Investment Policy Statement

1. Introduction

A written Investment Policy Statement ("IPS") is an essential element for both the long-term Investor and a fiduciary Investment Advisor. It is developed and produced as a core service of the Advisor through a detailed conversation with the client. For you, the Investor, the IPS expresses the investment philosophy and long-term goals of the Investor based upon a specific time horizon and tolerance for investment risk. For Valcorra Advisors, the Advisor, the IPS is an investment management tool designed to establish a clear understanding between the Investor and the Advisor regarding the design, execution, and ongoing management of the investment portfolio. Additionally, a written IPS will serve to:

- Provide long-term discipline to your investment decision-making. Well-conceived plans, policies, and procedures help assure that rational analysis is the basis for your investment decisions, making you less likely to act on emotional responses to short-term or one-time events.
- Establish reasonable expectations, objectives, and guidelines for the investment of portfolio assets.
- Encourage effective communication. Because it clarifies both the issues that are most important to you, the investment approach, and strategy that will be used, the IPS minimizes any misunderstandings that may arise. The IPS sets forth an investment strategy and methodology detailing the style of investment management and the range of permitted asset class and investment vehicles that may be employed.
- Establish the framework for the creation of a well-diversified asset allocation, designed to preserve portfolio assets and capture long-term investment returns commensurate with the level of risk suitable for you.
- Allow you and Valcorra to accurately review your critical factors, as they may change over time. Such evaluations may indicate that corresponding changes to your investment plan are required.

2. Investment Approach: An Overview

- Investment Theory — Valcorra incorporates academic evidence regarding (1) how your wealth is allocated among various asset classes, and (2) minimizing the costs related to investing. Each has a far greater impact upon portfolio performance than security selection and market timing.
- Investment Vehicles — As such, we use low-cost institutional managers who provide passively managed asset class and/or core equity mutual funds.
- The Role of Diversification — We diversify globally to reduce non-market risks. We view the fixed income portion of a portfolio as a diversifier and risk-dampener for your overall portfolio.
- The Role of Market Risk — We also factor in your personal willingness, ability and need to accept market risk to enhance expected returns.
- The Importance of Tracking Error — We caution you to avoid changing your plans due to "tracking error regret," which can occur when your portfolio's performance may differ substantially (and sometimes at length) from major market indexes. "Success" should be measured by how well your overall portfolio is enabling you to pursue your stated investment objectives, not by how well it matches a popular benchmark.

3. Recommended Broad Asset Allocation (Equity/Fixed Income)

☐ 0/100	☐ 30/70	☐ 60/40	☐ 90/10
☐ 10/90	☐ 40/60	☐ 70/30	☐ 100/0
☐ 20/80	☐ 50/50	☐ 80/20	☐ Other ____________

"Alternative" Asset Classes (Classified as "equity in above referenced asset allocations")

	% Equity	% Overall Allocation
☐ Real Estate		
☐ Commodities		
☐ Master Limited Partnerships		
☐ Other:		

Additional Notes:

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4. Asset Location

Your investments can be classified into various asset classes as described above: equity, fixed income, etc. Asset *location* is the process of dividing these different types of assets among tax-free, tax-deferred, and taxable accounts to maximize the after-tax return of your overall portfolio. Asset *location* is not to be confused with asset *allocation*, which is the process of investing your dollars across various asset classes (regardless of the type of account in which the assets are held).

Asset location involves aggregating your asset allocation across various accounts included in a single IPS. This causes the allocation of each specific account to vary, thus the performance of individual accounts may deviate significantly from one another. When employing this asset location strategy, we strongly encourage you to consider the performance of your overall portfolio, versus an account-by-account basis.

General rules for asset location involve holding tax-inefficient investments in tax-free, or tax-deferred accounts (e.g.: REITs, commodities, taxable fixed income), while holding more tax-efficient investments in taxable accounts (e.g.: municipal bonds, foreign equity).

Asset location serves as a guideline for building portfolios across multiple accounts with the goal of achieving higher after-tax returns for the aggregate portfolio.

5. <u>Investment Vehicles</u>

The most common investment vehicles Valcorra uses to implement our recommended investment approach are outlined below. (We also may use vehicles not described here.)

Equity — For equity exposure, in most cases in our portfolio construction, we primarily use the family of funds managed by Dimensional Fund Advisors (DFA). These include passive asset class and/or core equity funds.

Developed using academic research on capital markets, the structure of these funds reflects the belief that markets are efficient and that the vast majority of investors' returns are determined by asset allocation decisions, not by market timing or stock picking. Each DFA fund employs a structured strategy designed to capture desired characteristics of an entire asset class or an entire market.

