BlueTrust

Principles-Based Investing:

Our Investment Framework

After the 2008 financial crisis, concerns over slow economic growth, fiscal deficits, and unprecedented central bank monetary policy highlighted the need for an investment decision-making process that helps clients gain clarity and confidence around their finances and assists in meeting clients' financial goals in this new economic environment.

As a result, we saw an opportunity to integrate our principles more systematically into our investment process with the goal of building more resilient investment portfolios. This pioneering effort resulted in an investment decision-making framework known as Principles-Based Investing, which creates a more confident decision-making environment for investing, as we rely on a set of core principles and an unwavering process with a focus on one primary goal: Helping to increase the probability of achieving your goals.

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01

Increasing the Probability of Success: *Understanding the Trade-Offs of Any Investment Strategy*

Deciding whether to work with a financial advisor isn't always easy. Many investors wonder if they can truly profit from professional financial advice or if a do-it-yourself solution is better. While each investor's situation is unique, working with an advisor can have many benefits when it comes to achieving financial goals.

At Blue Trust, we believe our distinctive approach to investment management leads to more successful outcomes for our clients than if they choose to do it alone. In our experience, investors can fall short of their financial goals for three primary reasons:

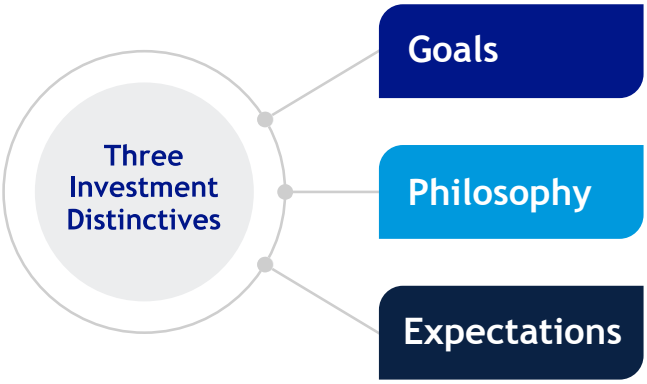
1. They have unrealistic expectations for their investments.
2. They lack guiding principles and a disciplined process for making investment decisions.
3. They operate without a plan.

Our investment approach addresses these issues at the outset of each relationship. Blue Trust's team of experienced financial advisors works with our clients to help define their financial goals, set reasonable expectations for investment performance, and develop a goals-based financial plan. We then implement each client's plan using our Principles-Based Investing framework.

Throughout the relationship, we reassess our clients' progress towards meeting their future cash flow needs and their goals as life and financial circumstances change. In addition, we confirm that their investment strategy remains appropriate given their goals and expectations.

We define success as increasing the probability of meeting our clients' financial goals. By managing our three investment distinctives in tandem, we believe our clients are more likely to stay the course over the long term and meet their financial goals.

We will touch on each of these areas in subsequent sections of this paper.



Investor Behavior

When planning for future financial needs and objectives, enduring the ups and downs of the market can be frustrating for even the most seasoned investor. All too often, investors eventually reach a certain pain threshold regarding portfolio performance and abandon their investment strategies altogether. Financial services market research firm DALBAR has studied this behavior for more than two decades and how it can have a damaging impact on long-term portfolio performance.

Across time horizons, investors tend to consistently underperform broad market benchmarks by wide margins, largely due to poorly timed trades.

Using dollar-weighted returns, Morningstar takes these findings a level deeper by measuring how the average investor fared in a fund over a given period. In other words, Morningstar measures how well investors time buying and selling their funds. When compared with the fund's total return, which assumes a buy-and-hold approach, the data show that not only do investors underperform the market on average; they also underperform their own investments.

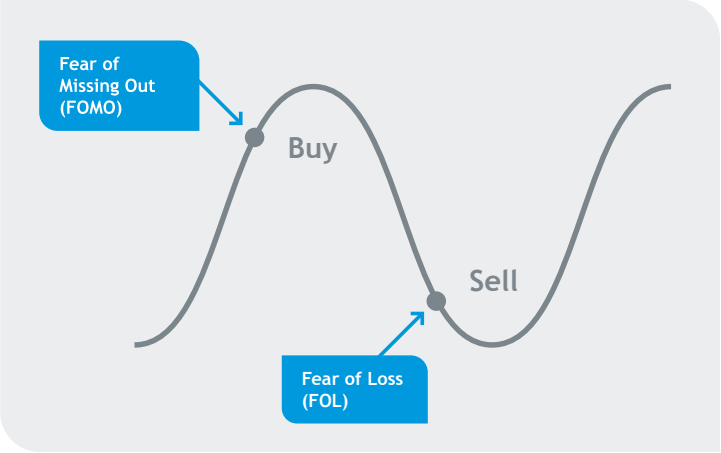
According to Morningstar's article, "Are You Leaving Money on the Table From Your Funds' Returns?" on average investors in diversified U.S. stock mutual funds underperformed the funds' total returns by nearly 1.7% annually for the preceding 10 years.[1]

What leads investors to limit their own success?

