MERSBERGER
FINANCIAL GROUP

MANAGED INVESTMENT MODEL

Three Fund Portfolio

BENCHMARK

MSCI All Country World All Cap Index

OBJECTIVE

To provide clients with broad passive exposure to global equity markets with an emphasis on managing the internal operating expenses and the tax efficiency of the portfolio.

Investment Strategy

The portfolio seeks to achieve a high R Squared relative to its benchmark, the MSCI All Cap All Country World Index and match the broad asset allocation of the Foundational Equity Portfolio. In addition to minimizing expenses, the strategy also screens for funds which have the highest correlation to their benchmarks, as measured by their R Squared as well as their tracking error relative to their benchmarks.

This strategy focuses on a passive investing approach and minimizing active risk.

PASSIVE APPROACH

The Three Fund Portfolio takes a **passive** approach to investing and emphasizes **minimizing active risk** within the model. The model uses an indexing approach to gain exposure to various equity asset classes including domestic large cap equities, domestic small and mid cap equities and international equities. This strategy emphasizes minimizing the internal operating expenses of the funds it uses.

This strategy uses three index funds seeking to reduce active risk in the portfolio.

ASSET ALLOCATION

The strategy's asset allocation target is to match the asset allocation to these three equity classes to their weights within the Foundational Equity Portfolio. The strategy seeks to accomplish this asset allocation using **three index funds** in order to **reduce active risk** in the portfolio created by both the strategy's portfolio manager actively selecting funds and active risk created by the decisions of portfolio managers of the funds within the portfolio.

Suitability and Best Interest

INVESTOR OBJECTIVES

This fund is suitable for clients with a variety of objectives including clients who seek:

- To **minimize expenses** within their portfolio. As this strategy uses index funds and seeks to minimize operating expenses, this strategy is suitable for fee conscious investors.
- To **minimize tracking error** in their portfolio relative to the global equity markets, and for investors seeking to minimize active risk within their portfolios and investors seeking returns in line with the markets.
- **Tax efficient exposure** to global equity markets. Due to the low turnover and infrequency of capital gains distributions of index funds, index mutual funds tend to be amongst the most tax efficient pooled investment vehicles on the market, especially as compared to actively managed mutual funds which tend to exhibit higher turnover and more frequent capital gain distributions.

INVESTMENT AMOUNT

This portfolio is suitable for clients with ongoing contributions to accounts or with smaller account sizes. As the model only uses three open ended mutual funds, it requires the smallest initial investment of any of our proprietary models and can have fixed dollar purchase amounts on a periodic basis established.

Risk Management

Like all equity investments, this portfolio carries risk outlined below:

STOCK MARKET RISK

Stock market risk is the risk that the price of equity investments may decline over short or long periods of time and may remain depressed for extended periods of time. Equity market volatility may arise from changes in economic conditions, changes in market valuation multiples or declining corporate earnings amongst many other factors.

TRACKING RISK

Tracking risk is the risk that the funds used in this model fail to meet their investment objectives of tracking the market and generating returns in line with those of their benchmark indices.

ASSET ALLOCATION

While the strategy implements passively managed index funds which seek to match market returns, the strategy's overall asset allocation is aligned with that of the Foundational Passive Equity model rather than the global equity market. If the manager's asset allocation result in overweighting asset classes which underperform, then the strategy may underperform the global equity market. The Foundational Passive Equity Model is restricted from diverging from its benchmark's asset class weights by more than 10%, and the firm believes this should keep the model's returns from diverging significantly from that of the global equity market.

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