Investment Philosophy, Due Diligence, and Portfolio Review Methodology

Wealth Management is the holistic stewardship of individuals' & families' financial health and goal achievement. Tax planning, estate management, insurance coverage and financial projections are all integral components of pursuing and maintaining financial independence for our clients as well as generations of their families.

Investment management often plays a central role throughout the life of a financial plan. CCR Wealth Managements' clients span several generations and include a diversity of investment objectives: from conservative, preservation-focused profiles to aggressive, equity-only growth profiles.

Financial markets have rapidly evolved in recent decades, as has information mediums with which investors view the world and form investment opinions. We think it is important for clients and prospective clients to understand the foundational principals which guide and govern the investment management of their families' financial assets. This document serves to outline those principals.

CCR Wealth Management's investment team is led by our Chief Investment Officer, John Maher, CFA. Analytical and trading support is provided by Chloe Gu, CFA; Kevin Betro, CFA Level II candidate; and Eric Fernandes, Investment Associate.

Investment Philosophy:

We pay credence to macro-economic trends, and their tendency to "cycle". While we know history does not repeat, we do consider its echoes. Productivity and policy have shaped market outcomes for decades. These days, it seems politics can also have profound, often unpredictable, or even contrarian impact. We believe diversification in this environment to be a far-superior strategy than "market timing" or making large bets on any readings of the "tea leaves". Consensus views often prove to be unreliable, and sometimes spectacularly wrong. A lifetime of wealth creation deserves more circumspection.

- We believe prudence is the better part of valor. Investment "narrative" is a term we frequently cite to describe today's media output when it comes to investing. "Narrative" simply refers to constant repetition of theory until that theory takes hold in the collective psyche to be adopted as fact. We believe one of the most important philosophical attributes we maintain as analysts is a healthy ***skepticism*** of such narratives.

- We believe in **asset allocation**, which has a very long track record of success as an investment strategy. We do not believe in market timing, which a myriad of behavioral finance studies has shown lead to significantly sub-optimal investment outcomes (for one, see DALBAR's Quantitative Analysis of Investor Behavior).

- We recognize that taxes can have a profound impact on an investor's returns. We also recognize that a myopic focus on taxes can have an equally negative impact. All clients have unique tax situations. Planning and communication are the most effective way to maximize after-tax returns.

- Since the dawn of the internet decades ago, investment information has been democratized. In response, trading revenues have increasingly been replaced by a dizzying maze of investment fees, and Wall Street has become a "financial product factory", oftentimes selling "solutions" to "problems" which don't really exist. A strong **due-diligence** approach (along with a healthy skepticism) is required to sift through the chaff.

- Investors of all ages and risk profiles are best served by measuring investment outcomes in terms of **Total Return**. A myopic focus on yields, especially over the last decade, tends to increase portfolio risk metrics. Credit risk and equity risk are highly correlated. Liquidity may also be affected.

- **Tactical Tilts**: While we shun market timing (the "all or nothing" approach to investing, akin to flipping a coin and hoping for the best), and we maintain skepticism of media and market narratives, we believe value is added when our research-backed convictions can be expressed in traditional portfolios. We will periodically express these convictions (offensive or defensive) by overweighting or underweighting certain areas of the markets. These are shorter-term emphases, and do not include top-line strategic allocations.

  Examples of tactical tilts could affect the weightings of growth vs. value, US vs. non-US exposure, large-cap vs. small cap, or short duration vs. longer duration characteristics in the bond portfolio—to name just a few.

- **Investment Vehicles**:

  CCR Wealth Management's chosen investment vehicles primarily included the use of
  - Exchange Traded Funds (ETFs)/passive index funds
  - Open-End and Closed-End managed mutual funds
  - Individual equities (where appropriate)
  - Defensive option strategies (where appropriate)

  CCR Wealth Management screens all recommended funds for the following characteristics (among others):
  - Performance relative to peers
  - Adherence to the investment mandate (style, market cap, geography, etc.)
  - Risk-adjusted performance relative to peers (Sharpe, Information ratios)
  - Manager tenure, team turnover, decision making process
  - Cost efficiency (expense ratio)
  - Portfolio turnover

SCREENING/DUE DILIGENCE:

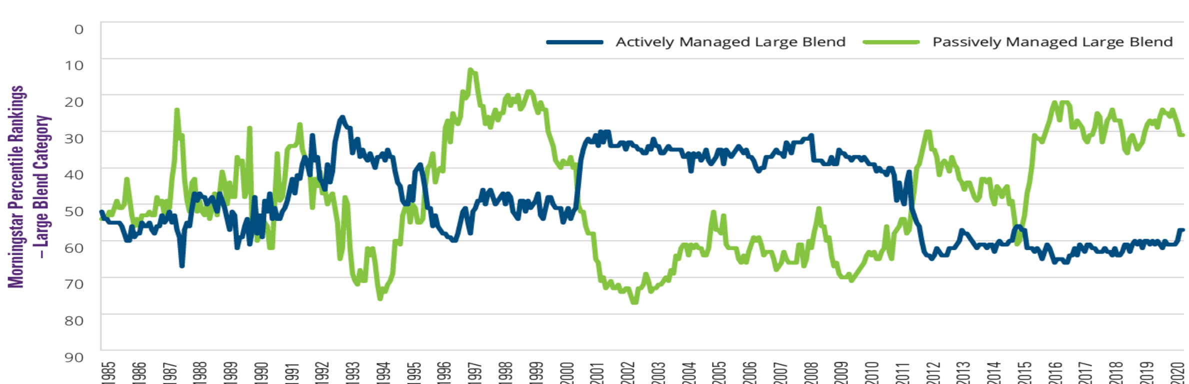
Exchange Traded Funds (ETFs)