The research conducted by DALBAR and Morningstar suggests that an investor's behavior tends to have a larger impact on his or her portfolio results than market or fund performance.

According to the field of behavioral finance, inherent human biases and emotions can cause investors to act irrationally when buying and selling investments. The Fear of Missing Out (FOMO) and Fear of Loss (FOL) are two key drivers that motivate investor behavior.

Fear and Greed Cycle



Fear of Missing Out

Researchers from Stanford[2] argue that what investors fear most is the risk that they may underperform their peers (FOMO). Market indexes tend to be used as a proxy for how other investors are faring. For example, when headlines and news feeds repeatedly flash, "Dow Jones Industrial Average Hits Another All-Time High," an investor in a diversified, multi-asset portfolio may wonder why his portfolio is not keeping up with the 30 U.S. stocks in the Dow Jones. He may subsequently abandon his diversified portfolio to buy those 30 stocks at the peak of their cycle.

Similarly, FOMO explains in part why asset bubbles occur. When certain parts of the market, such as technology in the late 1990s, real estate in the mid-2000s, and even today's cryptocurrencies are appreciating at an above- average pace, investors tend to exhibit herd behavior. In investing, herd behavior is the tendency for individuals to imitate the actions of a larger group despite lacking a rational basis, and it often leads to inflated asset prices as investors pour their money into the same investments. In their study, the above-mentioned Stanford researchers found that even if investors are aware that a stock or asset class is overpriced, they will continue to invest due to the fear of deviating from their peers and potentially missing out on subsequent gains. This behavior has been demonstrated time and again throughout history. Eventually bubbles burst, and investors must then recover from substantial losses.

Fear of Loss

At the other end of the cycle is Kahneman and Tversky's concept of loss aversion, which suggests that financial losses are twice as psychologically powerful as gains.[3] In other words, for most people, the pain felt from losing even a nominal amount of money is much stronger than the joy felt by gaining the same amount.

While loss aversion can manifest itself in different ways, it often leads investors to attempt to minimize the pain of short-term losses by avoiding investments they perceive as too risky, even if those investments are suitable. As a result, an investor driven by FOL may be invested in a portfolio that is inconsistent with his or her future financial needs.

Alternately, FOL may cause an investor to abandon a suitable investment strategy at the wrong time. A recent study found that in negative market environments, loss averse investors commonly sell stocks and move to cash until the market recovers.[4] The potential implications of this behavior are indeed measurable; investors who abandon their investment strategies at inopportune times often miss out on much of the subsequent recovery and growth.

[1] Artnott, Amy. "Are You Leaving Money on the Table From Your Funds' Returns?" July 12, 2022. www.morningstar.com/funds/are-you-leaving-money-table-your-funds-returns
[2] DeMarzo, Kaniel, and Kremer. "Relative Wealth Concerns and Financial Bubbles." Review of Financial Studies, Vol. 21, Issue 1, Pages 19-50. 2008.

While investment decisions motivated by FOMO or FOL may satisfy investors' immediate emotional needs, they are typically counterproductive to a long-term investment strategy. Emotionally-driven decisions often lead investors to make poorly timed trades, which ultimately result in buying into expensive markets and selling after assets have depreciated in value. As such, this cycle of fear and greed helps explain why many investors fall short of their financial goals.

Theory Versus Practice

When determining their ability to accept risk, investors are almost always asked to complete a risk tolerance questionnaire based on common industry metrics such as age, time horizon, and amount available to invest. Based on how they score on the questionnaire, investors are then assigned an asset mix that theoretically maximizes expected return for the level of risk they can accept. Unfortunately, the traditional industry framework may fail to address the inconsistency of this short-term view of portfolio construction—driven by investors' emotions—with their long-term needs.

The issue with traditional industry frameworks is that the risks investors are willing to accept in theory are not always the risks that they are able to accept in practice. Negative portfolio experiences and disappointing performance can make the average investor's first reaction to jump ship when faced with a risk they were not prepared to accept.

