INVESTMENT POLICY STATEMENT

PINNACLE ASCENT
WEALTH MANAGEMENT

Content

Creating Your Personal Investment Policy

Keystone to the holistic wealth management process is the personal Investment Policy Statement (IPS), a vital component to our mission of helping you plan, build, and preserve your wealth.

What is an Investment Policy Statement?

An Investment Policy Statement documents your specific, long-term portfolio goals and parameters. These include your risk tolerance, return goals, investment timeline, tax picture, investment constraints, and other personal considerations.

Together, we create your IPS in conjunction with your personal Financial Plans. In doing so, we match your portfolio return goals to the income you need now and in the future, as projected by your Financial Plan. This helps you carry an appropriate amount of investment risk that matches your real-life income needs.

To ensure your IPS stays current and ensure your risk tolerance matches investment goals, we update it annually and/or any time there is a major change in your life.

How an Investment Policy Statement Can Help You

Once established, your IPS helps ensure we're both on the same page, and it serves as a roadmap for ongoing investment decisions about your portfolio. We buy or sell investments from your accounts based upon your IPS. For example, before making an investment change, we take into account the effect on your taxes.

Investing with your IPS helps us:

- Achieve your target return with the appropriate level of risk
- Prudently manage your taxes and minimize tax liabilities
- Avoid overexposing you to stocks and/or asset classes you already own, such as employer stock
- Personalize investments or asset classes to avoid investments you dislike

Developing a thorough, personalized Investment Policy Statement is a critical first step in long-term financial planning, and it will help us maintain our long-term focus during short-term market movements or life changes. As markets swing, your documented goals will keep us both focused on the end game.

Andre Selfa, APMA

Financial Advisor

Congratulations on developing a very thorough, personalized Investment Policy Statement for you and your family! This is a critical first step in long-term financial planning, and it will help us maintain our long-term focus during short-term market movements or life changes. This page is an overview of the objectives you have established during this process. The following pages explain each section in further detail.

Statement of your Financial Objectives

Our goal is to establish a managed portfolio that achieves real growth, after inflation, with a level of risk that is appropriate for your return. Following are the objectives for your portfolio:

- To earn a reasonable return net of inflation while being opportunistic during market downturns.
- To build wealth over the next 2-5 years for future retirement income.
- Create tax efficiencies by contributing to ROTH IRAs annually and minimizing taxable events.

Based upon our conversations and the information you provided and given the long- term nature of your objectives, following is an overview of your investment policy.

		SEE PAGE
PORTFOLIO DESCRIPTION	Together, we selected ThermoDynamic as the most appropriate investment portfolio(s) for you at this time.	8
PORTFOLIO RATE OF RETURN	This portfolio recommendation is designed to generate an average, target rate of return of 3-4.5% above inflation, net of fees and costs. Target total nominal return of 5-7.5%.	8
YOUR CASH REQUIREMENTS	You have no need for income at this time and are projected to (possibly) need additional income retirement in 2-5 years.	5
INVESTMENT PERIOD	Your investment period is over 10+ years.	5
YOUR RISK TOLERANCE	Your risk tolerance is moderate, with a primary focus on opportunistic growth. ROTH IRA is moderately/aggressive.	6
PORTFOLIO TAX STRATEGIES	Your portfolio is to be managed as a taxable account & IRA accordingly and your combined federal and state tax bracket is to be the marginal tax bracket of 22%.	6

NAME	SIGNATURE	DATE
NAME	SIGNATURE	DATE

Why Establish an Investment Policy Statement?

The principal reason for explicitly articulating and writing a long-term investment policy is to enable you and your Financial Advisor to protect the portfolio from emotional and arbitrary revisions of sound long-term policy. This written investment policy statement will help maintain our long-term focus when short-term market movements may be distressing, and the policy guidelines are being sorely tested through the lows (and highs) of the market.

The very process of creating an investment policy statement embodies the essence of financial planning: assessing your current financial situation, setting goals, developing a strategy to meet these goals, executing the strategy, and regularly reviewing results.

By linking your goals to the investment strategy necessary to achieve them, you create useful investment guidelines and reasonable expectations of portfolio performance. Although your Financial Advisor can help you in this process, you must shoulder the responsibility of determining your overall investment policy. Your Financial Advisor can capably and efficiently handle implementation, ongoing management, and general portfolio operations.

Your Cash Requirements

Currently there are not required cash or distribution requirements on any accounts.

Investment Period

The expected, minimum investment period for any securities portfolio containing equities is five years. Otherwise, the portfolio's assets should be invested primarily in fixed-income or cash securities. You should view all variable return investments, including stocks, as long term. Keep in mind, by lengthening the investment period, the investment portfolio volatility of big swings up and down will be reduced.