Exchange Traded Funds have been a large and important component of CCR Wealth Management's toolbox since our firm's inception. In addition to the benefits of diversification through broad index exposure, ETFs have a reputation as having low-cost structures which can bring down the overall expense ratio of an aggregate portfolio and are frequently used in taxable accounts to reduce turnover and increase tax-efficiency.

In the last decade, the ETF universe has grown rapidly. In 2015 nearly $20 billion a month flowed into ETF's. Fast forward to 2020, and a whopping $507.4 billion flowed into US listed ETFs, yet this barely makes a dent in the nearly $17 trillion mutual fund industry. We expect this growth to continue. But this is where investors require an extra level of due diligence. While investing expenses have generally come down significantly in the last few decades, we have increasingly observed narrow investment strategies launched as ETFs with expense ratios far above what investors might expect from their broad-market predecessors.

As with all investments, ETFs are frequently highlighted in the media. Often these highlights are focused on sectors, strategies, or generalizations about performance and costs. As the growth of the ETF universe implies, this is a big business, and CCR Wealth Management feels investors are often led astray by marketing and media coverage which ignores some important facts.

Active vs. Passive: Whether open-ended index fund or ETFs, a consistent narrative exists that portfolio managers cannot "beat" indexing (the argument is most often confined to the US large cap equity sector). We think the evidence is less cut and dried.



Data Sources: Morningstar and Hartford Funds, 2/21

Active and Passive Outperformance Trends are Cyclical

We believe ETF's are most effectively used to gain exposure to investments based on broad-equity indexes. *The indexes themselves should be recognizable and relevant* to all investors.

Evidence shows that markets which are less liquid tend to be areas where active management holds a significant advantage over passive investing. These markets include Small Cap Equity, non-US equity, Emerging Markets, and Fixed Income (bonds).

Benchmarks: It is best practice for investment managers and investors to agree on a benchmark prior to engagement of services. We are wary of the increasing number of customized indices being created to fuel the sales ETF tracking mechanisms, and we believe one of the most important criteria for ETFs should be high liquidity (a bid/ask spread of no more than 1 cent).

ETFs used by CCR Wealth Management are screened using the following criteria:

- Liquidity
- Broad acceptance of the underlying index (relevancy, recognizability, turnover)
  This index will not be created and managed by the fund company.
- Comparative cost of owning (expense ratio, turnover)
- Tracking error
- AUM and longevity of existence

Equity Mutual Funds: In general, we avoid very broad mandates within the equity allocation. We frequently use passive index (ETF) holdings in the balanced "core" of our equity allocations. This tends to screen out "global", "growth & income" and "multi-cap" strategies.

Actively managed mutual funds should exhibit high "active share" because we know active management costs investors more than passive management. Active share is a measurement of just how actively managed a portfolio is (and one measure of whether a manager is truly earning their fee). Many managers tend to "hug" their benchmark in portfolio composition ("closet indexers")—simply to ensure they do not underperform it by a large margin in any one period. This often reflects lack of conviction. In our view, an investor would be better off owning the passive index in such cases.

CCR Wealth Management's screening process for managed mutual funds is both quantitative and qualitative. To gain admission to the mutual fund matrix, equity mutual funds MUST exhibit the following quantitative traits (initial screen):

1) The availability of institutional share classes through Cetera Advisors platform or share classes that **do not contain 12b-1 fees**. These are common, but obscure annual fees automatically deducted from the NAV of many non-institutional share classes. Most funds on the CCRWM matrix are institutional share classes. None carry 12b-1 fees.
2) Consistent management team composition for at least the last three years--five years is preferable. Information regarding the management team is procured through the mutual fund company representatives and prospectuses. Holding all other variables constant, longer management tenure will be given a higher weight. We favor low management team turnover.
3) Sharpe Ratio peer ranking in the top 20th percentile is preferred over three and five years. Average Peer ranking within the category in the top 20th percentile (Morningstar ranking) for the last three years—five years is preferable. Heavier weightings will be given to five-year fund rankings, and heavier weightings will also be given to the annual consistency of being within the top 20th percentile mark within the three and five-year time periods.
4) Comparative purity of investment discipline ("style") over time. We are looking to avoid "mission drift" (certain exceptions exist).
5) Assets under management (AUM) of at least $100 million

The following quantitative attributes are also observed for funds passing the initial screen (ranked in descending order of influence):

- Information Ratio (3, 5 year)
- Beta
- Expense Ratio (also a qualitative consideration)

Data above is provided from several sources, including Morningstar, FI 360, Lipper as well as internal calculations.