Defining Success

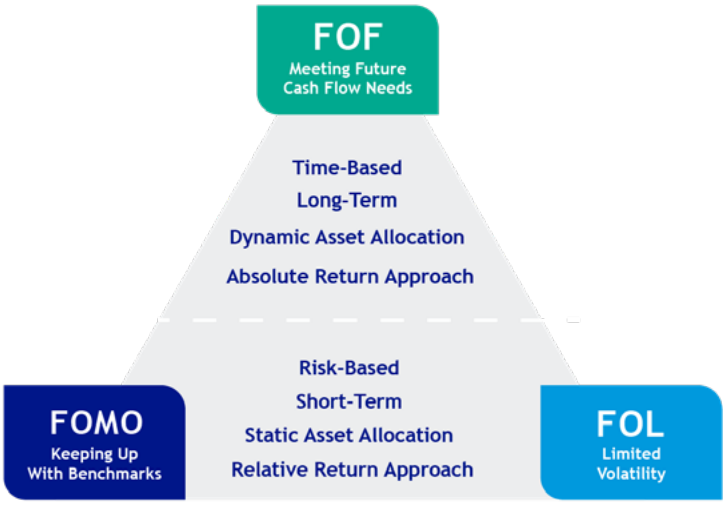
At Blue Trust, we believe that prioritizing portfolio goals and educating investors on the trade-offs associated with each goal is a more useful approach to keeping investors on course during periods of short-term disappointment.

The effectiveness of any investment strategy is determined by how the investor defines success. What is the primary goal of the portfolio? If investors can answer this question and understand the trade-offs associated with pursuing that goal, we believe that they are less likely to deviate from the plan during periods of stress.

On the following pages, we take a more in-depth look at three common portfolio goals and what investors should expect from each approach. These goals cannot be achieved simultaneously, so investors must prioritize which goal is most important while accepting the trade-offs. Doing so allows investors to more accurately gauge the success of their investment strategy moving forward.

Setting Reasonable Expectations

Based on experience, we believe there are three common portfolio goals. The first two goals are keeping up with recognized benchmarks and limiting portfolio volatility. These goals are generally motivated by Fear of Missing Out (FOMO) and Fear of Loss (FOL), respectively, and success is typically measured over relatively short and arbitrary time frames. A third portfolio goal—meeting future cash flow needs—is typically motivated by Fear of Failure (FOF), which requires a longer period of evaluation. FOF usually motivates certain long-term goals such as paying for children's college educations, retiring at a certain age, or purchasing a vacation home. Success towards meeting these future cash flow needs is more accurately assessed over time as each milestone occurs.



Keeping Up with Benchmarks

The media tends to focus on the performance of a few U.S.-based benchmarks when reporting market-related news, and many investors often associate these results with how their peers are performing. When they compare the performance of their own portfolios to the performance of the S&P 500, for example, they may become frustrated that they are not performing as well.

For those investors who define success as keeping up with major market benchmarks, Blue Trust constructs U.S.-focused investment strategies that are designed to help provide a higher probability of achieving this goal. However, the performance of these benchmarks may not be relevant to an investor's future cash flow needs. Additionally, equity markets tend to be volatile and experience periods of low or negative returns. As such, investors in these strategies should be prepared for short-term losses and potentially not meeting their future cash flow goals.

Common Characteristics of Typical U.S.-Focused Strategies:

- Short-term focus on keeping up with benchmark performance
- Static asset allocation
- Risk-based portfolio construction
- Relative return approach

[3] Kahneman, D. & Tversky, A. "Prospect Theory: An Analysis of Decision Under Risk." Econometrica. March 1979.
[4] "Overconfidence, Loss Aversion are Key Predictors for Investment Mistakes." University of Missouri News Bureau. February 10, 2016. nbsubscribe.missouri.edu/news-releases/.

Limiting Volatility

While nearly all investors tend to be loss averse, a generally accepted principle of investing is that most investments have the potential to lose money. While a diversified, thoughtful investment strategy tends to limit these losses to short periods of time, some investors cannot tolerate even short periods of dramatic loss.

For investors who define success as limiting portfolio losses, Blue Trust offers lower-volatility investments that are designed to be more resilient to major market declines. However, investments that are resilient to market declines also tend to miss out on periods of major market appreciation. Therefore, investors in lower-volatility strategies should not expect to keep up with the performance of major benchmarks over the long term. The probability of meeting future cash flow needs may also be reduced.

Common Characteristics of Typical Lower-Volatility Strategies:

» Short-term focus on limiting volatility

» Static asset allocation

» Risk-based portfolio construction

» Relative return approach

Meeting Future Cash Flow Needs

We believe the biggest trade-off associated with strategies motivated by FOMO and FOL is the reduced probability that investors will meet their future financial goals. When investors measure success by their ability to meet future cash flow needs, benchmark performance and periods of short-term losses are less relevant.

Blue Trust's goal is to construct diversified portfolios that are designed to help provide a higher probability of meeting investors' future goals. These portfolios differ from the strategies and characteristics mentioned above in that they are invested in countries that are growing faster than average, while minding asset prices relative to their growth potential. Return potential is higher in those areas, allowing for a better chance to meet absolute return targets. Therefore, investors in these strategies should expect periods of increased short-term volatility or underperformance relative to major benchmarks.

Common Characteristics of Blue Trust's Unconstrained Strategies:

» Long-term focus on meeting future goals

» Dynamic asset allocation

» Time-based portfolio construction

» Absolute return approach

The table below summarizes each of the portfolio goals discussed above and the associated trade-offs.

