



*Investment Policy Statement*

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## **Table of Contents**

<b>Page</b>	<b>Section</b>
1	Investment Policy Summary
4	Acknowledgement
5	IPS Process
6	Risk Tolerance
9	Asset Allocation
10	KeatsConnelly Investment Philosophy
11	Frequency of IPS Review
12	Liquidity
12	Diversification and Investment Constraints
12	Selection/Retention Criteria for Investments
13	Investment Communications
14	Duties and Responsibilities

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## Investment Policy Summary

Throughout this Investment Policy Statement (IPS), the terms "you" and "investor(s)" refer to "client(s)" identified below, and the term "advisor" refers to KeatsConnelly. The term "portfolio" refers to the assets under discretionary management.

### ***Investor Information :***

**Client(s)** John and Joan Sample  
 1234 W. State Rd.  
 Phoenix, Arizona 85018  
 USA  
 (555) 555-1234  
 johnandjoan@example.com

<b>Account Information</b>	<i>Acct. Title</i>	<i>Acct. Number</i>	<i>Custodian</i>	<i>Market Value</i>
	Joint Account	***1234	Schwab	\$1,000,000
	Total:			\$1,000,000

**Investor Circumstances** Age: John - 50, Joan - 50  
 Citizenship: John - US/Canadian, Joan - US  
 Tax residency: Arizona  
 Children: One daughter, one son  
 Beneficiaries: Spouse, children

**Primary Objectives** Provide supplementary income to maintain lifestyle through retirement  
 Leave inheritance

**Federal Tax Rate** High

**State Tax Rate** High

**Tax Considerations** Capital loss carryforwards: None  
 Foreign tax credits: \$50,000 (from 2010)  
 Estate tax potential: Low

**Time Horizon** KeatsConnelly will use a long-term planning horizon for your portfolio.

**Return/Risk** We project a 5.2% long-term average annual return for your portfolio. Year-to-year returns will vary widely. Based on historical data, the portfolio might lose \$115,000 of its value in a single bad year. Please note that losses can sometimes exceed this amount in extreme markets. We cannot guarantee a maximum loss.

**Risk Score** 60 for John and 60 Joan in April 2016. These risk scores show that the chosen 60% equity allocation is comfortable for you both.

**Asset Allocation** Your portfolio allocation is 60% equity with some customizations and is managed with high tax guidelines and a foreign tax emphasis. The below model reflects initial allocations at KeatsConnelly for your managed portfolio. Actual percentages may drift over time. Rebalancing decisions will take into account not only the variance but tax and transaction costs as well as defensive or opportunistic considerations.

**Asset Allocation Table**

Category	Holdings	%	Chart
<b>Equity</b>		<b>60.00%</b>	<p>A pie chart illustrating the asset allocation. The largest slice is dark blue, representing Equity at 60%. The next largest is light yellow, representing Fixed Income at 30%. The smallest is green, representing Cash at 10%.</p>
	Foreign Equity	24.35%	
	US Equity	17.65%	
	Inflation Hedges	12.00%	
	Market Hedges	6.00%	
<b>Fixed Income</b>		<b>30.00%</b>	
	Foreign Fixed Income	18.00%	
	US Fixed Income	12.00%	
<b>Cash</b>		<b>10.00%</b>	
	Cash Alternatives	10.00%	

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<b>Cash Target / Anticipated Withdrawals</b>	A cash target of \$50,000 will be maintained on this account. The annual withdrawals from your portfolio will be approximately \$10,000.
<b>Currency</b>	The portfolio will be invested in securities that are registered in the US. Some of these securities in both the income and growth portions of the portfolio may contain foreign content. Currencies can add volatility to returns. As a general guideline we will hedge the currencies in the income portion of the portfolio to the US dollar to reduce the swings that can result from currency exposure. We will generally not hedge the currencies in the growth portion of the portfolio back to the US dollar because the additional volatility of currencies can help mitigate the volatility of growth assets. We generally do not make currency decisions based on predictions of the direction and/or magnitude of currency moves.
<b>Benchmark</b>	Your quarterly reports will compare the portfolio's returns with a weighted composite of various market indices. Additional information is available upon request.
<b>Coordination</b>	KeatsConnelly has developed the discretionary portfolio without specific regard for any investments you might hold outside our management.
<b>Liquidity</b>	All funds KeatsConnelly selects for your portfolio can typically be liquidated within three trading days, but some investment types such as small positions in individual bonds may incur substantial cost if sold on the market.

