



FIDUCIARY INSIGHTS

Open Architecture: Access to Top-Tier Investment Managers

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Introduction

The concept of open architecture has gained acceptance within the investment management world over the past five to ten years. What is it? At its most simple level, open architecture investing provides investors access to top-performing investment managers. Fiduciary Trust employs this concept by constructing customized portfolios incorporating a broad range of investment strategies across traditional and alternative asset classes.

Independence leads to unbiased advice

Fiduciary Trust embraces the concept of open architecture and takes the matter one step further. Throughout our more than 100-year history, we have prized our independence. This quality stems from the fact that the firm is privately held and owned by its employees, founding family and members of its Board of Directors. As part of our independence, we serve as a trusted advisor in presenting investment recommendations without the conflicts of interest seen as inherent with many other providers. Open architecture permits us to work with our clients so that our interests and our clients' interests are more closely aligned.

Asset Allocation: the foundation

Asset allocation is a critical element in managing our clients' portfolios. Numerous studies have proven that asset allocation is the primary determinant of a portfolio's performance. We believe that it is of paramount importance to identify the asset allocation appropriate for each client's risk and return objectives. Open architecture allows us to construct client portfolios utilizing a broad range of asset classes and investment strategies.

Commitment to open architecture

Fiduciary Trust has dedicated significant resources to open architecture including the firm's Alternative Investment Committee ("AIC"), which is comprised of six of Fiduciary Trust's senior investment professionals. Additionally, the firm's Investment Committee oversees the AIC's efforts to ensure a consistent and coordinated investment process. AIC members have extensive experience in asset allocation, investment management and in selecting and monitoring investment managers. Its goal is to identify managers who have consistently delivered superior risk-adjusted investment results (alpha) and who are capable of adding value going forward. The AIC also conducts ongoing investment manager due diligence, which entails the evaluation and monitoring of recommended investment managers.

Adding value

Our expertise in alternative investment strategies and the scale of the assets we manage for our clients, provides us access to top-tier managers that otherwise would not be available to them. Because the average asset size of the private equity and real estate funds that we recommend are typically less than \$350 million, many larger institutions cannot afford to allocate research resources to a strategy that would not be utilized by a wide range of clients.

In the more traditional asset classes, such as small-cap, international equity and fixed income, we recommend both niche and more mainstream investment managers. Mainstream managers often have a larger size and a global scale, which are a strong competitive advantage particularly in markets outside the U.S. Fiduciary's size is also large enough for the firm to be considered a significant institutional investor for this class of managers. Therefore, we are able to select from a wide range of potential investment managers.

Fiduciary Trust's size and reputation allow for open communications and face-to-face meetings with the portfolio teams, and first-hand knowledge of any material changes impacting the investment firm or its strategy. Our bargaining power lies in the fact that the investment manager views our clients' assets collectively, allowing us to leverage our relationship in order to provide our clients with attractive fee arrangements and timely recommendations. The combination of all of these factors creates a compelling investment opportunity and a significant benefit for our clients.

What's best for our clients

Clients need and deserve help in sifting through the plethora of investment choices that will help provide proper portfolio diversification. In the contemporary investing world, selection and ongoing monitoring of investment managers are critical. Fiduciary Trust's focused approach to open architecture addresses both the opportunities and the risks that are inherent in building a solid investment portfolio. As stewards of our clients' wealth, we believe it is our responsibility to offer comprehensive investment solutions that achieve their individual investment objectives.

COMPONENTS OF A DIVERSIFIED PORTFOLIO

EQUITY SECURITIES

Domestic

- Large capitalization
- Mid capitalization
- Small capitalization

International

- Developed
- Emerging markets

FIXED INCOME SECURITIES

Domestic

- Treasuries
- Agencies
- Municipals
- Investment-grade corporates
- High-yield corporates
- Inflation-protected securities

International

- Developed
- Emerging markets

ALTERNATIVE INVESTMENTS

Real estate investment trusts (REITs)

- Domestic
- International

Private real estate

Private equity

Hedge funds

Timberland

Commodities/managed futures

The Insight is a Fiduciary Trust publication in which its professionals share their best thinking on timely wealth management topics. This commentary was authored by Christopher D. Cabral, CFA and Vice President

If you would like to learn more about Fiduciary Trust Company and its wealth management services, please contact Randy Kinard at 617-574-3432.