Investment Philosophy, Selection Process & Monitoring

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CASHMAN CONSULTING

Our Investment Philosophy

A SET OF GUIDING PRINCIPLES

Cashman Consulting's investment philosophy starts with a well-diversified, long-term view with a strong emphasis on pursuing consistency and seeking to minimize risk.

We incorporate our collective knowledge, internal research, site visits with management companies, comprehensive research and observations from asset class efficiencies to construct portfolios designed to pursue market returns with less volatility.
Our pursuit of consistent long-term market returns employs a two-pronged approach to portfolio management:

- **Top-Down process:** to identify the global economic and market factors that drive returns across multiple asset classes and seek to optimize the allocation
- **Bottom-up approach:** to identify investments that offer the appropriate level of risk/reward relative to alternatives

Due to our belief that one cannot consistently predict the direction of markets, diversification is a prudent, appropriate strategy to managing risks through market fluctuations. It is this strategy across multiple asset classes that seeks to increase the opportunity to capture positive market returns while minimizing the impact of underperformance and excessive volatility.

Play Ball! Meeting our consistency standards is largely dependent upon a set philosophy that an investor can easily define and adhere to over a long period of time. So many investors are constantly changing their investment parameters leading to the buy high sell low mentality. We use an analogy of a baseball team quite often and this method of investment management is utilized throughout much of our business. This method, we believe, allows investors to smooth out volatility experienced within their portfolio(s).

Why the team? A successful baseball team has nine players all good at baseball but with their own particular strengths and weaknesses. However, the manager is who can pull from all of those individual talents to create a winning team. Investing is similar in that many investments exist but it is the right combination of those that can potentially lead to winning returns. Just as each position on the field needs to be covered, each position in the investment spectrum also needs to be covered to pursue consistent returns with less volatility.

What are the positions? Companies are traditionally divided into three basic size categories; Large (greater than $106), Medium ($2-106) and Small (-$26) cap. Inherent in each of these sizes are investment styles (Value, Blend, Growth) creating nine positions. This has evolved for us over the years to include the International market style boxes which we loosely coined our designated hitter, or tenth position.

Who are the players? Players are picked to represent their category, filtered based on several criteria and benchmarked versus their peers (see Selection Process). Rather than choosing a position based on best return, we look for investments that have exhibited the ability to be most representative in their particular style category (we do not want our pitchers playing shortstop or vis a vis). Risk and potential reward is examined to pursue adequate results with reasonable risk.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification and asset allocation do not protect against market risk. The prices of small and mid-cap stocks are generally more volatile than large cap stocks. Value investments can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. Stock and mutual fund investing involves risk including loss of principal.

Investment Selection & Monitoring

Selecting and monitoring investments are critically important tasks whether for a private wealth client, Employer-Sponsored Retirement Plan or our Trust accounts.

Helping navigate one's financial path, as an investment fiduciary, is a significant responsibility to offer diverse and appropriate investments. This is why we have developed and employ a rigorous selection, monitoring and evaluation process for our investment advisory clients.

Our process is designed to identify investments that have performed consistently well relative to their peers while staying true to their investment styles. It is based on quantitative and qualitative criteria and has been a standard by institutional money managers for decades.

The process is extensive and includes a review of long-term performance of investments relative to their peer groups. We perform this process quarterly through both up and down market periods. Our criteria favors investments that pursue dependable, long-term performance as the result of a well-established management team's use of consistent style and process.

Strict criteria with consistent application should produce sound investment options

Our process demonstrates Cashman Consulting's commitment to offer appropriate investments to our clients. We apply strict criteria across a broad range of investments styles as well as the universe of investment managers. The result is a menu of choices that represent broad market diversification with long-term focus across multiple investing styles and philosophies.

The Quarterly Review

Each quarter, our individual and business clients receive a variety of reports. These reports include portfolio holdings, performance figures and benchmark data relative to the monitoring criteria. They highlight those that are performing well and those that are failing the criteria.