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## Acknowledgement

Investor: \_\_\_\_\_

Investor: \_\_\_\_\_

Date: \_\_\_\_\_

KeatsConnelly

Advisor: \_\_\_\_\_

Date: \_\_\_\_\_

Advisor            Keats, Connelly and Associates, LLC (KeatsConnelly)

SEC Number    801-69866

Address            3336 N. 32nd Street  
Suite 100  
Phoenix, AZ 85018

Phone             800-678-5007

Website            [www.keatsconnelly.com](http://www.keatsconnelly.com)

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## **IPS Process**

### ***What Is an Investment Policy Statement?***

An Investment Policy Statement (IPS) provides the principles and guidelines for future asset management decisions. In developing this IPS, the advisor has relied on the written trust document (if available), interviews with the trustee(s) and/or other interested parties, and/or specially prepared questionnaires. Its relevance depends on the completeness and integrity of the information obtained.

### ***The Need for an IPS***

A written IPS helps protect the portfolio from ad hoc revisions of a sound long-term strategy. In times of market turmoil, investors are often inclined to make emotional decisions that are inconsistent with prudent investment management principles. This IPS is intended to provide a well-thought-out framework for making sound investment decisions.

### ***Steps to Take to Establish an Investment Policy***

1. Determine the trust's overall goals and return objectives.
2. Assess an appropriate risk level given the return objectives and investing time horizon.
3. Determine the asset classes and mix appropriate (the "Asset Allocation") to maximize the likelihood of achieving the investment objectives at the lowest level of risk.
4. Identify any restrictions on the portfolio and its assets and modify the strategy accordingly.
5. Determine the investment methodology to be used with regards to investment (manager) selection, rebalancing, buy-sell disciplines, portfolio reviews and reporting, etc.
6. Implement the decisions.
7. Monitor portfolio performance and update investment policy as needed.

### ***This Investment Policy Statement:***

- ◆ Establishes investor expectations, objectives and guidelines for investing portfolio assets.
- ◆ Defines the roles of the investor and the advisor and encourages effective communication between them.

- ❖ Creates the framework for a well-diversified asset mix intended to generate acceptable long-term returns at a suitable level of risk. This framework includes:
  - an appropriate risk posture for the portfolio;
  - a target asset allocation (*i.e.*, the mix between equities, fixed income, and cash, etc.);
  - investment guidelines regarding the selection of investment managers, permissible securities and diversification of assets;
  - criteria for evaluating the performance of portfolio assets; and
  - criteria for rebalancing or taking defensive action with portfolio assets;

This IPS is not a contract and has not been reviewed by any legal counsel. The investor and advisor use it at their own discretion. The investment policies described in this IPS are dynamic and should reflect the investor's current investing status and philosophy. These policies will be reviewed and revised periodically to ensure they adequately reflect any changes related to the portfolio, the investor, or the capital markets.

**It is understood that there can be no guarantee about the attainment of the goals or investment objectives outlined herein.**

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## Risk Tolerance

Returns are the potential rewards for accepting risk. Investors with high risk tolerance are more willing to accept fluctuations in portfolio value if they believe they may realize better returns in the long run. Investors with low risk tolerance prefer less volatility and will settle for lower rates of return to have a more stable portfolio. In general, one must take on greater investment risk to realize higher long-term returns. At different times the same investor can have a different risk tolerance based on personal circumstances, market outlook, or even short-term emotion.