Qualitative judgments will be made about each fund based on quality and quantity of insight about the fund management process provided by the fund companies (or representatives), year-by-year analysis of performance over time relative to appropriate benchmarks & peers, overall standard deviation relative to benchmark and peers (3, 5 years), average number of holdings in fund, composition, turnover, as well as management's invested interest in the fund.

Fixed Income Mutual Funds*

Fixed income mutual funds are subject to the same basic comparative screening methods applied to equity mutual funds, with the exception that broader investment parameters are permitted for core bond funds than the narrower mandates imposed on equity fund styles. General portfolio weighting consideration is given to duration (interest rate risk), credit composition, geographical distribution, average weighted maturity, and coupon yield. Liquidity is an overriding consideration.

**While CCR Wealth Management employs strategies that may include individual equities (either in our Unconstrained Strategy, or customized with certain individual clients), we discourage clients from purchasing individual bonds. The bond markets, while vast, are much less liquid and much opaquer than equity markets. Bonds transact at a much greater bid-ask spread, and few individuals can compete with the institutional buying power of mutual funds (resulting in lower portfolio yields and less flexibility to adapt to changing markets). Additionally, CCR Wealth Management does not run a "credit desk", and few individual investors have the expertise to navigate credit and covenant risks, along with changing credit and interest rate environments.*

Investment Monitoring – Watch List

CCR Wealth Management employs a LONG-TERM investment framework through which we analyze and choose investment components for our models. We emphasize long term consistency over short term performance.

There are occasions when short term underperformance relative to peers may indicate a potential deficiency rather than a temporary "blip" in a longer-term track-record. CCR Wealth Management will, from time to time, place certain funds on our watch-list. Funds placed on the watch-list will remain in clients' portfolios while additional due diligence is conducted on the issues that may have arisen. For portfolios managed directly by CCR Wealth Management on a discretionary basis, no new monies will be directed to funds on the watch-list until the issues have been resolved, and the fund is released from the watch list, or replaced.

Events which may place a mutual fund on our watch-list include (but are not limited to):

- A single quarter of bottom quartile performance (a significant decline relative to peers, possibly indicating a meaningful departure from historic investment methodology).
- Three consecutive quarters of bottom-half percentage performance
- Material changes in the mutual fund's investment objectives, as stated in the prospectus, or a material change in investment/research methodology
- A material disruption to the management team (key-person departures, retirements, replacements)

A fund placed on the watch-list does not indicate automatic elimination from the portfolio. It does indicate additional due diligence will be conducted surrounding the issues which placed it on the list to begin with. Part of this due diligence will include canvassing for possible replacements. We seek to resolve watch-list fund issues within at least three quarters.

Investment Monitoring--Matrix Elimination

Mutual Funds may be directly eliminated from the matrix and replaced based on the following criteria:

- An abrupt, material change in the management team
- Determination (while on the watch-list) that the fund's investment objectives or methodology no longer align with the matrix criteria
- Determination (while on the watch list) that the intermediate or long-term performance quality no longer (or will no longer) match our quality standards or is unjustifiable given the expense relative to an appropriate ETF alternative.
- Material changes in the liquidity parameters, or cost effectiveness of the fund.

Monitoring Process: CCR Wealth Management's research team continually monitors mutual funds on our matrix throughout the year in our investment review committee meetings, regular contact with mutual fund firm representatives, conference calls and webinars with fund management teams and quarterly performance commentaries from management.

We conduct formal due diligence reviews of the entire matrix twice annually (in addition to regular investment manager calls, etc.) to observe each fund's relative performance (to that of the manager's stated benchmark) as well as the fund's standing relative to the universe of peers pursuing the same strategies.

Client Portfolio Monitoring—PRC

PRC stands for CCR Wealth Management's Portfolio Review Committee, which meets twice per week to review client portfolios. All CCR Wealth Management client portfolios are reviewed in PRC at a minimum of four times per year.

Our committee focuses on reviewing clients' top-line allocations relative to the clients' asset allocation target. Rebalancing trades are made, as necessary. We also review the portfolio for adherence to any tactical tilts our strategies are employing, as well as required liquidity and cash levels necessary to meet individual client objectives (monthly distributions, etc). Beginning late in the third quarter, the PRC review includes an overview of realized and unrealized capital gains for taxable accounts. We may implement tax-swaps where appropriate, which generally improve on the portfolios' after-tax return.

We share our investment philosophy and due diligence process with clients and prospective clients because independence of thought process is an increasingly rare commodity in today's investment landscape. Financial "supermarkets", unexamined claims, media narrative and relentless marketing serve to muddle sound investment strategies and saddle investors with overly expensive portfolios, which often fall short of expectations. CCR Wealth Management guards our independence with a healthy skepticism, and a passion for the deeper dives required to maintain the highest quality investment components to achieve our clients' financial goals.

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