

# OUR INVESTMENT PROCESS



Entasis  
ASSET MANAGEMENT



# Process Overview

## Investment Goal

Outperform the target benchmark on an absolute and risk-adjusted basis over a complete market cycle. We define a complete market cycle as a timeframe long enough to incorporate periods of positive and negative economic and securities markets activity.

## Investment Philosophy

It is our view that inefficiencies exist in financial markets, particularly over short- to intermediate-term timeframes, that can be exploited through optimal portfolio construction and the selection of superior investment managers and disciplined individual security selection.

We also believe that a methodical research process and a deep understanding of investments, are necessary to build high-conviction portfolios, which are the foundation for risk-adjusted outperformance relative to the broad market over a complete market cycle.

## Investment Strategy Summary

We utilize a combination of bottom-up investment manager and security analysis, along with top-down macro analysis to build optimal risk-adjusted portfolios. Our risk-conscious, diversified approach invests in actively-managed equity, fixed income, alternative and mixed-asset investment products and liquid, individual securities. We have the flexibility to invest in products and securities across all asset classes, sub-asset classes and investment styles.

## Investment Return Expectations

Our historical experience has shown the equity portion of our portfolios to protect capital better than its benchmark during periods of declining equity prices and will be in line or slightly lag the benchmark during periods of sharply rising equity prices. We anticipate the opposite will be true for the fixed income portion of a portfolio. It will generally perform better than its benchmark during periods of market stability and growth, and perform in line or slightly lag its benchmark during periods of market stress.

The slightly different approaches to portfolio management for equities and fixed income is by design and has been developed over time through our collective investment experience. Historically, fixed income markets have been much less volatile compared to equity markets when measured by the overall volatility of returns (standard deviation). In turn, what we have found is that by taking on slightly more risk than the benchmark in a historically less volatile asset class (fixed income), and simultaneously taking on less risk than the benchmark in a historically more volatile asset class (equity), we will produce a more attractive long term risk/return profile for clients when viewed in the context of a combined portfolio.



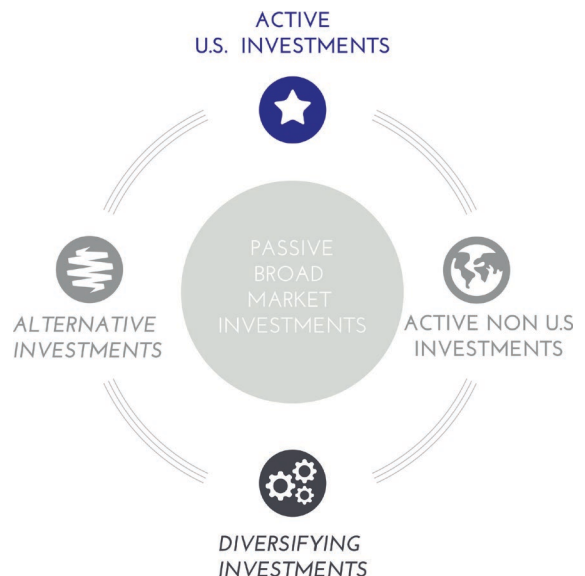
# Our Investment Process

## Portfolio Construction

We utilize a combination of bottom-up investment manager and security analysis, along with top-down macro analysis to build optimal risk-adjusted portfolios. Our risk-conscious, diversified approach invests in actively- and passively-managed<sup>1</sup> equity, fixed income, alternative and mixed-asset investment products and liquid, individual securities. We have the flexibility to invest across all asset classes, sub-asset classes and investment styles.

Portfolios are constructed through the implementation of our Core / Completion philosophy and incorporate each client's tax situation, investment goals, time horizon and risk tolerance, among other factors. Our Core/Completion philosophy was developed over time through extensive research into broad asset classes, sub-asset classes, interaction of those asset classes with one another, and the probability of active manager success (performance in excess of their designated market benchmark) over a complete market cycle. In asset classes where we have determined there is a higher probability of success, we tend to utilize active management more extensively. In asset classes where we have determined there is a lower probability of success, we tend to utilize low-cost passive management in order to reduce the overall level of fees in portfolios. The degree we allocate to active and passive investments will vary over time and is based on overall market conditions and specific factors in each asset class including, but not limited to, the overall opportunity set, availability of individual security research, amount of research coverage from sell side research firms and liquidity. With this in mind, the Core part of client portfolios generally refers to an investment in inexpensive passive or broad market U.S. exposure, while the Completion portion of portfolios generally refers to an investment in active managers. The Core and Completion portions of client portfolios are built from a focused list of investments that have passed the scrutiny of our methodical, "boots on the ground" research process.