KeatsConnelly believes the proposed portfolio best balances the need for return with your comfort level based on the following data:

- ❖ Your overall financial situation, including cash flow
- ❖ Your goals and time horizon
- ❖ Past asset class returns, volatility and correlations
- ❖ Your responses to risk profile questions



### ◆ Our current market outlook

As of the date of this document we project a long-term average annual pretax return of 5.2% for a model portfolio invested according to your overall allocation. This estimate applies to the managed portfolio and not necessarily to any outside holdings. Actual returns experienced during implementation of portfolio strategy may be less than the expected return. Our projections rely on assumptions regarding asset returns and volatility, and these projections may change significantly when we update our assumptions. Therefore, the risk and return figures represent only our best current estimate of long-term portfolio performance.

In our projections, the single-period loss in a given year did not exceed \$115,000 with 97.5% probability; however, this is not a guaranteed maximum loss, and an extreme market such as 2008 can cause losses to exceed our estimates. We may perform additional stress testing to gauge your ability to weather a severe market event.

There are also several "event" risks that you should be aware of:

- ◆ Increased inflation - Prices can increase more than expected and can reduce purchasing power as well as cause asset prices to decline.
- ◆ Foreign currency risk - If you have or need to spend money in another currency, fluctuations in the exchange rate can reduce your purchasing power.
- ◆ Increase in consumption - If you withdraw or spend more than we have advised you is sustainable, you may deplete your portfolio.
- ◆ Changes in tax law - Tax changes can affect how desirable a certain strategy is for your unique financial situation.
- ◆ Liability lawsuits - A lawsuit can claim significant assets from any investor. We generally recommend an umbrella liability policy.
- ◆ Disability, incapacity, infirmity - Loss of health can reduce earned income and increase expenses. It normally does not affect passive income.
- ◆ Family stability - A new baby, a divorce, or the need to care for an elder can place significant strain on finances.
- ◆ Death of a stakeholder - If one or more stakeholders passes away, the investment mix could become inappropriate and require revision.
- ◆ Unanticipated longevity - If one or more stakeholders lives well beyond expectations, financial resources may prove inadequate.

Returns are the potential rewards for accepting risk. Investors with high risk tolerance are more willing to accept fluctuations in portfolio value if they believe they may realize better returns in the long run. Investors with low risk tolerance prefer less volatility and will settle for lower rates of return to have a more stable

portfolio. In general, one must take on greater investment risk to realize higher long-term returns. At different times the same investor can have a different risk tolerance based on personal circumstances, market outlook, or even short-term emotion.

KeatsConnelly believes the proposed portfolio best balances the need for return with your comfort level based on the following data:

- ❖ Your overall financial situation, including cash flow
- ❖ Your goals and time horizon
- ❖ Past asset class returns, volatility and correlations
- ❖ Your responses to risk profile questions
- ❖ Our current market outlook
- ❖ A formal Monte Carlo probability analysis

The Monte Carlo analysis illustrates the expected long-term average annual return and risk for various portfolios based on our statistical projections. Monte Carlo analysis uses several assumptions regarding income, spending, and asset returns, changes in which can greatly affect the results. We update our assumptions regularly. Therefore, the risk and return figures represent only our best current estimate of long-term portfolio performance. Monte Carlo analysis should not be relied upon solely when choosing an allocation or when estimating risk.

Risk has been quantified here as a one-year value at risk (VaR). VaR is a hypothetical single-period loss figure that helps investors determine their ability to handle a large loss. Please note that a single loss could exceed this amount if market volatility diverges from long-term averages. In addition, this figure is based on the starting portfolio value and does not attempt to project how much might be lost as the portfolio grows or decreases. An extreme market such as 2008 can cause losses to exceed our estimates. We may perform additional stress testing to gauge how a severe market event might affect long-term investment success.