Increasing the Probability of Success

Studies on investor behavior continually reiterate that investors limit their investment performance due to bad timing decisions. Behavioral biases and emotions often lead investors to buy and sell at the wrong times. However, investor behavior can be managed by adhering to a sound investment strategy and understanding the associated trade-offs.

There is no holy grail of investing. Every investment strategy has negative side effects. Periods of disappointing portfolio performance are inevitable regardless of which investment strategy an investor employs. However, abandoning an otherwise prudent investment strategy is not warranted unless the investor's goals have changed. We believe that staying the course, even during periods of discomfort, increases the probability of future success.

We understand that each investor's definition of success is unique. As such, Blue Trust offers investment strategies to increase the probability of achieving a variety of goals.

Portfolio Goal	Expect	Do Not Expect	Point of Discomfort	Success Gauge
Meeting Future Cash Flow Needs	A diversified portfolio constructed specifically to align with a financial plan.	Performance similar to major benchmarks and/or peers or protection against short-term losses (for long-term portfolios).	Strong performance of major benchmarks or periods of short-term volatility.	Increased exposure to better valuations and higher economic growth. Progress towards meeting future cash flow goals.
Limiting Volatility	The portfolio to protect against dramatic losses over the short term.	Performance similar to major benchmarks and/or peers over the long-term, or the highest probability of meeting future cash flow goals.	Strong performance of major benchmarks.	Low volatility.
Keeping Up with Benchmarks	Performance similar to peers and/or major benchmarks.	To avoid short-term losses or have the highest probability of meeting future cash flow goals.	Periods of low or negative market returns.	Returns that are similar to major benchmarks.

02 Pillars *& Principles*

In view of what we know about human behavior, investors are inherently wired to let emotions and behavioral biases influence their decision-making, which often leads to dissatisfactory investment results. Therefore, it is critical that an investment strategy be anchored to a carefully crafted financial plan through a trusted advisor and a philosophy that investors can confidently cling to when short-term results bring discomfort. In this section, we will cover the investment philosophy behind our time-based strategies.

At Blue Trust, biblical principles inform the philosophical underpinnings of our investment process. These principles, when applied through a disciplined process, help take the ambiguity and emotion out of day-to-day decision making and provide guidance during periods of uncertainty. We believe that adhering to the principles in both good and bad markets increases the probability of achieving desired outcomes.

Six Core Principles of Principles-Based Investing

Principles-Based Investing is an investment decision-making framework informed by a deep understanding of timeless biblical truths, sound knowledge of economies and investments, rigorous global research, and an in-depth evaluation of risk dynamics. This framework is the underlying philosophy that guides our decisions and from which investment processes are developed to more effectively meet investors' financial goals.

Principle of Applied Wisdom: Foundation of Principles-Based Investing

» The world is uncertain but not chaotic.

» We believe applying wisdom principles can improve the probability of successful outcomes.

We believe the Bible is the source of truth and that God's word transcends time and circumstances. Therefore, our biblical worldview informs our understanding of how economics are reflected in financial markets. The Principle of Applied Wisdom, along with the other five core principles, provides a framework for how to invest in a manner that seeks opportunistic returns while addressing the risks associated with investing.

Principle of Uncertainty: Why Saving and Investing Are Important

» The future is uncertain.

» Provision against uncertainty is the reason to plan, save and invest.

God created humans with all of the abilities and skills needed to steward the world's resources. He then placed us in the perfect environment to do so. But, the "Fall" of mankind changed everything—giving birth to an unstable environment. Because sin entered our world, we must live with uncertainty, not knowing what the future holds. Accumulating a reasonable amount of resources for future provision is the primary reason for saving and investing. The goal is not to accumulate so much that we transfer our hope to our riches, but rather to prudently save and invest to provide for others and ourselves.

Principle of Human Productivity: How Wealth Is Created

» Productivity results from the combination of human creativity and natural resources.

» Wealth is a result of human productivity.

The Principle of Human Productivity begins with an understanding that God created people to be productive. We know this is true because the concept of work was part of God's perfect design from the beginning, even before sin entered the world in the

Garden of Eden. "Then the Lord God took the man and put him into the Garden of Eden to cultivate it and keep it." (Genesis 2:15). Humans were not created to be idle. By creating us "in his own image," God's desire was for us to use our creative and productive abilities to steward the earth's natural resources. Even after sin caused work to be hard, our God-given attributes of productivity and creativity are still the source of growth. This principle is important to investing since wealth is more likely to be created where there is growth, and economic growth is higher in environments where human productivity is supported and promoted.

Principle of Leadership and Governance: Where Wealth Is Created

- The manner in which leaders (of governments, corporations, etc.) govern significantly influences the productivity of the people they lead.
- Environments with greater civil and economic freedom tend to provide more fertile ground for investment due to increased human productivity.

