Portfolio Construction Checklist

TownSquare CAPITAL

1	TIME HORIZON & RISK TOLERANCE	All investment decisions start with three questions: 1) when will this money be drawn down / spent? 2) what is the objective for the money; principal protection or growth? And 3) what is an acceptable risk/volatility tolerance?
2	OPTIMAL or INEXPENSIVE?	Which is more important to the client, the best risk-adjusted portfolio or the lowest cost? This will drive the "Active vs. Passive" conversation.
3	STYLE BOX & SECTOR BETS	Make sure style box allocation reflects client objectives. For example, do you own almost all Growth with no Value companies? How much Small and Mid-Cap is appropriate? Be sure you aren't over-allocated to any single industry.
4	Use SMAs where possible	Lean heavily on institutionally managed SMAs for better returns, lower cost, tax optimization, transparency, etc. If not, utilize low-cost index ETF's alongside alpha-adding funds.
5	Reduce STYLE REDUNDANCY	Avoid owning multiple strategies or funds with the same styles or objectives. For example, owning multiple large-cap growth funds is redundant and expensive.
6	Reduce OVERLAP OF HOLDINGS	Many funds and ETFs own the same holdings. Focus styles and strategies to reduce overlap in holdings. This will reduce transaction costs and cap-gains.
7	PROPER DIVERSIFICATION	If you're paying for active management, reduce total number of holdings. Typically between 50 and 200 stocks and bonds is ideal. If you're using an index strategy, look to reduce overlap of styles and holdings.
8	Reduce TURNOVER	If possible, use managers that limit trading. Turnover leads to increased transaction costs and more capital gains generation.
9	Avoid BOND FUNDS when possible	Own professionally managed bonds whenever possible. If your dollar values are small you may be forced to use funds; be certain you understand the credit quality and durations of those funds
10	Understand your UNDERLYING BONDS	Be careful of huge yields - could signify a troubled company. Avoid outsized positions and illiquid issues. Durations should not be too long (high rate risk) or too short (low yields)

TownSquare Capital ph: 385-375-8650 fax: 385-375-8646
5314 River Run Drive Suite 210, Provo, UT 84604

TSQ-180516-Portfolio Construction Checklist-v1.01