



YANNI
PARTNERS

MEASURING UP

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DELIVERING
THE PROMISE

IN THIS
ISSUE

Theresa A. Scotti, President and Principal of Yanni Partners, recaps five years of growth and momentum at the Firm.



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Yanni Partners: A Five Year Benchmark

On behalf of my Partners, Frank Domeisen, Chuck Gregor and Jim Yanni, let me wish you a happy and prosperous 2004.

Since it has been nearly five years since our Firm transitioned to a broader tier of employee ownership, we thought it would be a good time to bring you up to date on monumental changes within our Industry, as we see it and the manner in which we have restructured the Firm to respond to a changing investment consulting environment.


A very commodity driven atmosphere characterized the consulting industry during the decade of the '90's. Quarterly performance measurement and an occasional investment manager search was the order of the day, with equity market returns generating 13 percent on average. Committees and Trustees were focused on the problem areas of their fiduciary responsibilities and investment returns did not qualify as a cause for attention or concern.

My partners and I determined that a business predicated on commoditized services was not a

sustainable business model and we set out to restructure our Firm with the emphasis shifted from mere performance measurement to strategic investment guidance for our client portfolios. After all, if 90 percent of investment return is predicated on the asset allocation, why is that not the focus of the consulting strategy?

We were fortunate that our Firm had a proprietary database with 23 years worth of investment manager performance and proprietary in-house software for analysis of returns and potential modeling capability.

One of our first goals was to hire a Chief Strategist. We were extremely fortunate to attract to our staff, David Hammerstein, former Chief Investment Officer and Treasurer at Carnegie Mellon University. The Chief Strategist role would emerge as central to developing Capital Market



Assumptions upon which we would base our asset allocation models. For the first time, we established the nucleus of what would become the first structured research arm that our Firm ever had.

Mr. Hammerstein began to assess the standard asset allocation software, which most firms use and determined that market risk is understated in these readily available analytical tools. His research entitled *“Managing Investment Risk – The Path to Achieving Objectives”* outlines our proprietary risk capability, which recognizes that negative occurrences in the markets happen with more frequency than a normal distribution probability curve would forecast. Our modeling capability would, in fact, create a more realistic approach to risk. This proprietary model has proven critical in our work with endowments and foundations in developing their spending policies and it is vital to our asset/liability work on our defined benefit portfolios.

We have enhanced this state-of-the-art modeling capability to include cash flows from the operation of the client’s business. We now have a tool to make real business decisions in order to deploy the assets of the portfolio efficiently to cover our client’s liabilities.

We continued to expand our staff to accommodate a reasonable client/consultant ratio. Our strategic decision was, and is, to bring into the Firm consultants with live business and investment backgrounds. We have currently on staff, the former Treasurer of a large Pittsburgh corporation, the former Director of Research for a large mutual fund enterprise located in the southwest, and the former Head of Equities for a large international corporation who was responsible for its \$20 billion in equity allocation.

It is clear that the old model of one or two persons having enough expertise and knowledge to guide a client through the extreme intricacies of institutional investing is passé. Our multi-disciplined staff

is assembled at our one location, Pittsburgh, Pennsylvania, for the purpose of leveraging the specialty experience that each brings to our clients’ unique portfolio challenges.

We “raised the bar” on the expectation for credentialing within our staff. Each of our Consulting Analysts is educated in the area of finance and must complete the Chartered Financial Analyst program. We determined that promotion was not to be predicated on seniority, but on building a strong resume of experience and certification that would provide our clients with a deep Team of professionals. Today we are pleased to report that our staff is comprised of 10 Chartered Financial Analyst charter holders and 3 staff members are candidates.

In early 2000, Yanni Partners determined that it was critical to provide expertise in the dynamic and complex world of Alternative Investments. Our GRID® database continues to expand within the area of fund-of-funds, venture capital, hedge funds, private equity, etc.

Our initiative during the past two years was to deepen our manager search process and capability. We have established teams of Senior Consultants and Consulting Analysts assigned to specific asset classes. The 400+ annual personal investment manager meetings, which we conduct on site, are debriefed to our entire consulting staff at a weekly meeting held for the purpose of reviewing and refining our consulting platform. The manager search process is further refined by due diligence visits to those investment management firms who are new to our client base. We believe in a steady communication between those firms who offer services to our clients. Each firm is asked to personally visit our premises on a regular basis to update us on organizational issues beyond performance so that we may effectively meet our responsibilities to our mutual clients.



