GLOBAL FINANCIAL Private Capital COMPREHENSIVE WEALTH MANAGEMENT

What Does The Investment Committee Do?

SYNOPSIS

- Investors often ask about the purpose of an Investment Committee and the qualifications of the members.
- An Investment Committee works as a team to attempt to create profits and mitigate risk over the long run for its investors.
- Members often disagree and debate critical issues, and this process is a very healthy way to thoroughly analyze an investment prior to purchasing.

Q&A ON THE INVESTMENT COMMITTEE

Investors are often curious about the money management process and who is involved in decision making. In an attempt to provide more clarity into the investment process, here are several answers to some of the more common questions regarding the Investment Committee:

What is the Investment Committee?

The Investment Committee is a team of highly trained professionals that work together to do the following key tasks:

- **Derive Asset Allocation**: Determine where investment opportunities exist in the world, and research ways to invest safely. For example, although we may find an emerging economy attractive, if there is no safe way to invest then we cannot participate.
- **Manage Portfolios**: Create and maintain investment products that are designed to achieve a stated goal. Some portfolios may attempt to generate income while others may be mandated to grow principal.
- **Maintain Risk Controls**: Ensure that portfolios and investments remain safe as markets evolve over time. Relationships between investments often change, so the team constantly monitors the risk levels in each portfolio.

The benefit to using a team-based approach when investing is two-fold. First, we are able to incorporate more than one person's opinion, which offers different and often unique perspectives through a system of checks and balances in the decision making process.

Second, a team eliminates "key man" risk, which is a situation where if something unfortunate were to happen to a money manager (quitting his/her job or getting hit by a bus) the investment process would be jeopardized.

What is expected from each of the members of the Investment Committee?

Members of the Investment Committee must possess four core traits:

1. **Focus**: Each must exhibit laser-like focus and have the ability to filter emotion and bias. If you can't manage your emotions, then you can't manage money.
2. **Passion**: Managing money is incredibly challenging and time consuming, and those who succeed in this business do it as a "labor of love."
3. **Experience**: Members come from diverse backgrounds, which offers the Investment Committee unique perspectives. For example, the Chief Investment Officer has managed money through six recessions, and his experience is something that cannot be taught in a book.
4. **Process:** Discipline in the investment process is

critical to ensure consistency and structure.

Additionally, team members must be comfortable with learning from mistakes. Such a statement may sound cliché, but in the business of managing money, it is absolutely critical. Even the most successful investors of all time are wrong more times than right, but what makes them so effective is their ability to assess their mistakes in a manner that refines the four traits above.

For example, let's assume that an investor lost $1,000 in each of her first five investments in the equity market. Rather than get frustrated and quit, she assesses the reasons why she lost money and then uses her newfound knowledge to refine her process until she gets one right. Investing is all about making sure the total value of her "rights" exceed her "wrongs" even if the number of times she is right is a fraction of the times she is wrong.

How big is the Investment Committee, who sits on it, and what is the hierarchy?

The Investment Committee consists of eight investment professionals, each with a different role and purpose. Meet the senior members of the team below along with their qualifications:

Chris Bertelsen is the Chief Investment Officer (CIO), who brings over four decades of money management expertise to the team. Chris was formerly the director of the value equity group for Phoenix Investment Counsel. He also previously served as Chief Investment Officer at Dreman Value Advisors and Portfolio Manager of the Kemper-Dreman Contrarian and Small Cap Value Funds. He holds an M.B.A. and a B.A. in Economics and History from Boston University.

As the Chief Strategist, I support the CIO in the investment process and manage the communications to our investors. I came from Wall Street where I spent several years working with institutional investors across a wide variety of strategies. I graduated from the University of Chicago with an M.B.A. and obtained dual undergraduate degrees in Electrical Engineering and Mathematics from Vanderbilt University. I also hold the Chartered Financial Analyst® designation and am an active member of the New York Society of Security Analysts.

Ed Bertelsen is a Fixed Income Portfolio Manager and has over 19 years of experience in investment management. Ed was formerly a Senior Portfolio Manager with Salomon Smith Barney specializing in multi-sector fixed income investments and advising high net worth clients. He graduated with Honors from Albion College in 1993 with a B.A. in Economics and History.

