AVISEN
WEALTH MANAGEMENT

INVESTMENT MANAGEMENT PHILOSOPHY AND PROCESS

Once financial planning decisions have been made, (i.e. cash flow needs, risk analysis, asset allocation, asset location, tax considerations, etc.), we turn to the investment management side of the equation. Investment decisions are made internally, which allows our investment management team to custom design portfolios to fit the unique requirements and desires of each client/family relationship. Although the portfolios themselves have unique characteristics, they also reflect the investment philosophies and processes of a long-tenured, highly experienced management team. An approach fine-tuned over many market cycles to provide "risk-adjusted" long term performance and importantly, provide the client peace of mind to "stay the course" through up and down market cycles.

INVESTMENT PHILOSOPHY

- Long term orientation emphasizing structural, secular growth - capturing the benefits from innovation.
- An investment style that requires patience with a five-year minimum time horizon.
- Successful positions can be allowed to increase as a percentage of the portfolio. Benchmark weighting is of little importance. Sector and individual positions weightings may lead to some concentration.
- Market capitalization is not, in itself, a relevant measure of a company's growth potential. It can, however, indicate a company's ability to create a sustainable network effect. Scale oftentimes leads to competitive advantage.
- Asymmetric returns - Returns from equities are asymmetric with the loss of an individual position limited to the initial stake. Returns from winners can provide many times the return on an initial investment. Avoiding short to mid-term losses is less important than valuing future growth. Given a long term horizon, we emphasize factors leading to blue sky rather than gray scenarios.
- Characteristics of companies we invest include:
  1. Leaders in technological change and implementation
  2. Global footprint
  3. Growing at great speed, leading to potentially extraordinary high future value
  4. Seizing the potential growth - assessing probability
  5. Disruptors rather than disrupted companies
  6. Competitive advantage - differentiation
  7. Barriers to competition - significant moats
  8. Strong strategic vision in the management team
  9. Deploy capital for maximum returns
  10. Durability, culture, and longevity
  11. Current price/earning ratios play a lesser role in portfolio construction

INVESTMENT PROCESS AND CHARACTERISTICS

- Top down/Bottom up - We evaluate the macro economic environment and the individual company to determine the appropriateness of an investment at a given time. Again, the focus is on the long term growth opportunity.
- Low Turnover - We allow the investments to grow to their full potential. An eye on tax efficiency with less concern over benchmark weightings, can lead to low turnover.

- Tax Efficiency – With current tax returns in hand, we can model capital gains to maximize the client's tax benefit.

- Large Capitalization Companies with Global Footprints – Although not exclusively, we invest primarily in large cap domestic companies. Despite current concerns about reverse globalization, we believe the best U.S.-based companies are positioned with huge competitive advantages. Among these are:
  - Higher margins
  - Network effect/flywheels
  - Cultures of innovation
  - Legal/Accounting transparency
  - Long-established relationships with global suppliers, partners, and customers
  - Fast-growing – served available market

  The best U.S. companies are able to provide specific goods and services to meet the requirements of local markets.

ACTIVE VS. PASSIVE MANAGEMENT

The account holdings will "turn" over time. Buys and sells will be executed at the discretion of the management. Any number of investment considerations can change over time (competitive landscapes, new technologies, management turnover, etc.) which could lead to a change in our investment thesis regarding an individual company or our weighting in a sector.

DIVIDENDS / INCOME

We're often asked about the role of dividends in our investments. The short answer is we like it when companies pay a dividend. However, not all of our portfolio companies pay a dividend. For some growth companies, the reinvestment back into their business offers far more upside to the investor than a return of capital. Generally, we like established companies that have demonstrated dividend growth over a prolonged period, and have reasonably low dividend payout ratios. Historically, many cyclical, high dividend paying companies have been forced to eliminate or reduce their dividends when business conditions deteriorated. We look for payout sustainability and growth. Dividends over a long period of time can add sustainability to the total return of a portfolio.

FIXED INCOME

In blended portfolios (portfolios with a mix of stocks and bonds), income plays an important role. Treasuries, certificates of deposit, municipal bonds, and corporate bonds offer income stability, reduced correlation to the equity holdings in the portfolio, and added diversification. By using individual issues in structuring a bond portfolio, we're able to control variables and mitigate risk. Also, the bond market, unlike large cap equities, is less liquid and less efficient. Levers of control: Fixed coupon, Fixed maturities (or call schedule), Credit ratings, cash flow coverage and quality of the cash flow. With these levers of control, we know what the quality of the investment is, what it will earn and when it will mature. A laddered portfolio, one we commonly employ, (one to five year maturities for example) may consist of five individual fixed income investments. The shortest maturity comes due in one year, and longest at inception goes out five years. When the one year comes due, it is reinvested out to the maximum five year maturity. If rates have gone up in the next period, we would reinvest at a higher rate. Conversely, if rates go down, our average yield would be lower. In keeping average maturities in the short to mid-range, we reduce interest rate risk. Equities in the portfolio do the heavy lifting while the fixed income provides a reliable income stream, stability, and growth income.