Collectively, DFA funds are similar to conventional index funds, but they differ in some important respects. DFA strategies most often do NOT track popular market benchmarks, such as the S&P 500, the Russell 1000, or the Wilshire 5000 indices. They are instead designed to capture specific dimensions of risk and expected return, while still effectively tracking the targeted asset class or market.

There are at least two advantages to this approach over an index fund strategy: (1) it enables greater exposure to the size and value risk factors (along with their higher expected return); (2) it eliminates pressure to trade at the generally disadvantageous pricing required to remain on-track whenever an index "reconstitutes" itself (changes the companies it represents).

While DFA funds are currently Valcorra's primary tool for constructing globally diversified, passively managed portfolios, it is important to note that they are by no means our only tool. We have no incentive for using DFA funds other than fulfilling our fiduciary obligation to serve our clients' highest interests. When we determine that another vehicle is more appropriate for you or any of our other clients, we readily incorporate it.

Fixed Income — Our goal for any portion of your investments is simple: To manage your portfolio in a manner designed to maximize net returns (after taxes, fees, and expenses) consistent with your objectives and risk tolerance. For most investors, this goal includes fixed income.

Whether you are best served by owning a fixed income mutual fund (or funds) or a customized individual bond portfolio, we believe that the proper role of fixed income within a portfolio is (1) to reduce overall portfolio risk, (2) to provide an ongoing, stable income source, or (3) to provide some combination of both. To accomplish this vital role, Valcorra's approach to fixed income investing is entirely passive, regardless of the vehicles used. We do not believe in selecting mispriced securities, timing the market, guessing the direction of interest rates or the future shape of the yield curve, or making similar attempts to “beat” the market.

At the same time that we apply a consistent approach, we recognize that each investor’s specific needs are unique. Our Fixed Income team incorporates a breadth of services, resources, and expertise to ensure that your fixed income allocation reflects your individual investment goals.

When a customized bond portfolio is recommended, our Fixed Income team builds them with high-quality individual bonds that meet your specific objectives. We buy fixed income in sufficient volume so we are treated as an established and important institutional buyer by the many broker/dealers through whom we trade bonds. We are not registered as a broker/dealer, so we cannot and do not carry an inventory of individual bonds, and we cannot and do not markup bond prices. By seeking trades from multiple broker/dealers on behalf of our clients, we are able to obtain better pricing through competition. We do not charge additional management fees for the fixed income portion of client portfolios (however, fixed income is included in the assets on which we charge our investment advisor fees).

6. <u>Ongoing Care and Maintenance</u>

Periodic Reporting — We produce and mail customized performance reports to you on a quarterly basis. In addition, you receive periodic statements from your custodian.

Explanation of Rates of Return — The Portfolio Performance Review report included in your quarterly packet shows portfolio-level rates of return for the current quarter; year-to-date; trailing one-, three-, five- and 10-year returns (when applicable); and since-inception. All returns are calculated net of all fees and costs, including advisor fees.

The review reports **internal rates of return** as well as **time-weighted returns**. As you read your quarterly reports, it is helpful to understand the meaning of these two different ways to calculate returns.

A time-weighted return is a measure of portfolio performance, disregarding the effect of cash flows. Time-weighted returns are best used for performance comparisons: between different money managers, between mutual funds and their appropriate benchmarks, or between your portfolio and the synthetic benchmark used for performance comparisons.

An internal rate of return is influenced both by the performance of your investments and the timing and size of additions and withdrawals (either in cash or in securities). If you add assets to your portfolio right before a market run-up, you benefit more from the favorable returns. This added benefit will be reflected in your internal rate of return. Conversely, if you remove assets from your portfolio, or if you add assets before a market drop, your internal rate of return will be lower than the time-weighted return.

In other words, a time-weighted return shows the “pure” performance of your investments (the time-weighted return of several investors over the same time period should be the same, provided they all had the same funds allocated in the same ratios), while the internal rate of return depends on the performance of your investments **and** the effect of your contributions to and/or withdrawals from the portfolio over time.

7. Rebalancing

Differences in performance among the various asset classes are likely to eventually cause your portfolio's exposure to various risk factors to deviate from the allocation guidelines established in this document. To prevent your allocation from straying too far from its stated goals, Valcorra periodically compares your portfolio allocation against targets and may, when appropriate, rebalance it to achieve the recommended weighting.