The Principle of Leadership and Governance states that the manner in which people are led and governed greatly influences their creativity and productivity levels. The desire for power causes some leaders to hoard resources in an effort to maintain control. This creates a dependent society marked by lower productivity, smaller private capital bases, and possibly even an unstable currency. These factors are likely to decrease long-term returns and increase the possibility of default.

We believe that environments that allow people to be productive will create more wealth over the long-term than environments that promote dependency. We believe those who lead with integrity (are honest in their dealings, faithful in their stewardship, and selfless in their execution) produce better long-term outcomes than those who do not. We believe leaders who decentralize resources and relinquish control stimulate higher creativity and productivity, larger private capital bases, and a stronger currency.

It is critical to identify the opportunities where good leadership and governance are likely to provide the levels of growth and resulting investment returns necessary to meet clients' objectives. We believe that investing capital in those nations and companies whose leaders act with integrity and relinquish control of resources creates investment opportunities with lower risks and higher return potential.

Principle of Inherent Value: How to Identify Opportunities

- Investors and markets are not always rational.
- Eagerness for gain, or fear of loss, can drive investors towards bubbles or crashes.
- Opportunities and risks can be identified using a disciplined valuation process to determine an investment's inherent value.

Asset prices often do not reflect their likely future intrinsic value in the short term. This can happen due to greed (which causes prices to become inflated) or fear (which causes prices to deflate). Investors and markets are volatile and subject to exaggeration. An intelligent process that analyzes an investment's potential range of returns compared with its current price can help balance opportunities and risks. This principle is known as the Principle of Inherent Value.

When purchasing investments, it is not enough to know how and where wealth is created. It's also critical to look at valuation levels for each asset class to help determine what to buy and sell. Because overpricing greatly limits the opportunity for future performance growth, assets must be purchased at reasonable prices.

Principle of Instability: How to Manage Risk

- Markets and economies are not stable.
- Due to instability, provisions against uncertainty may fail.
- Diversification helps manage risk.

Understanding present risks is an important step in making wise investment decisions. As discussed with the Principle of Human Productivity, the concept of risk originated with the "Fall" of mankind in the Garden of Eden. Through scarcity, access to resources like food became less stable. Despite man's best efforts, even a well-planned execution does not always lead to a plentiful harvest. Thieves might steal, food can spoil, and markets sometimes crash. Because of sin, risk can never be completely avoided. This is the Principle of Instability.

Examples of investment risks include concentrated positions of wealth, incorrect valuations, and currency devaluations, to name a few. We believe diversification is the most effective way to reduce risk within investment portfolios.

The Three Pillars of Our Investment Approach

These six principles encompass Blue Trust's view of the world, as well as the market and environmental characteristics that we believe lead to higher probabilities of clients successfully achieving their financial goals. We then take it a step further and utilize three pillars to drive how we construct portfolios, consistent with our core principles:

1) We strive to invest in markets and geographies that are growing at an above-average pace.

Theoretically, strong economies should have profitable companies that grow their earnings over time and provide good investment opportunities to shareholders. A 2010 study published in the Financial Analysts Journal found that in practice, the long-term performance of U.S. equities is fundamentally linked to growth in earnings, and in turn, earnings growth is dependent on real GDP growth.[5]

Our portfolios are structured to benefit from markets that are experiencing above-average GDP growth. As such, we expect the

companies in which we invest to exhibit robust growth characteristics that, over time, lead to meaningful price appreciation. We anticipate this outcome because, historically, faster growing countries have had higher stock returns, as seen to the right.

2) We are unwilling to overpay for an asset based on its growth potential.

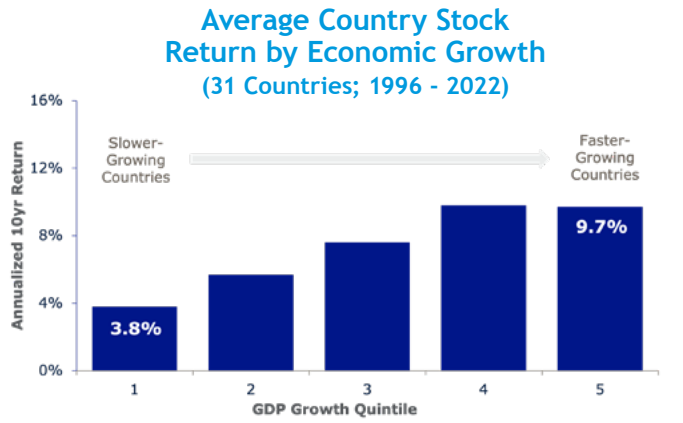
We believe even a good investment can be a bad investment if we pay too much for it. Therefore, we believe that valuation is another strong predictor of future stock returns over the long-term. Intuitively, it makes sense that paying more for a stock reduces its potential future price appreciation, and a lower stock price allows for greater appreciation. Eugene Fama and Kenneth French are widely recognized for their academic studies that argue the existence of a value premium throughout history and across global markets.[6] In other words, companies with low market prices relative to their accounting book values tend to have higher average returns than companies with high market prices relative to their book values over the long run.