We established your investment period is over 10+ years (long term), to coincide with your lifetime. Should you require additional funds in the portfolio in additional to a monthly withdraw, please recognize that you would likely be exposed to a higher loss at the time of early withdrawal if the market is down.

Tax Strategies for Your Portfolio

Our investment strategy and recommended investments depend in part on whether or not the managed portfolio is taxable. Profit-sharing plans, IRA Rollovers, and other "qualified" portfolios enjoy a "tax-free" environment: So long as the assets remain inside the tax-deferred vehicle, we need not concern ourselves with the recognition of income or capital gains in the portfolio. You are only taxed at the time of distribution from the account.

A taxable portfolio, however, must be managed with tax consequences firmly in mind. We are committed to helping you realize the best after-tax rate of return possible, which means that the investment strategy, selection of investments, and the timing and selection of sales must consider the tax consequences to your overall situation. Together, we decided your portfolio is to be managed as a taxable & tax deferred account. Your combined federal and state tax bracket is to be the marginal tax bracket of 22%.

Your Risk Tolerance

We asked you to identify the risk level that would cause you serious discomfort or concern. "Risk," in this context, is defined in terms of the maximum annual loss you could absorb without abandoning your investment program (as defined by this investment policy statement). Nothing is guaranteed, so we must consider the probability of a loss exceeding your maximum. Though we are not 100% certain, we can reasonably assert a high level of confidence (based on our best assumptions) that your portfolio will not generate a loss in excess of your maximum.

Your (moderate) risk tolerance is a maximum aggregate 35% at a 0.75 correlation to the S&P500 over a one-year time frame. This would mean you are willing to hold through a market downturn of 46% on the S&P500 creating a 35% down in your accounts over a one-year time frame in exchange of target returns over time.

Our Investment Methodology: Asset Allocation

Pinnacle Ascent Wealth Management is one of the first local independent investment advisors to bring billion-dollar, institutional money management techniques to individual investors.

Your portfolio will be managed with a primary focus on asset allocation, using Modern Portfolio Theory principles (see the last few pages of this IPS for more information). Simply stated, asset allocation is the process of selecting a mix of asset classes and efficiently allocating capital to those assets by matching rates of return to a specific and quantifiable risk tolerance.

The tools used in asset allocation have become a very useful means for advisors to express quantitatively their views regarding risk and their relationship to investment return. It focuses attention on the overall composition of the portfolio rather than the traditional method of analyzing and evaluating the individual components, such as specific stock selection. A side effect of asset allocation is that individual investment positions within your portfolio may exhibit considerable

volatility and relative risk. Taken out of context, such individual positions may appear to be excessively risky to your personal situation and risk tolerance; however, Modern Portfolio Theory is based on the benefits of including such investments in an attempt to maintain or increase returns, while diversification keeps the risk of the overall portfolio in the desired range.

Index funds are used in those markets in which we believe active management cannot add value—markets that appear to be truly efficient and the costs associated with active management do not appear justified. In certain situations, however, we may utilize active managers or closed-end funds to exploit those segments of the market that appear to exhibit some inefficiency.

Successful investing requires objectivity and dispassionately developing long-term. Too often, investment decisions are based upon isolated, short-term considerations (in the heat of the moment), without regard to the portfolio as a whole or the interrelationships of the assets used. Since 90+% of future portfolio performance results are determined by the asset allocation policies, it should be at the asset allocation and investment policy level that the Financial Advisor and client spend the majority of their time.

Performance Expectations

The portfolio will be managed to minimize principal fluctuations, consistent with the stated return objectives. Using the precepts of Modern Portfolio Theory, as described in this statement, we attempt to generate the desired rate of return at the appropriate level of risk.

The attached Statement of Policies and Objectives provides our best estimates of the portfolio's future performance. This information is based on historical returns for these asset classes and an educated estimate of their future performance. Specifically, we compute and identify a range of possible returns for the entire portfolio over one, two, three, four and five years. You should note in particular the downside estimates, or the returns at the lowest part of the range. At the "90% certainty level," your returns should not fall below these estimates; they are, however, only estimates—reflections of our best, educated assumptions.

Of course, no Financial Advisor can guarantee future performance and this policy statement should not be construed as offering such a guarantee. For illustrative purposes only, we show the historical performance of your recommended portfolio. Historical performance is not a guarantee, nor is it necessarily an indication, of the results you will experience in the future. Finally, you should recognize that investments in actively managed mutual funds are used to represent asset class allocations, and as a result, actual returns may be higher or lower than those presented in the attached Statement of Policies and Objectives.

How We Implement Your Investments

Each investor typically establishes his or her own individual account at Schwab/brokerage. Many clients have several accounts (e.g., a joint tenancy account, a trust account, several IRA accounts, etc.). After you have approved and accepted your portfolio, we implement the

investment plan and effect the transactions in your accounts. In doing so, we attempt to arrange your investments among multiple accounts to take advantage of any tax-sheltered accounts being used (such as Rollover IRAs or profit-sharing plans).

