



## Our investment philosophy: Its purpose and design

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An investment philosophy is a set of beliefs that guides and explains Key Private Bank's approach to investing on behalf of our clients. It summarizes our core convictions regarding how we intend to manage the investment assets that have been entrusted to us and our perspectives regarding how markets work. It further serves as an anchoring element for our clients and for us as markets change, and particularly during periods of uncertainty or ambiguity.

Our beliefs are deeply held, but that does not mean that they are encased in stone never to be revisited or re-examined; as markets and the global economy evolve, our beliefs may evolve as well. Changes to our core principles, however, must be buttressed by data-infused facts and hard evidence, not mere opinions and impulses. Such shifts in philosophy may also be brought on by material changes to the complexion of the Investment Management and Research (IM&R) team; in fact, reducing the risk of groupthink and taking advantage of diversity of thought and experience is not only desired but encouraged.

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### The foundational principles of our investment approach

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#### Character

By serving as a **fiduciary** to our clients, we are legally, ethically, and morally bound to place the best interests of our clients ahead of every other consideration in every decision we make. Thus, we believe that successful investing requires both a sense of empathy and uncompromising integrity at all times. In short, character outweighs all other matters: It can never be compromised, and it is critical to the long run success of our clients and our investment organization.

#### Collaboration

We believe that successful investing is a necessary, but insufficient condition for effective wealth management. From investment management and taxes to estate planning, banking, and insurance, our wealth management strategy involves specialized expertise in a number of areas. We believe that building and protecting wealth is best achieved through a collaborative framework — one that fully integrates investment management with all facets of a client's wealth strategy.

#### Consistency

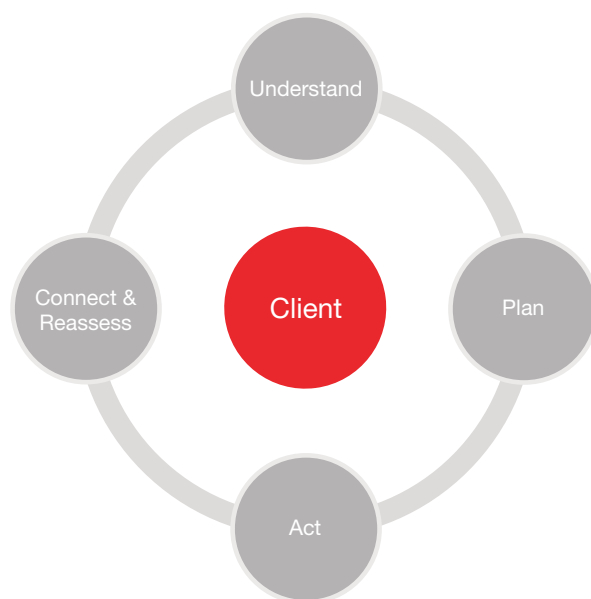
We believe in adhering to a set of important carefully crafted and repeatable processes that exemplify our investment process. By applying such protocols in a disciplined and consistent manner, skill and proficiency are developed, the core tenets of our investment philosophy are applied effectively, and client outcomes generally improve. Such consistency has served—and will continue to serve—our clients well.

#### Conviction

We believe that developing **conviction** based upon fact-based research and analysis is especially valuable since it eliminates the role emotions can have when making decisions. As experience has demonstrated time after time, investment decisions that are driven by emotions have frequently resulted in adverse outcomes in the long run.

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## Implementing our investment approach

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Our investment approach comes to life through the following four steps:

**Understand:** It is essential that we take the time to thoroughly understand the unique goals of each client, carefully capturing all their financial objectives and associated time horizons, attitudes towards risk, needs for liquidity, unique tax considerations, and any other expectations and preferences.

**Plan:** We then codify our understanding in an Investment Policy Statement (“IPS”) which usually involves multiple interactions with the client.<sup>1</sup> An iterative approach is important, we believe, to highlight possible outcomes ex-ante both positive and negative that may result after an investment plan has been initiated.

**Act:** Once the IPS has been finalized, we will provide a detailed action plan, explaining the various investment

options and strategies used in the implementation of a highly-tailored strategy. This will include how and why we might tactically tilt a client’s portfolio relative to our long-term strategic asset allocation views. We will also profile the benefits and the costs that accompany the use of internally-managed portfolio solutions and various index or passive investment vehicles along with third-party, actively-managed funds, including both traditional and alternative strategies where appropriate.

**Connect and Reassess:** Post-implementation, we will continuously monitor each client’s portfolio(s) to ensure that the objectives set forth at inception and the economic and capital market assumptions initially envisioned remain valid. In so doing, our iterative planning process evolves into an ongoing conversation through recurring connections and reassessments.

<sup>1</sup>Common sections of an IPS include: 1) purpose of the funds; 2) roles and responsibilities of all important stakeholders; 3) clearly stated investment objectives, including specified time horizons and liquidity needs for each asset pool; 4) a Strategic Asset Allocation framework; 5) rules discussing how the portfolio(s) will be monitored, reviewed, and rebalanced (when and by whom), how risk will be measured and how success will be evaluated.

