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**MERSBERGER**  
*Financial Group, Inc.*

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*Helping You Organize Your Financial Life*

# ***INVESTMENT POLICY STATEMENT***

Wealth Accumulation and Transfer Strategies,  
Financial Planning, Business Planning  
and Estate Conservation Analysis



# Overview

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MFG (*Mersberger Financial Group, Inc.*) has developed an investment philosophy in order to create a document and guideline that outlines the investment philosophy and investment process of the firm. This is done in an attempt to form a repeatable and documentable process in regards to portfolio management that the firm believes is critical to planning for a client's future. In addition, MFG believes that it is critical to have all financial advisors and staff members educated and cognizant of the firm's investment strategy and philosophy. This approach allows MFG to maintain consistency in their investment advice.

# Purpose

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- Utilize all available resources to educate members of the firm and our clients with the goal of improving portfolio performance and asset allocation, reducing risk, understanding investment vehicles and investment philosophy, and optimal portfolio management.
- Determine, monitor, and adapt the investment vehicles used by the firm.
- Create, monitor, and adapt the asset allocation models used by the firm.

# Investment Philosophy

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MFG's investment philosophy centers around four guiding principles; a combination of tactical and strategic market-based strategies, a focus on risk reduction/downside protection, utilization of income-generating strategies, and a diverse use of multiple investment vehicles.

The firm's strategies are intended to capture upside in good market cycles while minimizing the downside in bad market cycles.

MFG strives to monitor a portfolio in unison with client goals. Rather than focusing on outperformance of a standard benchmark that may not be of any relevance to a client, a holistic approach is taken that focuses on generating returns that may allow each client's specific plan and goals to be realized. The firm believes that a central part of this approach is an emphasis on prudent risk management as opposed to chasing short-term returns or benchmarking against an arbitrary, all-equity index.

The firm has a strong belief that comparing short-term performance to the performance of a standard index may not be the correct way to benchmark performance; rather, MFG believes that portfolio management should be specific to each client and that each portfolio should be monitored in an approach that is aligned with each client's specific financial plan and specific goals. Performance should thus be benchmarked to each client's plan and individual goals.

# Asset Allocation

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Asset allocation is an important factor of the investment policy and may have the greatest impact for client's long-term performance. However, asset allocation cannot eliminate fluctuating prices and uncertain returns.

MFG maintains three sleeves of asset allocation; strategic allocations, active allocations, and income-generating allocations.

Client allocations to each sleeve are determined by investment time horizon, risk tolerance, and investment objectives, as well as any other qualifying factors. Clients may have varying weightings to any allocation sleeve depending on these factors.

MFG utilizes a risk tolerance questionnaire in addition to a data-gathering questionnaire in order to determine where each client fits into our allocation sleeves and what models would be appropriate for them. The ING Financial Partners fact finder, a risk tolerance questionnaire, and the MFG proprietary background profile are all used to establish a client's risk tolerance and investment objectives.

## **Strategic Allocations**

The firm's strategic allocations consist primarily of mutual funds but can also include ETFs, individual stocks, or preferred stocks. MFG maintains and monitors proprietary models based on the different classifications of risk tolerance. Each model is intended to potentially keep volatility/risk within predefined metrics over a 5 to 10 year time horizon. Volatility/risk parameters are based on historical data of each model over trailing 5 and 10 year time periods. Each model will include equity, fixed income, and non-correlating assets to varying degrees.

The management style of these models is not active in nature and does not attempt to time markets for short-term purposes. Rather, the firm takes an intermediate-term, 3 to 5 year outlook when designing these allocations. MFG attempts to monitor broad economic/market trends and makes strategic changes to models as necessary. Overweight and underweight positions will be periodically taken in areas that the firm believes may either add or detract value over a period of time. Strategic models are as follows:

- **Low Risk:** Appropriate for 1 to 3 year time horizons. Core weighting of model consists of 20% equity exposure, 80% fixed income exposure (actual asset allocation varies based on market conditions/portfolio positioning)
- **Moderate Low Risk:** Appropriate for 2 to 5 year time horizons. Core weighting of model consists of 35% equity exposure, 65% fixed income exposure (actual asset allocation varies based on market conditions/portfolio positioning)
- **Moderate Risk:** Appropriate for 5 to 10 year time horizons. Core weighting of model consists of 50% equity exposure, 50% fixed income exposure (actual asset allocation varies based on market conditions/portfolio positioning)
- **Moderate High Risk:** Appropriate for 10+ year time horizons. Core weighting of model consists of 75% equity exposure, 25% fixed income exposure (actual asset allocation varies based on market conditions/portfolio positioning)
- **High Risk:** Appropriate for 10+ year time horizons. Core weighting of model consists of 95% equity exposure, 5% fixed income exposure (actual asset allocation varies based on market conditions/portfolio positioning)

## **Active Allocations**

MFG does believe that in bear market cycles and times of market turbulence there are certain active managers who may add value by utilizing historically proven strategies. The firm utilizes several active, third party



## Asset Allocation cont.

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managers to complement strategic allocations and to diversify amongst management styles. These strategies may include various defensive mechanisms, including stop-losses and active reallocations. The active management style of these strategies attempts to minimize downside participation of the market.