There are also several "event" risks that that could apply to the portfolio:

- ❖ Increased inflation - Prices can increase more than expected and can reduce purchasing power as well as cause asset prices to decline.
- ❖ Foreign currency risk - If there is a need to spend money in another currency, fluctuations in the exchange rate can reduce purchasing power.
- ❖ Increase in consumption - If withdrawals or spending exceed what is sustainable according to our projections, the portfolio may be depleted.
- ❖ Changes in tax law - Tax changes can affect the desirability of a certain strategy.

- ❖ Model risk - Our assumptions about risk and return may prove inaccurate because of how they are calculated.
- ❖ Disability, incapacity, infirmity - Loss of health can increase trust expenses.
- ❖ Death of a stakeholder - The investment mix could become inappropriate and require revision if a death alters the trust's purpose.
- ❖ Unanticipated longevity - Trust assets may prove inadequate if a beneficiary lives longer than expected.

Some strategies KeatsConnelly uses, including emphasizing small-company and value stocks and investing in emerging markets, etc., require a long-term planning horizon to provide their expected returns. A shorter time horizon imposes additional constraints on the portfolio and may lead to a reduced emphasis on these types of strategies. The stated time horizon encompasses both your own life as well as that of your eventual beneficiaries.

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## **Asset Allocation**

Academic research offers considerable evidence that the asset allocation decision outweighs security selection in its impact on portfolio variability and performance. KeatsConnelly has chosen the asset allocation after reviewing the long-term performance and risk characteristics of various asset classes and balancing the risk and rewards of market behavior.

### ***Updating Allocations***

Over time, it may be desirable to amend the basic allocation as well as specific weights within each asset category. When such changes are made, updates will be considered part of this IPS.

### ***Rebalancing Procedures***

From time to time, market conditions may cause the portfolio's investments in various asset categories to vary from their approved allocations. KeatsConnelly shall periodically review the portfolio and each asset category in which the portfolio is invested in order to make adjustments and bring the portfolio back in line with the target weights. We generally anticipate rebalancing when the portfolio varies from its target equity/fixed income allocation by 6% or more or when individual assets vary significantly from their target allocations. You should recognize that sometimes our best decision could be not to trade, and we may at times allow observed market momentum to play out before rebalancing.

KeatsConnelly uses specific-lot identification when selling securities in taxable accounts, meaning that we generally choose which shares to sell based on what

brings you the greatest expected tax benefit. This method provides some influence over how much taxable gain or loss is realized on a sale. When tax-deferred or tax-exempt accounts comprise part of the portfolio, we attempt to put the most appropriate assets in these accounts where possible.

### ***Adjustment To the Target Allocation***

Modifications to the approved allocation may be needed from time to time for a variety of reasons. Changes to the basic equity/fixed income split should be made in writing; however, KeatsConnelly may update the weights within each asset category as our research directs. Written notification will not necessarily accompany such changes.

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## **KeatsConnelly Investment Philosophy**

An appropriate asset allocation and a well-diversified portfolio are fundamental to long-term investment success.

*The right mix of bonds, stocks, and cash helps limit your short-term investment risk. We build portfolios to reflect your overall financial situation while targeting the least possible amount of risk needed to reach your goals.*

In public capital markets, profitable short-term opportunities are quickly traded away.

*Well-capitalized and informed traders act quickly on new information, so we view the current price of a security as the best unbiased estimate of its true value. Active trading tends to increase costs, so we believe “passive” investments such as index mutual funds and ETFs offer the best long-term investment experience.*

Investors should focus on long-term average performance and not chase short-term trends.

*Equity markets move toward long-term average return levels over time, and when you invest can greatly affect realized returns; however, investors who try to time when to get in and out of markets usually harm their long-term returns. Therefore, an appropriately built and rebalanced portfolio represents the best way to reach long-term investment goals. Occasional tactical emphases may help boost returns but should be undertaken very carefully.*

Small company stocks and “value” stocks offer higher long-term performance both domestically and internationally.

*Historically, stocks of smaller companies and stocks whose prices reflect deep discounting by the market have provided premium returns over long periods of time. We attempt to emphasize these types of assets within an overall portfolio context.*

Fixed income investments should reduce a portfolio’s volatility, so it is important to emphasize safety through high credit quality and shorter-term maturities.

