



PENOBSCOT  
FINANCIAL ADVISORS

# Investment Policy Statement

Jennifer & John Sample

1 Monument Square | Suite 501 | Portland, Maine 04101  
74 Hammond Street | Bangor, Maine 04401  
(207) 990-1901  
[www.penobscotfa.com](http://www.penobscotfa.com)

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## 1. Purpose

The Investment Policy Statement (“IPS”) is the cornerstone of the investment management process and it is the foundation upon which our work together will be based. Investment decisions will be made in concert with the guidelines that Penobscot Financial Advisors (the “Advisor” or “PFA”) and Jennifer & John Sample (the “Client”) agree upon and outline in this document. The IPS opens a channel of communication between the Advisor and the Client, allowing important issues and concerns of both parties to be clarified.

The Investment Policy Statement:

- Establishes the criteria for matching the Client’s objectives to an appropriate investment plan.
- Provides a frame of reference to keep the Advisor and Client focused on investment objectives. This focus is especially valuable during periods of market volatility when there may be a temptation to react to short-term factors.
- Establishes the criteria against which progress will be measured.

## 2. Duties and Responsibilities

### a. The Advisor

Penobscot Financial Advisors, as a SEC Registered Investment Adviser, will act as a fiduciary to the Client and manage the Portfolio (as defined in section 3, Client Profile, below) in a manner that is consistent with this Investment Policy Statement.

PFA utilizes an investment committee to conduct research and monitor markets. The committee is chaired by the Chief Investment Officer, and includes all advisors and investment operations personnel. The committee convenes on a bi-weekly basis, with updates being provided on an ad-hoc basis by members. In addition, automated systems that alert the committee of pre-defined events (portfolio drift, movements beyond pre-defined limits, etc.) will be utilized.

The Advisor is responsible for:

- Recommending an appropriate asset allocation
- Evaluation & selection of securities within each asset class
- Implementation of the strategy through trading & rebalancing
- Monitoring portfolio performance & drift to make changes as necessary

**b. The Client**

The Client is responsible for reporting any material changes in financial circumstances or goals to the Advisor in a timely manner. Any necessary revisions to the Investment Policy Statement will be made in response to such changes, and the updated Investment Policy Statement will be reviewed with the Client.

**3. Client Profile**

**a. The Portfolio**

This IPS governs the current Management Agreement(s) executed between the Client and Advisor. The accounts listed in the table below (the “Portfolio”) comprise the assets to be managed by the Advisor in accordance with this IPS.

<b>Account</b>	<b>Value</b>
John TD Traditional IRA	\$238,000
Jennifer TD Traditional IRA	\$310,000
John TD ROTH IRA	\$62,000
Jennifer TD Traditional IRA	\$45,000
JTWROS TD Brokerage	\$100,000
<b>Total</b>	<b>\$755,000</b>

**b. Investment Objectives**

A diligent investment process is used to match your objectives with an appropriate investment strategy. The Client desires to obtain the following stated investment objectives through seeking maximum return at an appropriate level of risk.

Capital Preservation

Income

Growth and Income

Growth

Gift/ing/Legacy Goals

**c. Risk Tolerance**

An understanding of your risk tolerance helps define an investment strategy that you will feel confident maintaining through various market conditions. The Advisor has discussed the factors that influence your willingness and capacity to assume risk. These factors include your time horizon, financial/tax situation, and investment objectives. Collectively, you and the Advisor have concluded that your risk tolerance falls into the category noted below.

- Conservative
- Moderately Conservative
- Moderate
- Moderately Aggressive
- Aggressive

**d. Time Horizon**

In determining your risk tolerance, the Advisor assessed the time horizon for the Portfolio. Generally speaking, the longer the time frame, the more aggressive the portfolio can be. The Advisor has discussed the investment objectives of this portfolio with you, and together you have determined the investment horizon falls into the range noted below.

- 0 - 1 Year
- 1 - 5 Years
- 5 - 10 Years
- 10 - 20 Years
- 20+ Years

**e. Liquidity Needs**

The Advisor has discussed your cash needs, and determined if distributions from this portfolio will be necessary to meet those needs. Portfolios with frequent distributions require additional liquidity, which may result in a cash allocation above the target assigned in this agreement.

**4. Risk**

Adequate holdings will be utilized to limit security-specific risks to the Portfolio. Market exposures within the Portfolio will be monitored routinely to limit any geopolitical, sector, or

industry specific risks. Overall, the Portfolio will be consistently maintained within predetermined limits on drift from an optimized portfolio. It is understood that losses may occur in individual securities, but that risk and performance will be considered at the aggregate portfolio level. The Advisor will adhere to the investment management styles for which they were hired and make reasonable efforts to control risk, recognizing that some risk is necessary to produce investment results that are sufficient to meet the investment objectives.

## 5. Return

Given the risk tolerance noted above, the Advisor will seek the best possible returns at an appropriate level of risk as described in the Asset Allocation section of this policy statement. Financial markets fluctuate and there is no guarantee that a certain return will be met, and past performance is not a guarantee of future results.

## 6. Asset Allocation

Prudent investing relies on a sound asset allocation strategy. Following is the Strategic Asset Allocation the Advisor recommends for the Portfolio. These targets represent the baseline allocation that the portfolio will maintain under the prevailing market conditions. However, the portfolio may tactically deviate from these targets in response to changes in the risk/return profiles of the asset classes.