Jeff Walker is the Director of Qualitative Research, which includes aspects of trading, investment analysis/research, and portfolio management. Jeff graduated from Florida State University with a Bachelor of Science degree in Finance, Magna Cum Laude. Jeffrey also holds h is Chartered Financial Analyst® designation and is a member of the CFA Tampa Bay Society.

Matt Krueger is the Director of Quantitative Research, making him responsible for the development and implementation of quantitative modeling and risk management across the investment strategies. He holds a Master's of Science in Finance from the University of South Florida and a Bachelor of Science degree in Finance, Summa Cum Laude, from the University of Florida. In addition, Mr. Krueger holds a Financial Risk Manager Certification by the Global Association of Risk Professionals and has passed Level I in the CFA Program.

A team consisting of this much experience and education still needs a hierarchy, so the CIO sits at the top. However, when the team meets, titles are left at the door. Junior analysts' opinions are given just as much consideration as mine.

Debates are frequent and an integral component to the process because argument is one of the most effective ways to ensure that an investment idea has been properly vetted.

How often does the Investment Committee meet, and what happens in a typical meeting?

The team will conduct scheduled meetings weekly, but given market conditions and other factors, we often meet several times in a given week.

Agendas are prepared prior to meetings and typically adhere to the following format:

- **Current Events**: Discuss current events that either are already impacting global financial markets or could potentially do so in the future. The goal is to look for opportunity and quantify any potential risk exposure to the allocation.
- **Allocation Review**: Rotational discussion of the allocation. One week it could be to refresh our views on the broader European equity market, and the next could be a deeper look into the technology sector in the U.S.
- **Portfolio Updates**: Discussion of the performance of portfolios we manage and determine any changes that need to be made to keep the portfolios on target to achieve their stated goals.
- **Risk Analysis**: Discuss any findings from our quality control systems that are designed to monitor risk levels in portfolios. Since relationships in financial markets change over time, we have proprietary tools to observe these movements and flag potential concerns.
- **Communications**: Summarize any changes and thoughts regarding the allocation and future direction of financial markets and disseminate to our investors. For example, if we sell all European equity exposure, we communicate the reasons to outside parties.

Lastly, minutes from each meeting are recorded and tasks are assigned for the week, which act as talking points for the next meeting.

Do members of the Investment Committee ever disagree?

Yes! We disagree all the time, and that is an absolutely critical component to a healthy investment process. If we always saw an investment opportunity through the same lens, we would very likely miss something that could impact the long-term performance of the portfolios that we manage.

Furthermore, as much as I would like to tell our investors that we are robots completely devoid of emotion, we are all still very human. There are times when personal opinions and beliefs cloud our judgment, and the team works together to spot these moments and filter them from the process.

We even spend a good portion of our time trying to disprove our own conclusions to try to "leave no stone unturned." If we are bullish on a stock, we become better investors by knowing what could happen to the stock that would cause our thesis to go awry. Only then can we be sure to know what to observe over time to determine whether the investment worked properly.

What happens if Chris, Mike, or anyone else is out of the office?

Fortunately, our investment style is long term focused so rarely do issues arise in portfolios that require immediate attention. The economies and markets that make up our investment universe move similar to oil tankers, where directional changes take time and rarely surprise.

That being said, there are days when I am out visiting investors, and there are other days when Chris is doing the same. Fortunately, our team is large enough and carries the experience to monitor portfolios and markets. Technology is also at the point where working and meeting remotely these days is barely any different than being in the same room.

IMPLICATIONS FOR INVESTORS

Today's financial markets are far more complex than a decade ago. Back then, a retiree could have managed his retirement by simply buying ultra-safe investments and still generate 6%+ in income annually. Markets were just simpler to navigate.

Fast forward to today, and that strategy would be lucky to get an investor half the return that existed prior to the financial crisis. The market evolved over time and ended the days of easy retirement.

Nowadays, investors need the help from a team of seasoned professionals who possess the skill, focus, and passion to navigate the risks that currently exist and construct investment strategies that can profit over the long run.

The bottom line is that it's never been more important to truly get to know the managers you have entrusted to look over your nest egg and ensure that they operate as a team free from bias.

Sincerely,

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