*The allocation to fixed income (bonds and cash) represents a key risk management tool. While long- term and low- quality bonds can increase current yields, they can also carry significant volatility. For this reason, we generally target safety first, and yield second when building the fixed income portfolio.*

Costs detract from returns, so investors should look to limit fund and trading expenses.

*Abundant research indicates that funds with lower costs often have superior relative performance. Infrequent trading can also help keep costs down and boost returns.*

KeatsConnelly has an investment management style and philosophy that may impact performance relative to relevant benchmark returns. We generally prefer "passive" investment vehicles, including index funds, exchange-traded funds, etc. We believe such vehicles provide the best investment experience based on diversification, low costs, tax efficiency and ample evidence that active managers fail to outperform their benchmark indices consistently. We also tend to emphasize areas of the market expected to have higher long-term returns such as value stocks, small company stocks, and emerging markets. But it is important to recognize that these assets can suffer more than the broad market during market declines.

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## **Frequency of IPS Review**

We encourage you to meet with us at least annually to review current progress and future investment outlook. At these meetings we also intend to review and, if necessary, amend this policy statement in light of your changing circumstances or objectives.

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## Liquidity

Liquidity refers to your ability to sell investment holdings quickly at or near the prevailing market price. All funds KeatsConnelly selects for your portfolio can typically be liquidated within three trading days, but some investment types such as small positions in individual bonds may incur substantial cost if sold on the market. Therefore, we generally avoid selling such holdings prior to maturity. There are also mutual funds with short-term redemption fees that apply if the fund is sold too soon after purchase. Finally, infrequent market events outside our control (e.g., the 2010 "flash crash") may at times lead to delays in trading.

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## Diversification and Investment Constraints

*Portfolio investments shall be limited to securities containing one or more of the following asset categories:*

### Assets

Cash and cash alternatives  
Domestic fixed income  
Foreign fixed income  
Domestic equity  
Foreign equity  
Alternative strategies (e.g., hedge funds)  
Inflation-sensitive investments

Some funds may use futures and options to pursue their core strategies. Our foreign funds may also have direct, unhedged exposure to foreign currencies.

Margin borrowing may be an available feature on your account. Margin borrowing allows you to use leverage to amplify investment returns. We generally do not recommend using margin for investment purposes. This feature could be useful for occasional bridge financing, and we will discuss its use with you if you desire this.

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## Selection/Retention Criteria for Investments

### *Investment Management Selection*

KeatsConnelly has an investment committee that selects investment managers (including mutual funds, separate account managers and limited partnership sponsors) using the following criteria:

- ❖ Past performance and performance consistency considered relative to other investments having the same investment objective
- ❖ Costs relative to other funds with like objectives and investment styles
- ❖ The manager's adherence to investment style and size objectives
- ❖ Size and trading liquidity of the proposed fund
- ❖ Length of time the fund/manager has been in existence, length of time the fund has been under the direction of the current manager(s), and whether or not there have been material changes in the manager's organization and personnel
- ❖ The historical volatility and downside risk of each proposed investment
- ❖ How well each proposed investment complements other assets in the portfolio
- ❖ The current economic environment
- ❖ The likelihood of future investment success, relative to other opportunities
- ❖ Other issues such as market coverage, tax impact for client accounts, and company culture

For passive investment choices KeatsConnelly looks for low-cost tracking of a relevant market. If a fund underperforms its category or index significantly for several quarters (usually three or more), we may look to replace it with a superior choice.

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## **Investment Communications**

### ***Reports***

- ❖ The investment custodian shall provide regular statements showing asset values and transactions for each account that is subject to this IPS.
- ❖ KeatsConnelly shall provide you, at least quarterly and within 30 days from the end of each such period, the following information:
  - Portfolio balance and composition,
  - Portfolio performance results over the last quarter and longer past periods as well as inception-to-date,
  - Performance results of comparative benchmarks for the same periods as above, and
  - Performance results of each individual holding for the quarter.

