



## FEG's Investment Philosophy

FEG's philosophy is to recommend passive management in those core asset categories where active management has not demonstrated a consistent ability to add value, net of fees, on a risk-adjusted basis. Active managers are recommended for all illiquid investments and for those liquid asset categories where the benefits of active management outweigh its costs. In certain cases we recommend enhanced indexing to generate incremental returns above a straight index, but at minimal tracking error. We also believe that portable alpha strategies (transporting the excess return of one strategy, e.g., short-term fixed income or hedge fund portfolio over LIBOR, to an index, e.g., S&P 500 Index) are good complements to a straight index because they diversify the source of alpha and provide more consistent outperformance than most active managers.

FEG recognizes that value stocks outperform growth stocks over the long-term. This is more pronounced in small cap stocks. The reasons that value stocks outperform growth stocks are 1) value stocks are more risky (growth stocks have more consistent earnings) and 2) investors tend to overreact (expect growth companies to continue with superior earnings growth and value companies to continue struggling). Because value stocks outperform growth stocks, FEG's philosophy is to recommend a strategic long-term overweighting to value stocks.

FEG believes in diversifying portfolios, both among and between asset classes. Where appropriate, we recommend alternative investments (private equity/venture capital, hedge funds, real estate, and natural resources). Within equities, we recommend diversification by style and size, although we prefer a bias towards smaller capitalization and value stocks. Furthermore, we recommend exposure to international stocks, including small cap and emerging markets, to further diversify these portfolios. Within fixed income, we recommend exposure to high yield bonds, global bonds, and Treasury Inflation Protected Securities (TIPS).

Our philosophy is to select the best manager in each asset category, and therefore, we recommend specialist managers. Because fees detract from returns, FEG seeks the most cost efficient vehicle to gain exposure to the desired asset category.

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### Disclaimer

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