

# FEG Investment Philosophy

FEG assists our clients' in achieving their missions by providing investment solutions through long-term investment performance and individualized client service. We believe solutions are best achieved through forward-looking research recommendations on portfolio construction and objective, process-oriented manager selection.

## Valuation Orientation

FEG pursues a valuation-oriented approach to investing. In short, price matters. This impacts everything we do, from asset allocation to manager selection. We seek to add incremental return and reduce risk through patient and disciplined attention to market valuations. In constructing a portfolio, we seek to hire managers who share the same value conscious approach to investing. We recognize that investing against prevailing trends is not always comfortable, but we believe it is necessary to generate superior long-term performance.

## Risk Factor Diversification

We recognize the most important decision for achieving investment objectives is the allocation of capital. Our resources, therefore, are dedicated to building portfolios based on a client's ability and willingness to take risk balanced with their return objective. A long-term investment policy is established to detail how the portfolio will be invested and managed. This policy includes a diversified allocation to asset classes or strategies that generate returns from differing risk factors including the equity market, interest rates, credit, commodity prices, and inflation. Once investments are grouped by risk, the setting of target ranges to each category becomes a useful risk management tool.

Within broad asset classes, the allocation to sub-asset categories should be thoughtfully managed to incorporate different factors that contribute to return and risk. The factors will vary by asset class, but some examples within global equity include regional exposure, market capitalization, liquidity constraints, currency, and use of derivatives, leverage or shorting. Some factors have greater return potential than others and should be specifically targeted while others are uncompensated risks that should be avoided, hedged, or diversified away. For example, a certain amount of foreign currency exposure creates diversification benefits, but too much currency exposure introduces uncompensated risk in the portfolio.

### Asset Categories

#### Global Equity

(stocks, private equity, long/short hedge funds)

#### Global Fixed Income and Credit

(bonds, bank loans, credit hedge funds)

#### Real Assets

(real estate, natural resources, commodities)

#### Diversifying Strategies

(absolute return hedge funds, trading strategies)

### Risk Premia

#### Equity Risk Premium

#### Interest Rates and Credit

#### Inflation

#### Active Management

### Role

#### Total Return

#### Equity Risk Mitigation

#### Inflation Protection

#### Diversification

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## ***Manager Selection***

Significant resources at FEG are dedicated towards active manager selection. We are however, pragmatic in our search for alpha. Active management must demonstrate the ability to add value on a risk-adjusted basis. We strive to minimize fees and opportunity costs when managing market exposure, and in some cases passive management is the most prudent approach to gaining market exposure. While performance is important, managers must exhibit strengths in critical qualitative measures as outlined in our investment manager philosophy, including investment culture and risk management. Managers must also meet stringent requirements for institutional operations and are fully vetted by research analysts and approved by our Investment Policy Committee.

Our research efforts also include independent sourcing, due diligence, recommendations, and monitoring of asset managers that can provide excess return, or alpha, to a portfolio. The search for alpha leads primarily to inefficient markets and unconstrained mandates. Skillful managers with an information edge can exploit sourcing and deal flow for the benefit of their investors. This is especially true in private capital strategies such as venture capital, real estate, timber, etc. In the era of tightly constrained mandates, many investors limit their active managers. The unintended consequence is the creation of alpha opportunities for those with the flexibility to take advantage of their knowledge or agility.

Our investment philosophy is the foundation for the investment solutions we provide our clients. Valuation-orientation, diversification of portfolios by risk factors, and dedicated and focused active manager research are key principles that drive the entire research process.