



The Logic of Paying for Good Professional Help

In this White Paper, we explain the benefits of our guidance and the logic of our fee structure. We hope the information presented here clarifies the value of a relationship with Interlake Capital Management. More broadly, we hope it helps you understand the nature and impact of fees in the financial services industry.

What Determines Net Returns? And How Can Interlake Help?

To appreciate the value of professional help, investors should understand the five primary factors that determine investment returns. From most important to least (though the order of the last three will vary), the key drivers of net returns are *asset allocation, investment discipline, the relative performance of your specific investments, taxes, and expenses.*

1. Asset Allocation

What It Is	The distribution of your financial assets across major categories such as U.S. stocks, international stocks, fixed income (bonds, CDs, &c.), real estate investment trusts, commodities, private equity, and cash-equivalents (money market instruments, &c.).
Why It Matters	Careful academic research has shown that asset allocation is the single most important factor in investment performance. We cannot overstate the importance of strategic asset allocation in maximizing expected returns for given levels of investment risk.
How Interlake Helps	Through our Allocation Portfolios, <i>Interlake offers a sophisticated, personalized, tax-efficient program to ensure that you participate appropriately in full range of global asset classes.</i>

2. Investment Discipline

What It Is	The ability to (1) stay invested through changing—and sometimes very challenging—market conditions and (2) keep your portfolio in equilibrium through intelligent, timely rebalancing.
Why It Matters	Without the discipline to stay invested in the face of difficult market conditions and resist the temptation to chase performance in hot stocks or asset classes, investors will suffer the effects of emotional decision-making: buying high and selling low.
How Interlake Helps	<i>Interlake maintains a high level of discipline, guiding investors and their assets through the inevitable challenges of the capital markets.</i> Consider this a kind of insurance policy: You may not think you need it <i>until you do.</i> And when you do need it, you'll be much better off because you had it.

3. Relative Performance

What It Is	The performance of your investments (stocks, bonds, mutual funds, managed accounts, &c.) relative to the full range of alternatives or to some specific benchmark.
Why It Matters	Even with the most prudent asset allocation and rigorous investment discipline, the performance of your particular investments will affect your bottom-line returns. It's important to select the best available investments and investment managers.
How Interlake Helps	<i>Interlake offers a dual-discipline approach designed to (1) capture the full performance of several asset classes through our Allocation Portfolios and (2) deliver attractive absolute returns in a framework ideally suited to active management through our Alpha Portfolio.</i>

4. Taxes

What It Is	The effect of always-changing tax laws on your net returns. Directly relevant to taxable holdings, of course, but also important in handling distributions from tax-deferred accounts.
Why It Matters	Taxes can have enormous effects on your net returns. Investors and investment managers should not be paralyzed by excessive fear of taxes. But they <i>should</i> have full control of their tax destinies and should avoid investment vehicles (such as conventional mutual funds) that exhibit poor tax efficiency.
How Interlake Helps	<i>Interlake uses tax-efficient exchange-traded funds (ETFs) in its Allocation Portfolios and seeks to avoid unnecessary tax implications in all taxable accounts.</i> In addition, we seek to offset taxable gains through appropriate tax-loss harvesting.

5. Expenses

What It Is	The full range of costs you incur in the implementation of your investment program: management fees; expense ratios of any mutual funds, separate accounts, or ETFs you own; brokerage commissions; mutual fund sales loads; and 12b-1 "distribution" fees.
Why It Matters	You should always consider expenses <i>in the context of what you get for your money</i> . Consider a typical choice you might face: You can pay a one-time sales load plus 1.25% every year for a big mutual fund that has little chance of outperforming its benchmark...or you can pay no sales load and 1.25% annually for an agile, eclectic approach to active management that has a much better chance to outperform in strong markets and preserve capital in weak ones.
How Interlake Helps	<i>Interlake offers more than most investors receive for less than most investors pay.</i> Working with Interlake, you will incur three types of costs: Our management fees; the (very modest) expense ratios of any ETFs you hold; and (even more modest) trading commissions.