## Entasis Core / Completion Philosophy

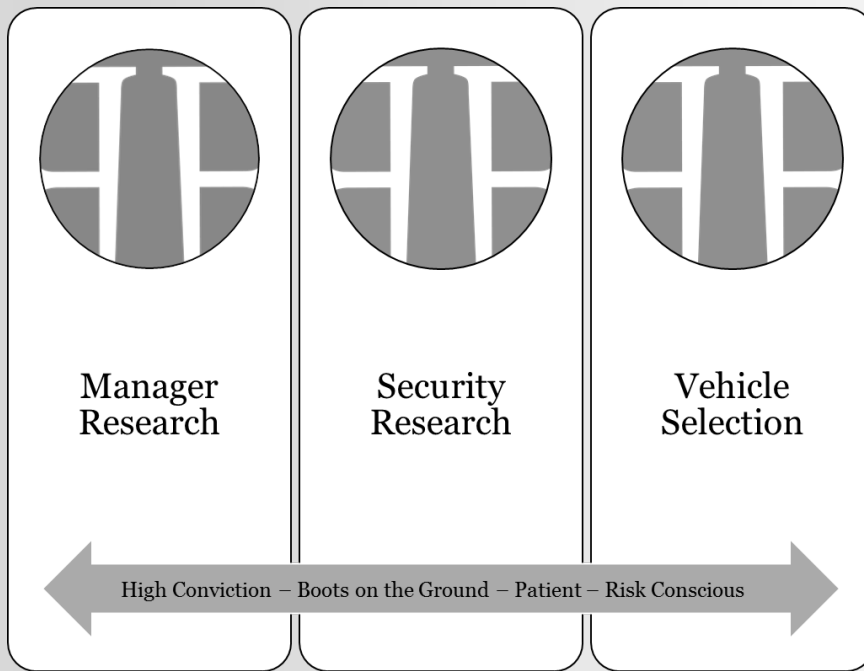


<sup>1</sup>Actively- and passively-managed fixed income managers may invest in government-related securities, investment-grade credit, high-yield, developed and emerging market bonds (local currency and dollar denominated), among other investments. The managers may utilize derivatives to gain or mitigate exposures to currencies, changes in the yield curve, etc. Actively- and passively-managed equity managers may invest in equities across all market-capitalizations, "styles," sectors and industries, and in developed, emerging and frontier equity markets. Equity managers may invest along a company's capital structure including debt, preferred equity, among other investments, and may utilize derivatives to gain or mitigate exposures to currencies, etc.



## Investment Selection

We follow a methodical, patient approach to selecting individual investments. All of our research is proprietary and based on “boots on the ground” analysis. We have developed our own analytical tools and databases of information, based on decades of experience researching investments. Oftentimes, it will take more than one year to complete the research we believe is necessary to fully understand and have high conviction in an investment that will be used in client portfolios. It may take just as long for an investment to be included in client portfolios once research is complete to ensure we enter the position at an attractive, risk conscious point.



### Investment Manager Research

We are long-term investors, not short-term traders. As a result, our manager research process tends to invest in like-minded managers that have relatively long investment horizons and relatively low turnover ratios. An overarching goal is to find managers that we believe have the ability to achieve risk-adjusted, above-benchmark performance over a complete market cycle.

We spend a significant amount of time on qualitative analysis that includes in-depth research of an investment team, their firm structure, compensation, succession plan, investment process, risk management, trading and culture among many other factors. We visit with investment managers at our office, interview investment managers on the phone and conduct on-site due diligence trips to meet with portfolio managers, analysts, traders and other key individuals. We estimate that qualitative analysis accounts for approximately 90% of the time spent evaluating individual managers.

We also incorporate quantitative analysis into our research process, which we estimate accounts for the remaining 10% of time spent on evaluating managers. The quantitative aspect of our research process includes proprietary analytics conducted in third-party databases. Our quantitative criteria are



specific to each segment of the market, which allows us to evaluate unique characteristics in each asset class. We also analyze various statistical measures of each investment in analytical software applications in order to identify each manager's performance cycle, how the manager should be positioned alongside other investments in a portfolio and to assess the impact of each manager's return and volatility profile on the combined client portfolio.

## Individual Security Research

We primarily make use of individual securities within the fixed income segment of portfolios. The decision to utilize individual securities in a client's portfolio will be based on a variety of factors including, but not limited to, account size, overriding goal of the account, risk tolerance, opportunity set and market conditions. In instances where we believe client circumstances allow for the efficient use of individual bonds, we have chosen to do so in order to reduce cost, gain targeted yield curve exposures and improve cash flow management.

The fixed income security selection process begins with an analysis of the underlying liquidity of the issuers under consideration. In general, we focus our attention on large bond issues from companies with healthy debt stocks that trade frequently. We then isolate securities that have experienced price dislocation relative to their sector, risk profile and rating. In order to determine if the price dislocation is structural or transitory, we study the credit fundamentals of each issuer and then project where the fundamentals of that issuer may be in the future based, in part, on our assessment of company management. We monitor the relative value of individual securities on an on-going basis and will opportunistically adjust the portfolio when we believe other securities with more attractive risk-adjusted return profiles become available.