Electronically Traded Funds (ETFs) and individual equities are the primary investment vehicles used in your portfolio. Secondarily utilized on an as-need basis are No-load and closed-end mutual funds. After each transaction, a confirmation is mailed to you from Schwab/brokerage detailing the trade date, price per share and other important information. You receive monthly account reports from Schwab/brokerage and quarterly performance reports during our review meetings from Pinnacle Ascent Wealth Management. The quarterly report provides important performance information over the last quarter and for trailing periods. Schwab/brokerage highlights the transactions in your accounts, while the review gives you a quarterly picture of "how you're doing." Additionally, you will be provided year-end tax reporting by Schwab/brokerage and, in some cases, Securities America or any other company with which your investment are held.

Your Account Review

Annually or as needed your portfolio is reviewed to ensure compliance with the Statement of Policies and Objectives, and to confirm the best available investment vehicles are being used to achieve your objectives. If this review determines the portfolio exceeds your risk tolerance, does not meet your return requirements, or is mismatched with your goals, we will execute rebalancing transactions in accordance with this Investment Policy Statement. The asset constraints section of the Statement of Policies and Objectives provides the guidelines we need to ensure that these transactions follow your investment goals.

Your Portfolio Description

Based upon our conversations, and the information you have provided, and your stated objectives, we have selected "ThermoDynamic" portfolio as well as a "Diversified Market Growth" portfolio (ROTH IRA) as the most appropriate investment portfolio(s) for you.

"ThermoDynamic" portfolio's investment strategy targets opportunistic growth. It strikes a balance between stocks and bonds, using income to reduce risk while still seeking capital appreciation from stock investments. This strategy also seeks to minimize downside risks. To do this we gage the market "temperature." This portfolio vacillates from high amounts of equity exposure to more moderate levels of equity exposure over a large range, 40-80%. Due to the degree of the varying range, this portfolio is appropriate for most long-term investors who can tolerate moderate losses in a single year but want to take advantage of rebalancing and placing higher amounts of portfolio assets into equities and growth assets when the market goes down. Essentially, when the market is hot you turn the portfolio temperature down and when the market is cold you turn up the heat. In unfavorable markets this portfolio can show losses over one to three-year periods; however, it should rebound faster than the overall market due to purchasing stocks during a down market, cumulative negative total returns are unlikely over longer periods greater than four years. This

portfolio will underperform during a long-term low volatility period due to less opportunities to buy and rebalance during meaningful market drops.

Other Portfolio Descriptions

"Target Low-Volatility" portfolio's investment strategy targets minimize volatility and risk through a high level of diversification. This strategy appeals to those with a moderately conservative risk tolerance. Its focus is minimizing capital losses over time while earning a total return more than certificates of deposit and the aggregate bond index. Investors who may need access to their funds in the short-term (three to five years) may also find this portfolio to be appropriate. Almost half of the portfolio is invested in debt obligations, including government-backed bonds and short-term, high quality corporate bonds, treasury inflation protected bonds, municipal bonds, and high-yield bonds. The remaining portion of portfolio will be invested primarily in equities with allowances are for up to 10-15% in liquid alternatives (gold, commodities, REIT, call/put strategies, private equity, etc.). High levels of cash, up to 15%, are allowed to be held in this portfolio for rebalancing purposes. The target volatility of the portfolio is approximately 35-45% of the volatility of the stock market (as measured by the standard deviation of the S&P 500 index), with an expected long-term return of 1-2% over inflation. Target nominal returns are 4-5.5%. This portfolio limits volatility, but at the certain cost of a significant reduction in long-term returns.

"Diversified Income" portfolio's investment strategy is designed for balanced income to generate dividends for income distribution. It is particularly well suited for investors who seek higher returns than a capital preservation portfolio and are moderately comfortable with stock market volatility. Approximately 40-60% of the portfolio is invested in equities and equity funds. Around 30-40% fixed-income securities, e.g., debt obligations, government-backed bonds, short-term, high quality corporate bonds, treasury inflation protected bonds, municipal bonds, high-yield bonds, and money market funds. Allowances are for up to 10-15% in liquid alternatives (gold, commodities, REIT, call/put strategies, etc.) and holding 3-4% in cash to maintain distributions during market downturns. Its target volatility is 50-60% of the S&P 500 and its target/desired return is 2-3% over average inflation, with a target nominal average annual return of 5-6.5%. Income-producing assets can lessen capital loss over all but short time periods, but at the cost of reducing in long-term returns.