Other Benefits of a Partnership with Interlake

On each of the five key drivers of investment returns—asset allocation, discipline, relative performance, taxes, and expenses—Interlake delivers high-caliber guidance at a very fair price. But the advantages of partnering with us don't end there. Consider these additional benefits enjoyed by our clients:

- Precise, timely reporting of performance, transaction, and tax information to you, your accountant, and anyone else you choose.
- A written Investment Policy Statement that describes and explains your personalized investment program. This is a very important part of the client experience at Interlake.
- Direct access to the professionals managing your money.
- The confidence that comes from knowing that Interlake makes investment decisions purely on their merits. Because 100% of our revenue comes directly from our clients, our only obligation is to you.
- A partnership with a firm whose fiduciary duty to its clients trumps all other interests and whose business practices reflect the core principles of the [Centre for Fiduciary Excellence](#), a global organization that promotes adherence to the industry's highest ethical and operational standards.
- Participation in a comprehensive investment program that combines the best practices of modern finance through the active management of Interlake Alpha and the index-based market exposure of Interlake Allocation. These complementary portfolios offer diversification not only across and within asset classes, but between active and passive disciplines as well.

Keeping Expenses in Perspective

In a “do-it-yourself” era, many investors wonder why they should hire professional advisors and money managers at all. But it isn't easy to handle your own investments while managing everything else in your life.

In running their own programs, individual investors face several challenges, the most important of which are psychological. Because we're human, we tend to chase momentum in bull markets (thus over-exposing our portfolios to risk) and bail out in bear markets (thus under-exposing our portfolios to risk). That's a recipe for buying high and selling low. It can also be difficult for investors to maintain an appropriate middle ground between confidence and humility, which is a necessary foundation for prudent investment management.

The bottom line is that high-quality professional guidance is itself a wise investment. Given the exceptional quality of Interlake's investment work, we think we offer one of the best value propositions in the industry.

Five Characteristics of Better Fee Structures

Let's assume you're ready to hire professional investment help. What should you look for in a fee structure? What should you avoid? We believe fee structures should...

- ...align all interests.** Fee structures should ensure that advisor and client interests are essentially indistinguishable. ***Interlake's tiered fee structure does exactly that.*** When your account grows, we earn more money. If it shrinks, we earn less. What about the alternatives? Commission-driven brokers have incentive to create activity whether it's necessary or not. And the 12b-1 fees attached to many broker-sold mutual funds force you to pay to dilute your shares and diminish your long-term performance.
- ...fit the service.** Fee structures should reflect the time, expertise, and effort necessary to deliver a given solution. ***Interlake honors this principle by pricing its two disciplines differently and offering tiered fees that share our economies of scale with our clients.*** What about the typical alternatives? Paying high fees for active management in big, diversified mutual funds that have little chance of delivering sustained outperformance is an especially bad idea. In addition, fee structures that don't share economies of scale do not serve investor interests.
- ...be transparent.** We think investors should know what they're paying and know what paying *for*. Too often, investors are unaware of the true costs of their investment programs. Here's a common misconception that illustrates the problem: "I don't pay anything in my 401(k) plan." In fact, most 401(k) plans have very high (often hidden) fees for administration, distribution, and excessive fund expenses. Unfortunately, many plans include sales loads and 12b-1 fees. Investors should make every effort to understand the true costs of their investment programs. ***We respect our clients' intelligence by offering full, transparent disclosure of all expenses.***
- ...be simple.** Simplicity is the first cousin of transparency. Simple fee structures are as inclusive as possible. No surprises. No nickel-and-diming. Alternatives to simplicity include paying multiple layers of fees to an advisor, a money manager, a big brokerage firm, and other intermediaries. ***Interlake offers straightforward pricing that passes the simplicity test with flying colors.***
- ...be reasonable.** Reasonable is a relative term, of course, and industry standards change over time, but financial professionals should keep their fees modest and consistent with the services they deliver and the value they add for their clients. For all the reasons described above, ***Interlake does just that.***

With few exceptions, hiring the right kind of professional help makes great sense: You will almost certainly be better off with such help—*net of costs*—than you would be without it. If you're exploring a new advisory relationship, we urge you to ask tough questions about fees and expenses. Use this document as your guide and don't accept vague or evasive responses. We think the answers you receive will reveal a great deal about the firms that are asking for your business.

The most important reason to partner with Interlake is the exceptional quality of our investment disciplines. We hope our fair, transparent, intelligent fee structures also encourage you to work with us and we hope they reflect our high regard for our clients' hard-earned assets.