Our clients use these reports to:

- Monitor investments
- View Holdings
- Make decisions about the ongoing inclusion of those investments
- Substantiate diverse and appropriate investment options
- Review investment returns
- Identify rebalance opportunities
- Update objectives and/or financial planning needs

Selection Criteria

QUALITATIVE & QUANTITATIVE

Investments have at least 5 year performance history. Exceptions apply if:

- Manager demonstrated track record with similar style elsewhere
- Other factors strong enough to support lack of history

Investments should demonstrate consistent management style in seeking to minimize style drift within the category

- Invest in appropriate asset categories
- Typically will demonstrate industry diversification within their respective category, unless a specialty investment is selected for a more narrow strategy
- Equity investments do not carry excessive cash for extended periods. We typically will make an allocation to cash separate from cash held within a manager's portfolio

Expenses must be competitive

- Specific weighting is applied to this data point depending on client objectives and sensitivity to cost
- Utilize investments with zero load/load-waived basis to minimize cost when available
- Utilize No-Transaction-Fee (NTF) investments to minimize cost when available

Investments will have reasonable asset size for adequate diversification within its category. Market Cap outliers will be filtered out

Portfolio Manager's will have reasonable experience. Less tenure may be considered if manager has demonstrated success in another similar space

Performance-based

3, 5 and 10-year performance figures are weighted more heavily than year-to-date and 1 year. Should carry a minimum of 5 years' performance history. Exceptions to this are reviewed on a case by case basis by the Investment Committee.

Calendar year performance is typically not weighted or filtered for however they are reviewed to identify performance volatility.

We seek reasonable consistent performance. We do not apply specific quartile performance requirements but do monitor via our peer group ranking statistics.

Internal point system developed to analyze performance data.

Exceptions to the performance criteria will be made for passive and/or index investments. These investments will be expected to perform relative to the underlying index/benchmark before expenses.

Investment Selection and Monitoring incorporates the following functions:

- Specific and objective criteria is used to evaluate candidates
- Long-term performance is measured quarterly against peers
- Reviewed quarterly for consistency of style
- Pooling of all investments available on the platform(s)
- Evaluated quarterly for continued appropriateness within our recommended investment menu
- Standard Deviation* statistics reviewed and justified
- RPAG scores ran quarterly and reviewed with a pass/fail criteria
- Internal Watch List maintained

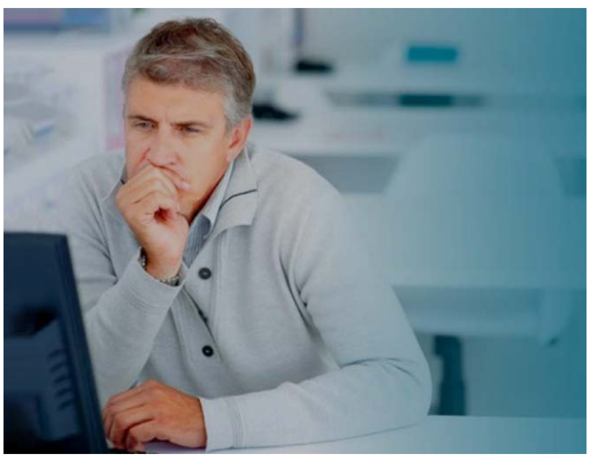
*Standard Deviation is a historical measure of the variability of returns relative to the average annual return. If a portfolio has a high standard deviation, its returns have been volatile. A low standard deviation indicates returns have been less volatile.

Monitoring Criteria

We utilize the databases of 4 main sources; Retirement Plan Advisory Group (RPAG), Morningstar, Inc., Charles Schwab and Envestnet. Each of these organizations provide us their analysis of performance and we take that information to compile results.

We utilize a number of tools, technologies and resources to monitor investment managers and their investments. One that we subscribe to and rely most heavily on is provided by RPAG, and is called the Scorecard. We make a significant quarterly investment to gain access to their research, process of due diligence, reporting and RFP services. The methodology of the Scorecard incorporates both quantitative and qualitative factors in evaluating investments and their strategies. The system is built around a pass/fail criteria, on a scale of 1-10 (with 10 being the best) and has the ability to measure Active, Passive and Asset Allocation investing strategies.

80% of an investment's score is quantitative (made up of 8 unique factors), incorporating modern portfolio theory statistics, quadratic optimization analysis, and peer group rankings. The other 20% of the score is qualitative, taking into account things such as manager tenure, expense ratio relative to the average expense ratio in that asset class category, and the investment's strength of statistics (statistical significance). Other criteria that may be considered in the qualitative score includes the viability of the firm managing the assets, management and personnel issues and/or whether there has been a change in direction of the investment's stated strategy.