Our entire business is predicated upon the following core values:

INTEGRITY:	Do the right thing for the common good
EXCELLENCE:	Achieve the highest possible standard
APPRECIATION:	Value people for who they are, their contribution and potential
LEARNING:	Finding better ways, creating better ways
MAKE A DIFFERENCE:	A significant contribution above and beyond
TEAM:	Collaboration in the spirit of partnership
LEADERSHIP:	Take responsibility to initiate action to achieve the Firm’s mission, live the purposes and see the vision

We believe that our employees are good business people who contribute their experience and expertise to enhance our business. In 2001 we established an Executive Committee which works in conjunction with my Partners and me in developing our own strategic plan.

This value system reflects the manner in which we perform our services and the barometer by which we want to be measured. Most importantly, we have determined that our infrastructure works very well within our established mid-market client base. It is our intention to remain within this area of the market. Our continued independence is paramount to our strategic plan. We had determined in 1999 that in five years, we would implement a succession plan in order for our Firm to remain employee owned. We are slightly ahead of schedule on that initiative and are pleased to announce that ownership will expand in early 2004 to include, Chief Strategist, David Hammerstein, Senior Consultant, Brian Maxwell and Consultant Sean Bannon.

We are proud to say that we currently have clients in 21 states. When the employee ownership expanded in 1999, we had 27 employees – today we number 35. Our Senior Consulting staff numbered 6 – today we have 10. Our Consulting Support numbered 7 – today we are up to 12.

We have added a Controller/CPA to create internal efficiencies within our operation.

Our client relationships have shifted from “performance measurement only” to strategic advisory relationships. Most importantly, we understand that the most critical element in a consulting relationship is leadership. While we focus a significant amount of time discussing our process and how we approach each portfolio, the overriding mandate with which we are charged is to move each client’s organization forward. It is no longer sufficient to create a structure and maintain it. Today’s complex global economy and the volatile capital markets demand that we focus on implementation and strategy so as to keep our client portfolios current with the business environment in which our clients operate. We believe that client/committee education is part of our responsibility and continue to initiate topics and ideas at committee meetings that will facilitate decision making in these complex economic times.

We hope that you have found this five-year update to be informative and helpful. While the changes we have made organizationally have been many, our focus has remained unchanged: we must provide the proper analytics, professional staff and expertise in order for our clients to advance their fiduciary obligation to their organization.

Frank, Chuck, Jim and I welcome our new partners and look forward to a future that will hold unknown challenges, but an uncompromised dedication to excellence in serving our clients!

MEASURING UP

Yanni Partners

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New Principals Announced

Yanni Partners is pleased to announce the appointment of three new Principals to the Firm.



David Hammerstein, CFA, Chief Strategist is responsible for developing Firm strategies including oversight in terms of risk management, capital market assumptions, asset/liability management and portfolio attribution analytics.

Mr. Hammerstein came to Yanni Partners from Carnegie Mellon University, where he served as Treasurer and Chief Investment Officer. Prior to joining Carnegie Mellon, David worked as Director of Retirement Funds Management at Boeing Co. and as Director of Pension Investments at B.F. Goodrich Co. In addition to his CFA designation, David has an MBA from the University of Chicago and a B.A. from Colgate University. The Firm's "Hammer Award" was created in honor of Hammerstein's dedication and excellence in investment consulting, and is presented each year to employees who share that same dedication and achievement.



Brian A. Maxwell, CFA, Senior Consultant provides investment consulting services to a number of corporate, healthcare, municipal, Taft-Hartley, and charitable clients. He develops investment policy and provides asset allocation modeling and risk/return analysis for clients' portfolios.

Mr. Maxwell came to Yanni Partners from Buck Consultants, where he was an Investment Consultant. Prior to Buck, Brian spent six years in the retail investment business with PNC Bank and Parker/Hunter Incorporated, providing financial planning services to individual clients.

In addition to his CFA designation, Mr. Maxwell has a B.S. Business Administration / Finance from Bowling Green State University.



Sean Bannon, CFA, Consultant provides investment consulting services to a number of corporate, healthcare, municipal, Taft-Hartley and charitable accounts. His duties include working on investment policy development, asset allocation modeling and risk/return analyses for clients' diverse portfolios. He is also involved in research projects and performance attribution analyses. Prior to joining Yanni Partners, Mr. Bannon was employed as Senior Quality Control Coordinator, Transfer Agency Services for Federated Investors, Inc. In addition to his CFA designation, Mr. Bannon is a graduate of the University of Notre Dame, where he received his Bachelors Degree in Business Administration.

Calendar of Events

APR. 18-21
2004
Healthcare
Investment
and Finance
Symposium

The Ritz Carlton,
Key Biscayne, FL

*Attendance by
invitation only.*

Yanni Partners provides a full range of consulting services vital to the management of various portfolios. Our ultimate goal is to offer a basis for improved investment monitoring and performance.

Yanni Partners, Inc. is registered as an investment advisor with the Securities Exchange Commission.

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