"Diversified Market Growth" portfolio's investment strategy targets growth. It is for investors who are comfortable with stock market risk and who seek returns comparable to a benchmark of 60% S&P 500 Index/40% MCSI EAFE Index with lower volatility and an ability to rebalance periodically. These investors recognize that in order to build wealth over time they must invest in assets that potentially can, in unfavorable markets, show a capital loss over significant time periods—two to five years. The portfolio is invested 75-85% in equity funds and common stocks and has a target volatility of 80% of the S&P 500. On a long-term basis, this portfolio targets a return of 4-6.5% over inflation and a nominal average annual return of 7-10%.

No guarantee can be made that these investment objectives can be met or that your investment will not have incurred a loss at the time of withdrawal.

A Little Background on Modern Portfolio Theory

Modern Portfolio Theory is, at its essence, a mathematical means of selecting a mix of asset classes and allocating capital among those assets efficiently, based on quantifiable risk tolerance and return objectives. “Risk tolerance” is the level of volatility an investor is willing to accept in order to achieve a specific rate of return over time. It is no longer a one-dimensional process of selecting the right stock, bond or property to place in portfolios heavily weighted by equities, fixed income or real estate. Nobel Prize winning economists have established that the efficient allocation of capital to specific asset classes will be far more important than the process of selecting the “right” components of that asset class.

The process of capital asset allocation originated in the mid-1950s with work done by Professor Harry M. Markowitz and the University of Chicago in a body of work now referred to as Modern Portfolio Theory. More recently Professor William Sharpe has expanded this field at Stanford University using his capital asset pricing models or “efficient frontier” analysis, as has Professor George Chou at the University of Portland using computer models. The premise for all of this work is that for any level of risk that one is willing to accept, there is a rate of return that should be achieved. Any return that is less than the maximum that should be achieved, implies that the portfolio is inefficient and should be modified accordingly.

Modern Portfolio Theory and asset allocation methods have as their foundation four basic premises:

1. **Investors are inherently risk averse.**

   Investors should be unwilling to accept risk except where the level of returns generated will fairly compensate for that risk. In our experience, more investors call for reassurance when investments go down in value than when the market is going up. In other words, volatility doesn’t bother them—only volatility involving a loss! Therefore, it is reasonable to assume that investors are more concerned with the risk of losing their capital than they are with returns on their capital.

2. **Most Markets are essentially efficient.**

   Most academic and industry research supports the idea that markets, at least in the broadest sense, are efficient. The nature of an efficient market is such that all participants have the same information regarding the market in general and specific issues in particular, at the same time. Often, however, they come to opposite conclusions as to the appropriate price of individual securities.

   Along with other academic work, a study by Merrill Lynch in 1979 showed that in a typical diversified investment portfolio, diversification eliminates so much of the “specific risk” (the risk that a specific company’s stock will decline in value) that roughly 90% of all the risk in the portfolio is reduced to “market” risk (the irreducible risk of being “in the market”) and

only 5-10% is specific risk. In another study, three leading financial analysts found that, on average, nearly 94% of the variability of a portfolio's return can be explained by the asset allocation policy followed—not the manager's timing or security selection.

We can justify that shifting focus from individual securities analysis and market timing of those securities, predicated on risk-reward parameters, to investing in a diversified portfolio is a better balance for consistent returns than speculating on single or few stocks.

3. Creating a diversified "optimal" portfolio will generate the highest return for a given level of risk.

In other words, for any level of risk an investor chooses to take, there is an optimal rate of return that should be achieved. Quantitative methods are used for measuring risk and diversification, making it possible to create efficient and theoretically optimal portfolios. Portfolio diversification is not so much a function of how many assets are involved as it is a function of the relationship of each asset to the other assets, and the proportionality of those assets to the overall portfolio.

A critical concept involved in developing optimal portfolios under Modern Portfolio Theory is "correlation." This is the measure of one asset's return and price behavior compared to another asset class over the same period. Do the asset classes move in the same direction or in the opposite direction at the same time? If they move in the same direction at the same time, they are said to have a positive correlation. No benefits of diversification are achieved by investing in asset classes that are highly positively correlated. This is sometimes described as random diversification. Clients sometimes develop portfolios that are randomly diversified, having been constructed haphazardly over a long period of time. Efficient diversification, on the other hand, matches asset classes that have dissimilar price movements over the same market cycle. You can see that the number of assets in a portfolio is less important than the price movement relationship of those assets.

It is a misconception, albeit a widely held one, that investors must always accept a higher level of risk (than currently exists in their portfolio) to achieve higher returns. By using efficient asset allocation methodologies, investors can oftentimes achieve higher returns with less risk. The key factor in making this goal achievable is the diversification of the investor's current portfolio. If it is already efficiently diversified, then higher returns will only come with higher levels of risk. However, if the investor's portfolio is properly diversified, then higher returns may be attained without increasing risk.

This is the appeal and reward of the proper application of Modern Portfolio Theory to your investment portfolio.