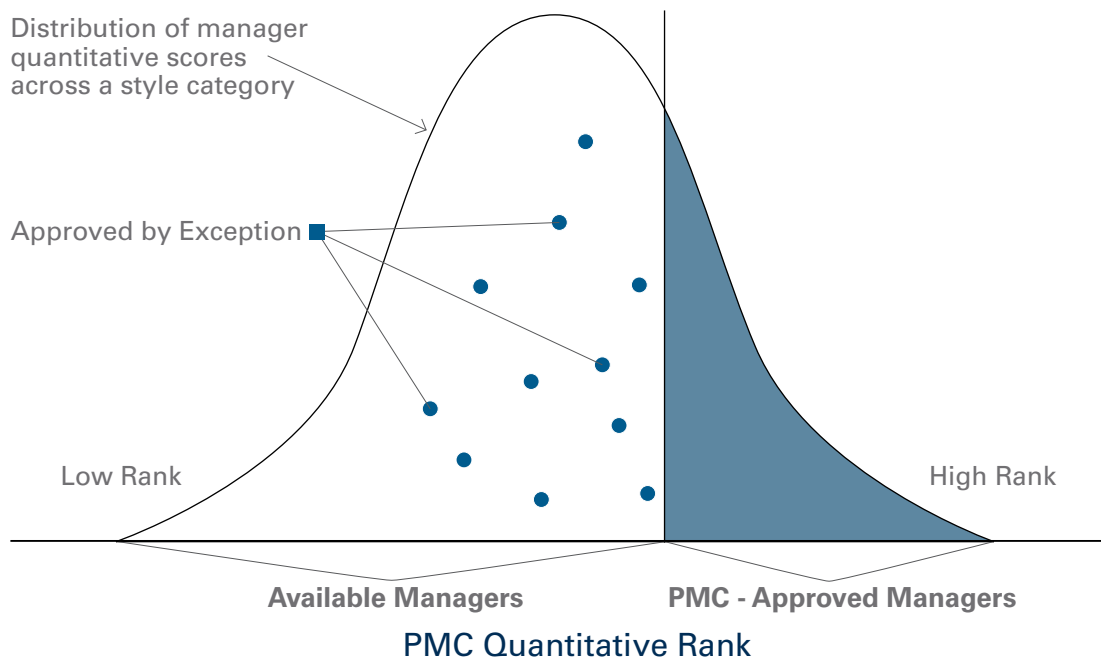
The process consists of the following steps:

- A manager must successfully complete Investnet's Annual Compliance Due Diligence Questionnaire
- PMC's quantitative risk/return model is used to select managers that rank in the top 40% of their overall peer group based on three to five years of historical performance data

PMC research analysts also work to provide additional insight across the approved universe by strategically performing additional analytics, including:

- Manager interviews to gain a clearer understanding of the investment process
- Holdings-based analysis using a factor model to calculate performance attribution
- Finding statistically significant alpha scores using a custom Returns-Based Style Analysis (RBSA) process¹

A diagram displaying PMC's approved and available managers for each asset class is displayed below:



¹Returns-Based Style Analysis (RBSA) is statistical process that helps to gauge a manager's performance by analyzing returns against an optimally constructed custom benchmark. As compared to a self-stated benchmark, the custom benchmark more accurately measures the risk and return of managers that do not have style-pure asset exposures.

Portfolio Construction and Management

Portfolio Construction

PMC believes that how managers are combined is critical to overall portfolio performance and risk control. PMC uses two different portfolio construction tools depending on the program, platform or product.

In one approach, a portfolio manager utilizes quantitative and qualitative factors to blend managers to achieve the desired risk/return profile. The other approach uses an alpha/tracking error optimization¹, along with Returns-Based Style Analysis (RBSA), to find the best combination of managers to track the target asset allocation.

Both approaches rely on selecting combinations of managers to determine how much additional return is gained against the appropriate benchmark relative to the incremental risk taken while satisfying various portfolio constraints such as minimum or maximum manager allocations.

PMC Consultants are available to use these tools to help advisors craft solutions for specific large cases.

Portfolio Management and Rebalancing

PMC portfolio managers are assigned to manage all PMC models and proprietary portfolios. Periodic reviews are conducted to determine when to rebalance across managers and asset classes. Emphasis is placed on strict adherence to the parameters set for each portfolio, including absolute and relative portfolio weights to trigger rebalance, turnover management, and tax issues. This prudence and oversight are critical determinants of the success of PMC's investment plans.