We typically advise rebalancing when either of the following events occurs:

- EITHER the weighting of an individual asset class deviates by ±25 percent of its recommended weighting,
- OR the major components within your portfolio (domestic equity, international equity, total equity, alternatives and/or total fixed income) deviate by ±5 percent (500 basis points) from those components' target weightings.

We often recommend using available cash for rebalancing, as this is usually the most cost-effective method. In the absence of cash flows, we may execute transactions to rebalance the portfolio. Where a DFA global fund or core equity fund is used in a portfolio, rebalancing within the fund will be done internally by the fund. Income and capital gain tax considerations may influence the extent or appropriateness of rebalancing activity.

8. Tax Management

Because unnecessary taxes can hurt your returns, Valcorra manages your portfolio with attention to tax efficiency. This can be done through various tax-management techniques, such as:

- Practicing proper asset location (locating assets appropriately within tax-free, tax-deferred and taxable accounts),
- Harvesting tax losses throughout the year,
- Minimizing short-term capital gains,
- Using tax-managed funds where appropriate,
- Remaining sensitive to mutual fund distribution dates,
- Implementing specific lot identification to minimize realized gains, and
- Maximizing the advantages when charitable giving opportunities are desired.

Monitoring for tax-loss harvesting opportunities is a year-round process for two reasons:

- First, an investment that shows a loss in April may recover by the end of the year. If the loss is not harvested in April, it may no longer be available in December.
- Second, even if the loss still exists at year-end, a short-term loss in April may have become long-term by December. (Short-term losses are generally more useful to the taxpayer than long-term losses.)

In the tax-loss harvesting process, we consider transaction costs, as well as the possible tax consequences of holding a "substitute" fund for 31 days to avoid the wash sale rule. (The IRS may disallow the deduction if the investor sells and buys two investments that are considered "substantially identical" in nature—a wash sale—within 30 days of each other.) We use our professional judgment to set minimum amounts and percentages for trading costs as well as loss within each equity transaction. These figures determine when tax-loss harvesting activities are reasonably warranted within your portfolio. The percentage hurdle is lower for less volatile asset classes such as fixed income, and higher for more volatile asset classes, such as emerging market equities or commodities.

9. <u>Ongoing Review of Investment Plan</u>

During our Progress Meetings, Valcorra asks you about any specific events in your life that may call for a change in your portfolio construction. For example, these events might include the birth of a child or grandchild, the death of a parent, or a change in your marital status. As we learn about such changes in your situation, we reallocate your portfolio as warranted.

We also review changes in your portfolio that may result from market movements. For example, unless your goals change, a sustained period of strong market performance may result in less need to take risk. From a total asset level that is then greater than anticipated, you may be able to increase the odds of achieving your goals by reducing the risk exposure of your portfolio going forward. Conversely, long periods of market underperformance may increase your need to take risk, resulting in a higher recommended allocation to stocks and other risky assets.

In addition to possible adjustments to your asset allocation, changes in your personal situation and/or unusual market performance may make it necessary to re-examine your cash flow requirements.

10. <u>Duties and Responsibilities</u>

You, our client, should always be aware that you have the ultimate responsibility for the investment of your own assets. We shall assist you to discharge this responsibility with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in such conduct with like aims.

We are responsible for answering any questions you may have; offering client educational opportunities to the extent warranted; assisting you in making appropriate asset allocation decisions based on your particular needs, objectives, and risk profile; implementing such decisions; reporting portfolio performance; and rebalancing your portfolio as necessary.

Valcorra Advisors LLC is a Registered Investment Advisor firm and shall act as your investment advisor, pursuant to the Investment Advisory Agreement between you and Valcorra Advisors LLC.

You should provide us with all relevant information concerning your financial condition, net worth and risk tolerances and shall notify us promptly of any changes to this information. Failure to disclose all such relevant information will limit our ability to provide prudent investment advice. Your duties, rights and responsibilities are set forth in the Investment Advisory Agreement.

You have elected the portfolio described in Step Two (Investment Plan and IPS Overview) and encompassing the investment accounts presented on the following page(s).

11. Investment Accounts Covered by This Agreement

Account Title	Account Number (-xxxx)

Accounts listed above will be treated as one aggregate portfolio. This should provide the most efficient method (i.e., reduced cost and income tax consequences) for designing and managing the portfolio. In doing so, each account may have different asset class representation and each account's growth may vary over time. This should not detract from the overall investment policy.

Adopted on this ____ day of ______________, 20____ *by*

Client(s) Signatures: ______________________________

Printed:

and by

Valcorra Advisors LLC

Advisor signature: ______________________________

Printed: Barrett A. Ward, CFP®, PE

Comments or Modifications:

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