There are several ways to measure valuation, with the price-to-earnings (P/E) ratio being among the most common. When evaluating opportunities, investors often use P/E ratios to compare the relative attractiveness of an asset versus its price history and comparable investment opportunities. Dividing price by earnings per share (EPS) standardizes the value since comparing absolute prices across markets does not provide useful information. While P/E is usually not a strong predictor of returns in the near term, over the long term, it can significantly impact future returns.

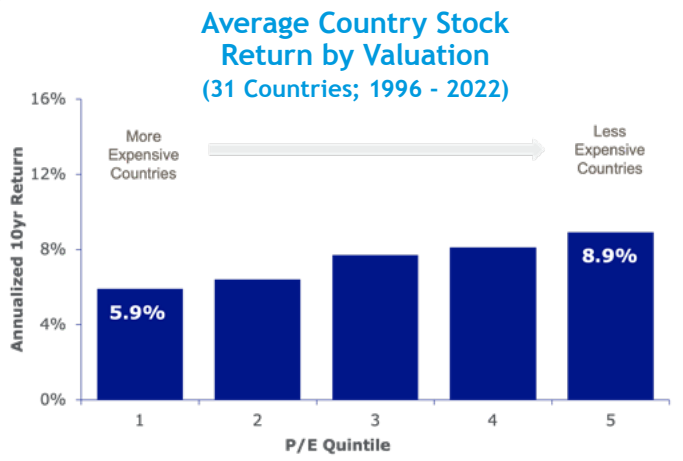
Numerous academics have conducted research that extends the relationship between cyclically adjusted P/E and future long-term returns to individual market sectors and international equity markets, including developing countries.[7] The chart to the right demonstrates the inverse relationship between P/E at a point in time and stock returns over the following 10 years. Throughout history, countries with higher valuations have diminished the likelihood of high stock market returns going forward.

When combined with economic growth, the impact of valuation on future stock returns is very apparent. On average, countries with higher GDP growth rates and lower P/E ratios have had higher stock market returns than countries with lower GDP growth rates and high P/E ratios. The graph to the right shows that the fastest growing, relatively inexpensive countries, on average, generated an annualized return of 11.6% over 10 years compared with slow growing, relatively expensive countries, which returned 3.8% annually.

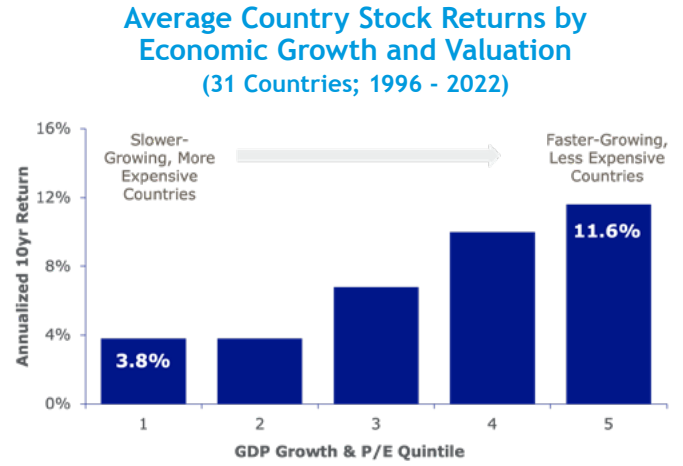
We believe that investing in markets with above-average growth potential while keeping an eye on valuation and not overpaying for high-growth assets will generate the highest potential for meeting our clients' required returns over time.



Sources: FactSet. GDP is real, local currency and was measured over 10-year rolling periods. Returns are nominal, USD. As of 12/31/2022.



Sources: FactSet. Price-to-Earnings Ratios (P/E) are normalized five-year moving average. Returns are nominal, USD. As of 12/31/2022.



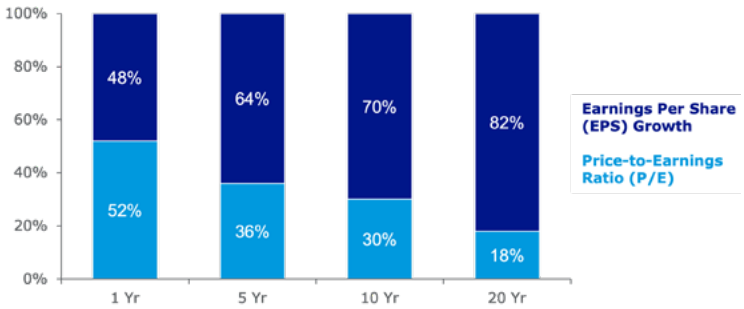
Sources: FactSet. GDP is real, local currency and was measured over 10-year rolling periods. P/E's are normalized five-year moving average. Returns are nominal, USD. Countries were sorted based on the combination of their GDP and P/E quintile scores. As of 12/31/22.