MFG believes that the implementation of these strategies in unison with strategic allocations will help protect portfolios in market downturns while still providing participation in good markets. MFG will strive to use strategies that have historically outperformed their benchmarks. However, past performance is not an indication or guarantee of future results.

### **Income-generating Allocations**

MFG believes that a portion of most portfolios should be designed to protect portfolios from market fluctuations while seeking steady income streams. This portion of the portfolio is used to generate an income stream for clients currently in the withdrawal phase or nearing the withdrawal phase and is intended to be the optimal place from which to take distributions.

## Risk Management

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Risk management of each allocation helps manage a client's downside risk exposure and is a very important, central part of MFG's investment philosophy.

All investment vehicles used must first be reviewed by ING Financial Partners' due diligence team prior to use by financial advisors, and each investment is put through a thorough analysis to ensure that it is appropriate for use by financial advisors in client portfolios.

### **Strategic Allocations**

The central part of the firm's strategic allocation risk management is based on the year-over-year quarterly earnings growth of the S&P 500. Once this growth turns negative on a year-over-year quarterly basis, MFG will build a 50% buffer of short-term and intermediate-term US Treasury ETFs into each one of the strategic allocation models. Once S&P 500 year-over-year quarterly earnings growth returns to a positive trend, models are rebalanced to original allocations. This risk management tool is not intended to insulate portfolios from short-term market corrections but rather from sustained bear market corrections. With US Treasury securities typically seen as a more stable asset in times of market turbulence, taking on this allocation should help reduce participation in bear market cycles.

Morningstar Direct software is used to monitor the risk and return parameters that the firm has designed for each of our strategic models. MFG's investment committee also analyzes the individual mutual funds in each model on a monthly basis for manager changes or style drift. In addition, a block trading platform is utilized to reallocate model portfolios in an efficient manner.

### **Active Allocations**

Risk management in the firm's active allocation sleeve is performed primarily by the third party managers the firm utilizes. These third party managers use various strategies and will typically have discretion to make changes to client accounts as they see necessary.

### Risk Management cont.

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It is the goal of MFG to monitor third party managers for adherence to their stated investment objectives. This is done through the examination of strategy disclosures, periodic examination of portfolios and trades, attending due diligence meetings for each third party management group, and participating in periodic conference calls with strategy managers. Portfolio composition and performance of each third party manager is also reviewed on a periodic basis.

#### **Income-generating Allocations**

The firm's risk management approach to the income-generating sleeve is somewhat unique as risk management is built into the investment vehicles used in the sleeve.

The firm's use of income generating investment vehicles help to create a steady, long-term stream of income for clients in the withdrawal phase as well as help to decrease the dependency on market returns for income. These investments will usually have a primary objective of capital preservation as well as income generation. In addition, some investments will include features that are intended to help someday pass assets to a client's beneficiaries.

A thorough due diligence process helps to monitor the risk being taken by each investment vehicle. Financial advisors attend an annual educational conference that focuses on alternative investments and allows financial advisors to examine characteristics of each investment to ensure that they are appropriate for clients. In addition, each investment strategy is examined by MFG's investment committee prior to being approved for MFG use. Investments are also examined through in-depth analysis of prospectuses and conversations with company representatives for each investment vehicle.

## Investment Vehicle Allocation

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- Describes how each client portfolio is allocated between the different allocation sleeves.
- Each strategy has a minimum asset requirement in order to be implemented for a particular client (i.e. \$10,000, \$25,000, \$50,000, or \$100,000). For smaller accounts, MFG believes that liquidity and transparency are key and that it is not feasible to implement multiple allocation sleeves. Smaller accounts (typically portfolios less than \$150,000) will be allocated into no more than two or three strategies, with the goal of liquidity playing a central part in the allocation analysis.
- As assets under management grow for a particular client, additional investment vehicles will be introduced. Larger accounts will typically use multiple investment vehicles from each allocation sleeve. In addition, larger accounts will have the ability to utilize income-generating investment vehicles that are not as liquid but could potentially provide income generation.
- Client portfolios will be invested into specific investment vehicles for each allocation sleeve depending on risk tolerance, time horizon, and investment objectives.
- MFG strongly believes that a portfolio should have allocation decisions partly dictated by matching a client's assets to their future cash outflow needs. Essentially, money needed within the next 2 to 4 years could be kept in conservative investment vehicles, money needed within the next 5 to 10 years could be kept in moderate investment vehicles, and money needed in 10+ years could be kept in growth vehicles.