## ***Meetings and Communication between Investor and Advisor***

KeatsConnelly shall regularly keep you apprised of material changes in our outlook, recommended investment policy, and tactics. Any material event that affects the ownership of KeatsConnelly or the management of the portfolio must be reported immediately. In addition, KeatsConnelly shall meet with you approximately annually to review and explain the portfolio's investment results and any related issues. We shall also be available on a reasonable basis for telephone and email communication as needed.

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## **Duties and Responsibilities**

### ***The Advisor***

KeatsConnelly is expected to manage the portfolio in a manner consistent with this investment policy statement and in accordance with State and Federal law and the Uniform Prudent Investor Act. KeatsConnelly is a Registered Investment Advisor and shall act as the investment advisor and fiduciary to the investor until either party decides otherwise.

KeatsConnelly shall be responsible for:

1. Designing and implementing an appropriate asset allocation plan consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this statement.
2. Recommending a custodian to safeguard portfolio assets.
3. Advising on asset category allocation as well as investment selection.
4. Identifying specific investments and investment managers within each asset category.
5. Monitoring the performance and suitability of all selected assets.
6. Recommending changes to this investment policy statement.
7. Being available to meet with you at least once each year.
8. Being available at such other times within reason at your request.
9. Preparing and presenting appropriate reports.
10. Voting proxies on any securities you hold in discretionary accounts.

### ***Discretion and Title***

1. KeatsConnelly will not take title to any assets.



2. Investor grants KeatsConnelly discretionary control for purchases and sales of portfolio securities and for voting of proxies related to such securities.
3. KeatsConnelly shall have no authority to withdraw funds from your accounts, except to cover payment of previously agreed-to fees or at your specific direction.
4. KeatsConnelly may not change this investment policy, including the targeted overall asset allocation, without your prior approval.
5. KeatsConnelly retains the ability to take defensive action in extraordinary markets but is not obligated to do so and does not expect to take such action regularly.
6. KeatsConnelly may alter the specific weights within each asset category as our research dictates, unless you have directed us otherwise.

### ***The Investor***

As investor, you shall be responsible for:

1. Final oversight of the portfolio.
2. Defining portfolio's investment objectives and policies.
3. Directing changes in investment policy, overseeing and approving or disapproving recommendations for policy made by KeatsConnelly, guidelines, and objectives on a timely basis.
4. Providing KeatsConnelly with all relevant information on your financial conditions and risk tolerances and notifying us promptly if this information changes.
5. Reading and understanding the information contained in the prospectus for each investment in the portfolio.
6. Asking for clarification regarding the investments or anything in the investment policy statement.
7. All assets we do not have discretion over, including proxy voting.

### ***Proxy Voting***

When KeatsConnelly receives proxy ballots regarding corporate actions that affect investments you own and that we have selected, KeatsConnelly will vote on your behalf unless you direct us otherwise. For personal securities, KeatsConnelly will send you the proxy ballot or vote with management.

### ***Important Disclosures and Reminders***

1. **IMPORTANT:** The projections or other information illustrated in this investment policy statement or other documents which may have been provided

to you regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.

2. Different types of investments involve varying degrees of risk, and past performance may not be indicative of future results.
3. It should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies we recommend) will be profitable.
4. Results may vary over time and from client to client, with use of each investment or with each mix of investments.
5. If provided, historical performance results for investment indices and/or categories are for general comparison purposes only. They do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your account holdings will correspond directly to any specific indices.
6. Other investments not considered in the analysis and the recommendations resulting from this investment policy statement may have characteristics similar or superior to those being analyzed.
7. Please remember to contact us if there are any changes in your financial situation or investment objectives or if you wish to impose, add or to modify any reasonable restrictions to our investment management services.
8. We are happy to provide you with a copy of our current written disclosure statement discussing our advisory services and fees upon request.
9. KeatsConnelly shall offer you an updated Form ADV Part II annually, no later than October of each year.