Overall Target Asset Allocation: Moderate 7

Equity:	60.5%
Fixed Income:	26.0%
Alternatives:	12.5%
Cash & Equivalents:	1.0%

To the extent they are able to be held due to custodial, retirement plan or other limitations, securities & products included in the Portfolio may include, but are not limited to, the following:

- Individual Stocks
- Individual Bonds
- Mutual Funds
- Exchange-Traded Funds
- REITs
- Preferred Stock
- Unit Investment Trusts

- Master Limited Partnerships
- Options
- Hedge Funds
- Separately Managed Accounts

To the extent they are able to be held due to custodial, retirement plan or other limitations, the Portfolio's investments may include, but are not limited to, the following:

- US Large Cap, Mid Cap, and Small Cap Equity
- International Developed and International Emerging Markets Equity
- Alternative Investments including, but not limited to, Commodities and Real Estate
- US and International High Yield Bonds
- US and International Corporate Grade Bonds
- US and International Floating Rate Bonds
- US and International Government Securities
- US and International Convertible Bonds
- Municipal Bonds
- Cash and Cash Equivalents

The target allocation indicates how we plan to allocate the assets as of the date this report was signed. Any changes to your investment objectives, risk tolerance, time horizon or cash needs should be communicated to the Advisor so that this allocation can be evaluated to ensure continued alignment with your goals.

## **7. Investment Philosophy**

### **a. Overview**

Consistent with Modern Portfolio Theory, we seek to maximize return for a given level of risk that corresponds with the Client's risk tolerance. Using an optimized combination of non-correlated assets, we strive to attain the highest possible Sharpe Ratio (return per unit of risk) for the Portfolio.

### **b. Sleeve Approach**

Optimal return at a target risk level is achieved through a combination of strategic and tactical asset allocation decisions. On the strategic side, target risk levels are initially attained by assigning weights to the broad asset class sleeves noted in section 6 of this IPS. These weightings are based on the long term risk/return profiles of those broad asset classes. Next, tactical allocations can be used to generate alpha, a measure of excess return above the benchmark. These tactical allocations may

overweight asset classes, regions, sectors, or industries that presently demonstrate a greater value opportunity, while underweighting any of these segments that appear overpriced.

**c. Investment Selection Criteria**

When selecting mutual funds, hedge funds, separately managed accounts, and exchange-traded funds (ETFs) for the Portfolio, preference is given to funds that exhibit the following characteristics:

- Total return percentile ranking within peer group over 3, 5, and 10 year
- Minimum manager tenure commensurate with above performance periods
- “Bear Market” return rank at or near top quartile
- Maximum percentage of assets in top 10 holdings targeted at 20%
- Expense ratios in lowest quartile of peer group
- Minimum asset size of \$100 Million
- Funds that have exhibited low amounts of style drift relative to peers
- Funds with Sharpe ratios above their peer means

When selecting stocks, a “bottom-up” approach is used, taking into account the universe of U.S. Exchange traded common stock. Equities are compared to their respective peer groups and the stocks that are top quartile in the largest number of the following criteria are brought to the PFA Investment Committee for review:

- Return on Equity (ROE) or Return on Assets (ROA)
- Earnings Yield (Earnings Per Share divided by Share Price)
- Free Cash Flow (FCF) divided by Enterprise Value or Market Value
- Current Ratio (Current Assets divided by Current Liabilities)
- Debt Ratio (Liabilities divided by Assets)

The PFA Investment Committee narrows this list down to final candidates by utilizing reporting from a number of research firms. Additional criteria considered include, but are not limited to:

- Environmental, Social and Governance standards (ESG)



- Share price (excluding shares priced too highly to be included in smaller managed portfolios)
- Daily volume of actively traded shares
- Industry (in light of existing portfolio)
- Technical analytics
- Potential for sustained leadership within industry
- PEG Ratio (Price/Earnings/Growth)

Once stocks are part of the portfolio, they are tracked and subject to removal from the portfolio at the discretion of the PFA Investment Committee in cases where the characteristics making up the original criteria for inclusion have deteriorated.

#### **d. Taxes**

As it relates to assets held in taxable accounts, studies have shown that significant positive alpha generation can be achieved by managing a portfolio for taxes. While the majority of the long-term risk and return characteristics of the Portfolio will be determined by general asset allocation, tax efficiency will also be considered with each taxable investment. When practical, tax-loss-harvesting will be employed, long-term capital gains and “qualified dividends” will be the preferred rates at which income will be realized, and fixed-income assets will be assessed for their after-tax rate of return.

### **8. Performance Evaluation and Reporting**

Portfolio performance evaluation is available through quarterly reports, and ongoing meetings with advisors. We urge you to review these reports and compare them against official custodial records. Our evaluations will measure the portfolio’s performance against the following benchmarks:

Fixed Income:	Barclays Global Aggregate Bond Index
Equities:	MSCI ACWI Index
Alternatives:	50% MSCI World REITS Index & 50% Bloomberg Commodity Index

The portfolio’s benchmark will be weighted according to the model targets chosen in Section 6 of this IPS.

### **9. Rebalancing**