## Vehicle Selection Process

Our decision-making structure for the investment vehicle we choose for client portfolios is focused on cost management, diversification, tax considerations and investment minimums. Generally, we use individual securities to gain targeted exposures, account for taxes and/or improve cash flow management. Investment managers are used to manage trading costs across asset class exposures, to complement individual security exposures, increase diversification or provide exposure to market segments where we believe there is an opportunity to provide relative value, dampen portfolio volatility or add alpha. (In this context we are defining alpha as the excess return potential of a specific market segment compared to a broad market benchmark.) Exchange traded funds are used to make tactical relative value shifts, manage investment minimums or costs or increase diversification.

## **Asset Allocation**

We believe optimal asset allocation may produce better risk-adjusted returns. Policy targets for a client's portfolio are determined based on each investor's long-term return objectives and tolerance for volatility. Portfolios are managed neutral to policy targets from a broad asset allocation perspective (i.e. equities, fixed income) to emphasize manager and individual security selection. However, adjustments to a client's long-term strategic allocation may be made at the sub-asset class level. For instance, within equities this may include investment in different market-capitalizations, styles such as growth-oriented vs. value-oriented, and regions or domiciles of companies such as emerging markets vs. developed markets. Within fixed income this may include investment in managers and securities that are focused on different maturity ranges, credit ratings, sectors and regions or domiciles. Asset allocation decisions are based in part on relative valuation metrics across sub-asset classes.



## Our Team



Bob Batchelor, CFA®, CFP®  
CEO  
Co-Founder

Bob J. Batchelor, CFA®, CFP® is Co-Founder and Chief Executive Officer of Entasis Asset Management. Bob has 20 years of experience in the investment industry. Prior to founding Entasis, Bob worked at Artisan Partners where he held a variety of roles including Head of Corporate Communications, Managing Director, Head of Marketing and Technology and Head of Marketing and Communications. He also served as a member of Artisan Partners Executive Committee. Before Artisan Partners, Bob worked at Strong Capital Management as Client Account Manager and Director of Investment Research and Communication.

Bob holds an M.B.A. from Marquette University and a B.B.A. from the University of Wisconsin-Madison. He has earned the right to use the CFA designation. Bob is a member of the CFA Institute and CFA Society of Milwaukee. Bob has also earned the Certified Financial Planner™ certification.



C.J. Batchelor, CFA®  
CIO – Equity  
Co-Founder

Charles J. (C.J.) Batchelor, CFA® is Co-Founder and Chief Investment Officer – Equity of Entasis Asset Management. C.J. has 15 years of experience in the investment industry. Prior to founding Entasis, C.J. worked at Cleary Gull, a multi-billion dollar investment advisory firm, as Director of Investment Research. He also served as a member of Cleary Gull's Investment Policy Committee, Investment Committee and Equity Strategy Group.

C.J. holds a B.B.A. in Finance from the University of Wisconsin-Milwaukee. He has earned the right to use the CFA designation. C.J. is a member of the CFA Institute and CFA Society of Milwaukee, where he currently serves on the Board of Directors.



Mike Peters, CFA®  
CIO – Fixed Income  
Co-Founder

Mike Peters, CFA® is Co-Founder and Chief Investment Officer – Fixed Income of Entasis Asset Management. Mike has 15 years of experience in the investment industry. Prior to founding Entasis, Mike worked at Cleary Gull, a multi-billion dollar investment advisory firm, as Fixed Income Portfolio Manager. In his role he served as voting member of Cleary Gull's Fixed Income Strategy Group and Complement (Alternative) Strategy Group. Before Cleary Gull, Mike worked for several years at Madison Investment Advisors, a multi-billion dollar asset management firm, as a Fixed Income Analyst.

Mike holds a B.B.A. in Finance from the University of Wisconsin-Milwaukee. He has earned the right to use the CFA designation. Mike is a member of the CFA Institute and CFA Society of Milwaukee.



David LaCroix  
Senior Financial  
Advisor

David D. LaCroix is a Senior Financial Advisor at Entasis Asset Management. David has more than 45 years of experience in the investment industry. Prior to joining Entasis, David worked at Cleary Gull Advisors, a Johnson Financial Group Company, and Cleary Gull Inc., a prior affiliate of Cleary Gull Advisors, where he most recently served as Vice President, Relationship Manager responsible for high net worth clients. Before Cleary Gull, David worked in a variety of portfolio management and client relationship management positions with A.G. Edwards and M&I Capital Markets Group.

David received his M.B.A. and B.B.A. in Finance from the University of Wisconsin-Madison. He has served as a member of the Archdiocese of Milwaukee Investment Committee, as a Trustee for the Village of Shorewood and as Director/Treasurer of Milwaukee Summerfest.



To learn more please visit us at  
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