## Key Private Bank



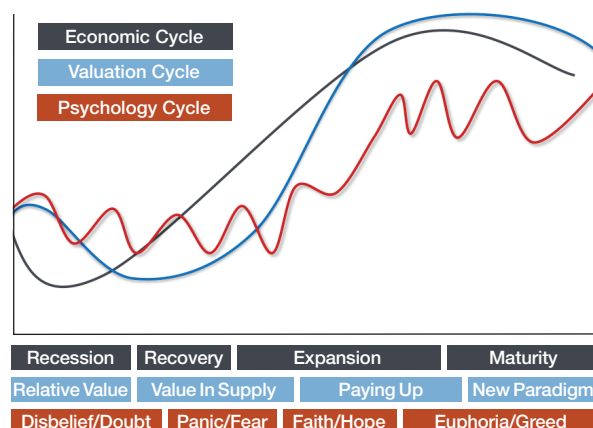
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## The core tenets of our investment philosophy

Our overarching investment philosophy is grounded in several core tenets:

- We believe in providing clients with independent, objective, unconflicted advice. Our goal is to identify the best products and strategies in the marketplace. This means using internally-developed proprietary strategies if and only if they are in our clients' best interest. We also believe in investing with third-party managers whose interests are aligned with the interests of our clients. Clients can be confident, therefore, that no unnecessary layers of fees and misaligned incentives will exist.
- Consistent with the point above, we believe in maintaining an open-architecture, well-constructed, and well-resourced investment platform for the benefit of our clients and our colleagues. A full suite of options, delivered in a manner that adheres to a fiduciary standard of care, provides our clients with truly customized portfolios designed solely with their best interests in mind. It simultaneously offers our colleagues unique opportunities for professional growth through robust multi-disciplinary debates within our organization.
- Our professionals are an indispensable component in our philosophy and the way we serve our clients. Importantly, **we believe in investing in our people**, which includes attracting, developing, and retaining an engaged, intellectually curious, collaborative, and high-integrity investment team.
- When formulating our asset allocation and broad investment strategy, **we believe it is important to carefully assess three broad cycles: the economic cycle (is the economy growing or contracting?), the valuation cycle (is an asset class cheap or expensive?) and the investor psychology cycle (which assets are starved for capital because investors are displaying signs of despair or fear, and which assets have attracted an abundance of capital because investors may be overly-optimistic?).**



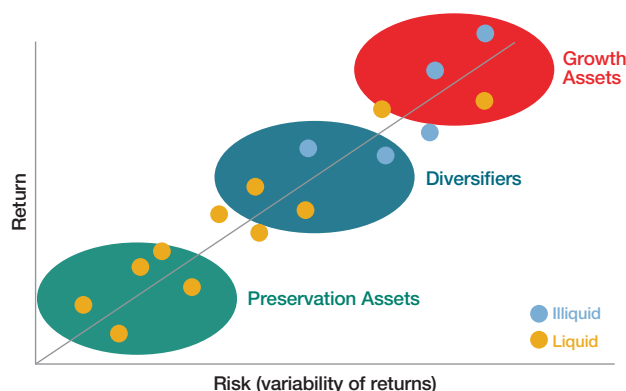
- Over the long run, we believe markets are generally efficient, suggesting that asset values are linked to their economic underpinnings such as economic growth, cash flows, and earnings. Furthermore, we believe our focus on long-term trends is of further benefit to our clients and our colleagues as a result of the stability that a long-term approach engenders.
- Combined with our careful assessment of the economic underpinnings, **a thorough assessment of valuations (at both the asset class level and at the security level) will enhance our conviction** when evaluating the current investment climate and the prospect of future returns.
- Over shorter periods of time, we believe markets are less efficient, suggesting that asset values can—and often do—diverge from their economic underpinnings. Thereby, there are opportunities to be tactical in our approach. In doing so, we will endeavor to invest capital to areas where it is scarcest and withdraw capital from areas where it is abundant.
- Furthermore, the notion of **reversion to mean** remains one of the few constants in the investment world. Hence, we vigilantly monitor asset prices in context of their historic norms and vigorously challenge assertions that “this time is different.”

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- That said, we staunchly believe in structuring and maintaining diversified portfolios as diversification is a far more effective tool than timing or other methods investors may attempt.
- We believe that portfolios should be diversified by economic regimes and geographies, asset classes, industry sectors, styles, and factors to hedge against uncertainty. It is our opinion that successful investing is dependent upon carefully assessing probabilities rather than attempting to forecast certainties.
- We are proponents of “investing actively.” This means active and passive strategies can coexist within an investment portfolio in our opinion. It also means that we will be targeted and intentional where and when passive strategies and active strategies will be utilized in a well-constructed, unconflicted portfolio construction approach. Effective investment, in other words, cannot be done passively or in an extemporaneous manner. Rather, it requires analytical rigor, discipline and intentionality.
- Lastly, in all instances, we believe in investing in only what we know and can understand and can clearly articulate the reasons for including an investment within a given portfolio. We maintain that clients should be able to understand how and why their portfolios are positioned the way they are. As such, we believe in structuring portfolios based on their “functional ingredients” versus rigidly-defined asset classes. This element of our philosophy can be depicted in the following graphic:



For more information, please contact your Key Private Bank Advisor.

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