



**INVESTMENT OBJECTIVES & ASSET ALLOCATION MODELS**

**INVESTMENT PHILOSOPHY & ASSET CATEGORIES**

*Careful review is given to selecting the correct objective, including allocation of assets among bonds, equities and cash equivalents, depending on risk tolerance, economic and market conditions, and other factors as noted below.*

**CASH EQUIVALENTS – for liquidity / buying opportunities; defensive posturing:**

*Cash reserves will be determined by liquidity needs and by the cash reserve policy set forth by PSB based on the relative attractiveness of the equity and fixed income markets.*

**FIXED INCOME - for income and stability; laddered maturities to reduce interest rate risk:**

*The fixed income portion of the account will be managed through a selection of high quality bonds which will be actively managed and consistent with our forecast of interest rates, inflation and valuation levels. Bonds will be taxable or tax exempt depending upon the client’s tax situation. Measurement will be against appropriate duration benchmarks. Duration, in its modified form, is used to measure of the price volatility of fixed income instruments. Additional classes of bonds with lower ratings may be included to achieve desired income levels or total return.*

**EQUITIES – for growth / appreciation and increasing income:**

*The equity portion of the account will include a diversified blend of the common stocks of companies with strong fundamental characteristics, sustainable earnings growth and attractive relative valuations. Mutual funds may be used to provide recommended diversification. The performance benchmark will be the S&P 500. Where risk parameters allow, the portfolio will include representation in the small-cap, mid-cap and international markets to broaden diversification and return prospects. This representation will be accomplished through the use of mutual funds.*

**CONSIDERATIONS IN DEVELOPING INVESTMENT OBJECTIVES:**

- Risk Tolerance:**
- A) capital preservation; minimal risk
  - B) low risk
  - C) moderate risk
  - D) market risk
  - E) high risk
  - F) aggressive/speculative

- Time Horizon:**
- A) short term
  - B) intermediate term
  - C) long term; greater than one investment cycle

- Income Needs:**
- A) income not a consideration
  - B) low
  - C) moderate
  - D) high

- Liquidity Requirement:**
- A) none
  - B) minimal
  - C) occasional
  - D) periodic
  - E) frequent
  - F) continual

**Legal Issues:** Type of account, i.e. Investment Management, IRA, Revocable Trust, Irrevocable Trust, Agent for Trustees. Define limitations and concerns: Prudent Investment Rule, ERISA, trust language.

**Tax Issues:** Tax status of the account  
State of residence  
Marginal tax bracket  
Unrealized capital gains and client’s sensitivity

**Unique Issues:** Anything not included above that would be pertinent to the effective management of the portfolio. Included would be particular issues or industries to be held or not held, age, health, children, desire to invest “socially” etc.

**Asset Allocation Targets:** Must be consistent with objective.

**Communication:** The appropriate or desired level of communication with the client including meetings, letters, and phone conversations.

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**ASSET ALLOCATION MODELS:**

**INVESTMENT OBJECTIVE**                      **ALLOCATION PARAMETERS**                      **FIXED INCOME DURATION**

- PRESERVATION:** Emphasis on current income. Principal growth is not a consideration.

Cash	0-100%	
Fixed Income	0-100%	less than 1½ years
Equity	0%	

- CONSERVATIVE:** Emphasis on current income with a modest commitment to equities for principal growth.

Cash	0-30%	
Fixed Income	70-100%	1½ - 3½ years
Equity	0-30%	

- MODERATE:** Equal emphasis on income and growth of principal.

Cash	0-25%	
Fixed Income	50-75%	1½ - 5½ years
Equity	25-50%	

- BALANCED:** A portfolio designed to provide growth as well as a modest level of current income.

Cash	0-25%	
Fixed Income	40-65%	1½ - 7 years
Equity	35-60%	

- GROWTH:** Emphasis on capital appreciation with little consideration given to income. Income is often reinvested.

Cash	0-25%	
Fixed Income	30-55%	1½ - 7 years
Equity	45-70%	

- AGGRESSIVE:** Complete emphasis on capital appreciation. Income is of no consideration.

Cash	0-40%	
Fixed Income	0-40%	0 - 7 years
Equity	60-100%	

- SPECIAL:** May be used if an exception applies due to special circumstances such as holding specific assets, liquidating following death of owner, etc.

- ESTATE:** The “Estate” objective is applied to an account upon the death of the Grantor of the Trust or the Principal of an Investment Management Account. This objective immediately identifies an account which is currently in the estate settlement process and the asset allocation for the assets will be deemed as “Special.”

***NOTE:** Some or all of the assets in the Account will be invested in financial instruments which are not guaranteed by the Bank, the FDIC or any other Federal or State governmental agency and all such financial instruments may experience a loss of principal.*