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**ACG Investment Committee Perspectives
Executive Summary**

Year End 2010

Our Current Thoughts

- We believe that the development, implementation, and proper management of a **strategic, well-diversified and disciplined plan** will continue to be the key to a successful investment program.
- Investment themes have and will continue to emerge. Investors can **opportunistically** exploit these themes **without compromising their strategic plan**.
- We expect to see **continued divergence in economic activity** and market returns from developed and emerging economies.
- **Inflation** is not a near-term threat but is a concern and potential threat to real returns over the next several years.
- U.S. investors should be thinking more as **global citizens**, given the rising importance of non-US economies and the likelihood that this trend will continue.
- Global themes and issues have begun to emerge and will continue to develop over the next several years, offering **new and different investment opportunities** that can be appropriately incorporated into a sound long-term investment program.

Looking Forward - Themes & Potential Portfolio Responses

Current Investing Themes

We believe that the themes below are relevant in today's marketplace and will likely play out over the next 2 to 5 years.

Theme	Rationale	Implementation Strategy
<ul style="list-style-type: none">Moderate growth environment (developed markets)	GDP growth in developed markets is likely to remain below long term averages due to high US unemployment, weak housing markets, and austerity measures in Europe	Consider increasing exposure to faster growing regions such as emerging markets
<ul style="list-style-type: none">Increased currency volatility	Continued government intervention, U.S. deficit spending, sovereign debt issues in Europe, Chinese policy, periodic "shock" events	Maintain diversified exposure across global markets, ensure adequate currency exposure to countries with stronger balance sheets
<ul style="list-style-type: none">Credit dislocation/ Rate environment	Continued credit dislocations, deficit concerns, inflation expectations	Maintain diversified global fixed income exposure, consider opportunistic strategies, distressed and direct lending strategies
<ul style="list-style-type: none">Higher inflation	Government stimulus plans (fiscal and monetary), tax policy extension, quantitative easing programs, rising commodity prices	Not an immediate issue; ensure adequate inflation protection by allocating to commodities and other real assets
<ul style="list-style-type: none">Above average market volatility	Macro factors may dominate daily price movements, continued regulatory and policy concerns	Ensure adequate exposure to hedged strategies to mitigate overall portfolio volatility

Looking Forward - Themes & Potential Portfolio Responses

Theme #1 – Moderate Growth Environment (Developed Markets)

- **Increase investment in high-growth geographies.** Overweight emerging markets and other countries with higher expected growth rates.
- **Incorporate active management.** Consider active management approaches in less efficient asset classes. Actively managed strategies should have greater opportunity to add value as the market focus shifts from macro factors to fundamental factors.
- **Add to long/short exposure.** Actively managed strategies with flexible mandates allow managers to opportunistically allocate across global markets (both long and short).

Theme #2 – Increased Currency Volatility

- Enhance **global diversification** across equity and fixed income asset classes.
- Implement **commodities strategies** such as gold, oil, etc.
- Consider **impact of currency** exposure on portfolio return and volatility expectations.

Theme #3 - Credit Dislocation/Rate Environment

- Increase investment in **alternative credit providers.** Increase investment in mezzanine debt funds and other direct lending strategies that supply credit on attractive terms.
- Increase opportunistic investment in **distressed funds** that can capitalize on credit dislocations and deleveraging themes.
- **Utilize multi-sector fixed income strategies.** Increase allocations to strategies that can tactically shift among diversifying bond sectors (Non-US debt, Bank Loans, Convertibles, High Yield, etc.).
- Increase **bias toward active management.** Reduce exposure to passive strategies in favor of opportunistic strategies that incorporate non-benchmark investments.

Looking Forward - Themes & Potential Portfolio Responses

Theme #4 - Higher Inflation

- Incorporate **real assets** such as commodity sensitive strategies.
- Consider diversifying strategies with **inherent inflation protection** such as infrastructure investment.
- Consider **inflation-sensitive strategies** such as Treasury Inflation Protected Securities (TIPS).

Theme #5 – Above Average Market Volatility

- **Increase hedged equity allocations.** Increase allocations to strategies that can adjust net exposures to equity markets and/or can engage in options strategies to reduce volatility – long/short and covered call writing.
- **Consider increased exposure to covered call writing** programs. Higher volatility periods lead to higher option premiums that may increase returns for this strategy.
- Increase use of **actively managed, opportunistic strategies** where managers have flexibility to allocate across and within asset classes.

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