Partner Solutions

PMC recognizes that outside experts are sometimes needed to provide the best solution to address certain investment problems. PMC aggressively seeks out, evaluates and integrates appropriate outside experts who can add value through a variety of Partner Solutions.

Representative partners include:

AI Frank Asset Management, Inc.

Metamorphosis Money Management (M3)

The QWEMA Group Inc.

Singer Partners

Veris Consulting, Inc.

¹Alpha is a measure of the difference between a portfolio's actual returns and its expected performance, given its level of risk. Tracking error measures the returns of a manager relative to a benchmark.





PMC Solutions

PMC has designed a series of strategies to provide a wide variety of options and tools to help advisors construct optimized portfolios for their clients. From separately managed accounts (SMAs) to exchange-traded funds (ETFs), PMC offers a broad set of solutions, all with the goal of perfecting the portfolio.

Managed Account and Multi-Manager Portfolios

SEPARATELY MANAGED ACCOUNTS

SMAs offer portfolios of individual securities managed by professional investment managers that have met PMC's rigorous selection process, providing investors with the ability to customize portfolios while offering potential tax efficiency.

UNIFIED MANAGED ACCOUNTS

UMAs let advisors create a diversified portfolio in one single convenient account by offering choices from more than 1,200 investment products, including SMAs, mutual funds, and ETFs.

MANAGER BLEND PORTFOLIOS

Manager Blends are a combination of SMAs diversified across style and asset classes chosen for their complementary investment approaches to balance both alpha generation and benchmark tracking error.

MULTI-MANAGER ACCOUNTS

Multi-Manager Accounts (MMAs) provide a blend of institutional separate account managers and actively managed mutual funds in single portfolios diversified across multiple asset classes, styles, and disciplines.

ETF Portfolios

DYNAMIC ETF PORTFOLIOS

Actively managed portfolios constructed and managed using a dynamic asset allocation process, which provides exposure to global asset classes, market sectors, and investment strategy themes using liquid ETFs.

STRATEGIC ETF SOLUTIONS

Discretionary portfolios based on PMC asset allocation models constructed using ETFs across a variety of risk/reward levels providing simple, low-cost diversified solutions.

TACTICAL ETF PORTFOLIO SERIES

Quantitatively driven, discretionary tactical asset allocation portfolios constructed using ETFs with tactical shifts in allocations to try to capitalize on changing performance expectations of various asset classes.

Mutual Fund Portfolios

SIGMA MUTUAL FUND SOLUTION

A strategically chosen and managed set of mutual fund portfolios covering a full range of strategic asset allocation portfolios designed to meet various investment time horizons and risk levels.

SELECT PORTFOLIOS

Portfolios constructed of different combinations of PMC multi-manager equity and fixed income funds – offered in both strategic and dynamic options and available at lower minimums for smaller account sizes.

ENHANCED PORTFOLIO STRATEGIES

Actively managed mutual fund and ETF portfolios designed to perform independently of stocks and bonds asset classes by tracking hedge fund indices.

ULTRA SHORT-TERM FIXED INCOME PORTFOLIO

A fixed income portfolio aimed at providing investors with an attractive alternative to low money market fund yields. Investors need to be willing to accept some principal fluctuation and risk in pursuit of higher returns.

NEXT STEPS

If you're a financial advisor, please contact your Regional Consultant, your Regional Director, or a PMC Consultant at pmcsales@investpmc.com for additional information.

If you're an investor, please contact your financial advisor, who can help you define your financial goals, explain your investment options, offer you guidance and help you determine how PMC solutions can fit into your financial portfolio.



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Investments in smaller companies carry greater risk than is customarily associated with larger companies for various reasons such as volatility of earnings and prospects, higher failure rates, and limited markets, product lines or financial resources. Investing overseas involves special risks, including the volatility of currency exchange rates and, in some cases, limited geographic focus, political and economic instability, and relatively illiquid markets. Income (bond) funds are subject to interest rate risk which is the risk that debt securities in a portfolio will decline in value because of increases in market interest rates.

Exchange Traded Funds (ETFs) are subject to risks similar to those of stocks, such as market risk. Investing in ETFs may bear indirect fees and expenses charged by ETFs in addition to its direct fees and expenses, as well as indirectly bearing the principal risks of those ETFs. ETFs may trade at a discount to their net asset value and are subject to the market fluctuations of their underlying investments.

Insurance products such as variable annuities are offered by insurance providers and are sold and recommended by registered representatives. Envestnet provides administrative and technology services in conjunction with insurance products. Envestnet does not provide any advice or make any solicitations, offers or recommendations with respect to insurance products.

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