- Manage a **Recommended List**
- Maintain a **Watch List**
- Terminate use of an investment and offer **Replacement** in category
- Move investment to a more **Appropriate Category**
- Recommend suspension of further investment under review and offer **Another Investment** in the category
- **Transfer Assets** to a new investment representing the vacated category OR as directed by the client

The criteria used to produce an investment score is used to determine when a manager or investment need to be placed on a Watch List, removed or terminated. If an investment scores at a 5 or below for four consecutive quarters, it is placed on our internal watch list. While it seems easy to remove an investment after 1 poor score, we feel it is prudent for us to be able to observe through both an up and down market cycle prior to making a decision. If it continues on the watch list for 4 or more quarters and is continuing to score poorly we make the decision whether to terminate. In addition to RPAG, we have created an analysis tool that allows us to compare/score investments against one another by applying a weighting to a variety of criteria. Once we have decided to remove an option we use this stool to score it against other options of the same asset class seeking to find the best possible replacement.

Styles are expected to remain true to the category for which they were chosen. If either a holdings analysis or performance analysis finds that an investment has drifted into a different style, our investment committee will identify the reason and estimate the severity and duration of the deviation. Investments are expected to maintain manager (or management team) integrity. In general, a change to the management team is viewed as less significant than a change in manager. With any such change, our research team will contact the investment manager to gather more information.

We also perform site visits with management companies both in our offices and by travel. We host regular meetings for the purposes of remaining current on the company, their market insight and objectives of product offering. We find this time valuable and important for us to continue to provide current, relevant and accurate information to our clients.

Criteria that could lead to a recommendation to suspend further investment

- Wide publication of performance results is discontinued
- Fee structure is modified to the material detriment of our clients
- Investment manager replaced with a manager whose skills fall outside category objective or experience is not acceptable to the committee
- Underlying investments become inconsistent with the category and are expected to remain that way
- Manager demonstrates extreme risk-taking behavior. Possible examples of this would be large cash holdings, over-weight to industry or unnecessary turnover or volatility statistics
- Objective and category changes outside of its target deeming that selection inappropriate and "out of position"
- Investment continues on internal watch list for 4 or more quarters and is continuing to perform/score poorly
- Internal weighted score consistently subpar relative to peers
- Viability of the firm managing the assets, management and personnel issues or changes in direction of the investment's stated strategy

Adding/Removing from our Recommended List

We monitor our recommended list of investments daily. Much of this work is happening internally not requiring notice. However, often times we make adjustments that require a sweeping change in a particular position. These notices are delivered by letter, email and/or by phone. Changes may include transferring assets from one investment to another, further diversifying within a particular category by adding multiple options or introducing a new category to the portfolio altogether.

Quarterback and Investment Fiduciary

We take seriously the relationship with our clients and the advice we provide. In fact, we prefer to play as Quarterback with respect to your financial team helping you navigate your financial future. For our Retirement Plan clients, we serve as an Investment Fiduciary; supporting the oversight responsibilities Plan Sponsors/Trustees bear.

In that capacity, we adhere to a strict screening and monitoring process and strive to ensure portfolios are well-aligned AND Ret. Plans are in full compliance with the Investment Policy Statement governing them. Our level of due diligence attempts to provide clients with the assurance that their portfolios are constructed and maintained consistently, pursuing the objectives set forth.

We intend to be different here at Cashman Consulting and are proud of the experiences we deliver. Our approach and philosophy transcend all of our business lines and provide a solid base from which we operate day in and day out.

Our Investment Committee

The investment committee establishes investment guidelines and supervises our investment activity. The committee regularly monitors our overall investment results, reviews compliance with our investment objectives and guidelines, and ultimately reports the overall investment to our firm. These guidelines include limitations on the size of certain holdings, as well as, restrictions on purchasing certain types of securities.

The purpose of the committee is to oversee Cashman Consulting's investment transactions, management, policies and guidelines, including review of investment manager selection, establishment of investment benchmarks, review of investment performance and oversight of investment risk management exposure policies and guidelines.

The frequency of meeting is set at a minimum quarterly and allows for special sessions to be called anytime by any member of the committee. Responsibilities with respect to investment transactions, management, policies and guidelines:

- Review/approve policies and guidelines governing investment portfolio and monitor compliance with policies
- Review/approve policies and guidelines governing investment selection, company allocation models and monitor compliance with policies
- Review/approve benchmarks or other measurement devices employed by Cashman to monitor performance of its accounts strategies.
- Findings are reported and disseminated, as appropriate, to our clients

To Learn More

To learn more about our financial management services please feel welcome to contact us at:

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