[5] Cornell, Bradford. "Economic Growth and Equity Investing." Financial Analysts Journal, Volume 66, Number 1. ©2010 CFA Institute.
[6] Fama, Eugene F. and French, Kenneth R. "Value Versus Growth: The International Evidence." August 1997. Available at SSRN: https://ssrn.com/abstract=2358 or http://dx.doi.org/10.2139/ssrn.2358
[7] Bunn, Oliver D. and Shiller, Robert J. "Changing Times, Changing Values: A Historical Analysis of Sectors within the U.S. Stock Market 1872-2013." August 2014. Keimling, Norbert. "Predicting Stock Market Returns Using the Shiller CAPE." January 2016. www.starcapital.deKlement, Joachim. "Does the Shiller P/E Work in Emerging Markets?" June 2012. Available at SSRN: https://ssrn.com/abstract=2088140 or http://dx.doi.org/10.2139/ssrn.2088140

At times, our process may feel uncomfortable, as we tend to invest in markets that have not performed well recently. However, relative valuation is generally a better indicator of future long-term performance than past performance. These periods of discomfort are when trusting in the advisor-client relationship becomes most critical.

Furthermore, historical analysis of global market behavior shows that over even longer time periods, underlying economic growth is more indicative of equity market performance than short-term changes in P/E ratios caused by emotion or speculation. GDP growth tends to result in revenue growth and subsequently, EPS growth. The chart on the following page illustrates that as an investor's time horizon lengthens, EPS growth becomes a more significant driver of a portfolio's return.

Average Impact on Stock Returns by Holding Period



Source: Robert Shiller, Bloomberg, FactSet; study used S&P 500 returns from January 1920 – April 2023.

3) We construct appropriately diversified portfolios relative to our clients' time horizons and future cash flow needs.

We believe diversification is the most effective way to address uncertainty and instability while increasing the probability of achieving targeted portfolio returns over a given time horizon. The time-based portfolio strategies we manage are constructed based on investors' time horizons. Rather than arbitrarily attempting to track a market benchmark, these strategies have an absolute return focus relevant to specific financial goals. To accomplish this, we dynamically allocate capital across asset classes and regions based on valuations, prevailing market conditions, where we are in the business cycle, and a reasonable (but uncertain) range of future economic outcomes.

By nature, a diversified portfolio will never outperform individual asset classes, which can be distracting for any investor who pays close attention to the best performing asset class. As seen in the chart above, different asset classes outperform year-to-year. When major U.S. market benchmarks like the S&P 500 or Dow Jones Industrial Average are the best performers, some U.S.-based investors may feel regret about holding a diversified portfolio. However, while diversification may never achieve the best performance, it also doesn't achieve the worst.

The Importance of a Disciplined Investment Philosophy

We believe investors are more likely to reach their long-term financial objectives when they understand their goals and the associated trade-offs, choose an appropriate investment strategy with the help of their financial advisor, and stick to a disciplined process. Having a deep-rooted investment philosophy that reinforces our investment process helps us avoid deviating from our approach during periods of discomfort or uncertainty.