# Investment Vehicle Selection

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Selection of investment vehicles is based largely on their liquidity, transparency, and philosophy.

- **Liquidity:** are there penalties, fees, or forfeitures required for a client to have their assets returned to them? If so, the firm will be inclined to not use a particular investment unless it meets a client's specific objectives. Likewise, financial advisors will be biased against using any investment vehicle that charges an upfront commission to the client, unless there is no other choice for compensation and the investment fits a client's specific objectives.
- **Transparency:** can investment decisions made by the investment vehicle/manager be easily analyzed and tracked? Is the underlying portfolio understandable and do managers/strategy representatives make themselves available for questions?
- **Philosophy:** does the investment vehicle/manager have an understandable investment philosophy and strategy? Does it make sense in the current/expected market environment?

## Strategic Allocations

Individual funds are chosen using a combination of historical data analysis and forward-looking expectations and statistics. In addition, an emphasis is placed on funds with low expenses, consistent manager tenure, below average risk (as measured by beta/standard deviation), and consistent performance through various market cycles. The available investment universe is screened using Morningstar Direct software in order to identify the most suitable holdings for each portfolio.

## Active Allocations

Third party managers are chosen through MFG's participation in educational/due diligence conferences. In addition, third-party manager historical returns and risk statistics are thoroughly examined before making a selection. Manager's historic strategy must fit the investment policy of MFG.

## Income-generating Allocations

Investment vehicles are selected based on their ability to generate sustainable amounts of income for a client's particular needs. More focus on income-generating investment vehicles will be done for clients needing to generate income or who are in retirement. Investment vehicles are screened in order to select vehicles that have a historical track record and reasonable fee structure. Past performance is not an indication or guarantee of future results.

# Investment Review Process

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The MFG investment committee consists of Peter, Josh, and Zach Mersberger, with input provided by other financial advisors in the office. The MFG investment committee shares strategic oversight of investment policy.

- **Monthly Meetings:** The investment committee meets monthly to examine asset allocations and strategic allocation model composition. Overweight/underweight decisions as well as addition/removal of funds is discussed at monthly meetings, primarily for strategic allocations.

### Investment Review Process cont.

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- Investment committee tracks performance/risk of strategic allocation models on a weekly basis in an attempt to identify any strategic shifts that may need to be made. Shifts typically only will be made on a short-term basis in extreme market environments.
- **Quarterly Meetings:** All financial advisors, including the investment committee, meet quarterly to review overall investment policy, asset allocations, investment vehicles used, and investment philosophy. Performance and risk measures are also reviewed at quarterly meetings.
- **Semiannual Meetings:** The MFG investment committee meets semiannually to discuss the firm's investment philosophy/policy. Any changes recommended by the investment committee to the investment philosophy/policy are analyzed and implemented at these meetings.
- Investment committee meetings will be held as often as necessary when market conditions warrant. However, risk management tools for each allocation sleeve should help to ensure that portfolios are not exposed to extreme market volatility.

## Focus on Ethics

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MFG has a strong belief in ethical financial planning and strives to always act in clients' best interests.

A comprehensive approach is taken to planning that is designed to help organize clients' financial lives and work towards accomplishing their goals. The firm's investment policy is aligned with this approach as it helps to keep a client's portfolio aligned with their goals and financial plan. MFG strives to quarterback its clients' financial lives so that they can enjoy what is important in their lives.

MFG will not take a sales-based approach to financial planning and has no bias towards particular investment vehicles. The investments that will be implemented for each client are those that fit a particular client and their financial plan.

The firm tries to use liquid accounts wherever possible, meaning the client will pay no fee to enter an account and no fee to exit an account. In addition, MFG does not accept up-front commissions wherever possible, unless no other compensation option is available.

MFG financial advisors intend to take a recurring form of compensation based on a percentage of assets under management, which aligns their interests with those of the client. Financial advisors are compensated on a periodic basis through this arrangement for as long as the client relationship lasts, rather than receiving the majority of their compensation up front (which is how traditional commissions work).

Clients typically have no fee to exit accounts. This means that MFG is confident that clients will be satisfied with the services offered by the firm, and that the majority of client relationships will be long lasting.

*\* Investment policy and asset allocation is subject to change based on MFG analysis, discretion of investment managers, and changes in economic/market conditions.*



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