We adhere to our investment process in both good and bad markets, thus removing the negative impact that emotional reactions can have on portfolio results. We follow a principled approach to investing that we believe has the potential to increase the likelihood of a satisfactory outcome for investors.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Highest Return	Bonds 5.2%	Emerging Markets 79.0%	Gold 28.7%	Gold 9.6%	Emerging Markets 18.6%	US Large Cap 32.4%	US Large Cap 13.7%	US Large Cap 1.4%	US Large Cap 12.0%	Emerging Markets 37.8%	Inflation 2.1%	US Large Cap 31.5%	Gold 20.9%	US Large Cap 28.7%	Commodities 16.1%	US Large Cap 26.3%
	Gold 3.9%	Int'l Developed Stocks 32.5%	Emerging Markets 19.2%	Bonds 7.8%	Int'l Developed Stocks 17.9%	Int'l Developed Stocks 23.3%	Bonds 6.0%	Inflation 0.7%	Commodities 11.8%	Int'l Developed Stocks 25.6%	Bonds 0.0%	Int'l Developed Stocks 22.7%	Emerging Markets 18.7%	Commodities 27.1%	Inflation 6.5%	Int'l Developed Stocks 18.9%
	Inflation 0.0%	US Large Cap 26.5%	Commodities 16.8%	Inflation 3.1%	US Large Cap 16.0%	Inflation 1.5%	Inflation 0.7%	Bonds 0.5%	Emerging Markets 11.6%	US Large Cap 21.8%	Gold -2.8%	Emerging Markets 18.9%	US Large Cap 18.4%	Int'l Developed Stocks 11.8%	Gold -0.7%	Gold 12.8%
	Commodities -35.6%	Gold 22.9%	US Large Cap 15.1%	US Large Cap 2.1%	Gold 6.1%	Bonds -2.0%	Gold -1.7%	Int'l Developed Stocks -0.4%	Gold 7.7%	Gold 12.8%	US Large Cap -4.4%	Gold 18.0%	Int'l Developed Stocks 8.3%	Inflation 7.1%	Bonds -13.0%	Emerging Markets 10.3%
	US Large Cap -37.0%	Commodities 18.9%	Int'l Developed Stocks 8.2%	Int'l Developed Stocks -11.7%	Bonds 4.2%	Emerging Markets -2.3%	Emerging Markets -1.8%	Gold -10.9%	Bonds 2.6%	Bonds 3.5%	Commodities -11.2%	Bonds 8.7%	Bonds 7.5%	Bonds -1.5%	Int'l Developed Stocks -14.0%	Bonds 5.5%
	Int'l Developed Stocks -43.1%	Bonds 5.9%	Bonds 6.5%	Commodities -13.3%	Commodities -1.1%	Commodities -9.5%	Int'l Developed Stocks -4.5%	Emerging Markets -14.6%	Inflation 2.1%	Inflation 2.3%	Int'l Developed Stocks -13.4%	Commodities 7.7%	Inflation 1.3%	Emerging Markets -2.2%	US Large Cap -18.1%	Inflation 3.0%
Lowest Return	Emerging Markets -53.2%	Inflation 2.8%	Inflation 1.4%	Emerging Markets -18.2%	Inflation 1.8%	Gold -28.7%	Commodities -17.0%	Commodities -24.7%	Int'l Developed Stocks 1.5%	Commodities 1.7%	Emerging Markets -14.2%	Inflation 2.3%	Commodities -3.1%	Gold -4.3%	Emerging Markets -19.7%	Commodities -7.9%

Indices used: Commodities—Bloomberg Commodity Index, Bonds—Bloomberg Aggregate U.S. Bond Index, Inflation—U.S. Consumer Price Index (Seasonally Adjusted), Gold—S&P GSCI Gold Index, U.S. Large Cap—S&P 500 Index, Intl Developed Stocks—MSCI EAFE Index, Emerging Markets—MSCI Emerging Markets Index. Indices do not reflect the deduction of advisory fees, transaction charges and other expenses. You cannot invest directly in an index. Past performance does not indicate future performance.

02

Pillars & Principles: *Appendix*

Principles-Based Investing is an investment decision-making framework informed by biblical principles. Below are our core principles with supporting biblical scriptures. This list was compiled with the help of several individuals who have theological training and experience in economics and investing. Some scripture associations have a stronger correlation than others, but we believe that each of these generally support the overall Principles-Based Investing framework.

Principle of Applied Wisdom

The world is uncertain but not chaotic.

"There is an appointed time for everything. And there is a time for every event under heaven. A time to give birth and a time to die; a time to plant and a time to uproot…" (Ecclesiastes 3)

We believe applying wisdom principles can improve the probability of successful outcomes.

"Sow your seed in the morning and do not be idle in the evening, for you do not know whether morning or evening sowing will succeed, or whether both of them alike will be good." (Ecclesiastes 11:6)

Principle of Uncertainty

The future is uncertain.

"Instruct those who are rich in this present world not to be conceited or to fix their hope on the uncertainty of riches, but on God, who richly supplies us with all things to enjoy." (1 Timothy 6:17)

"Do not boast about tomorrow, for you do not know what a day may bring forth." (Proverbs 27:1)

"Come now, you who say, 'Today or tomorrow we will go to such and such a city, and spend a year there and engage in business and make a profit.' Yet you do not know what your life will be like tomorrow. You are just a vapor that appears for a little while and then vanishes away." (James 4:13-14)

Provision against uncertainty is the reason to plan, save, and invest.

"For which one of you, when he wants to build a tower, does not first sit down and calculate the cost to see if he has enough to complete it?" (Luke 14:28)

"Go to the ant, o sluggard, observe her ways and be wise; which, having no chief, officer or ruler, prepares her food in the summer and gathers her provision in the harvest." (Proverbs 6:6-8)

Principle of Human Productivity

Productivity results from the combination of human creativity and natural resources.

"Poor is he who works with a negligent hand, but the hand of the diligent makes rich. He who gathers in summer is a son who acts wisely, but he who sleeps in harvest is a son who acts shamefully." (Proverbs 10:4-5)

"For even when we were with you, we used to give you this order: if anyone is not willing to work,
then he is not to eat, either." (2 Thessalonians 3:10)

"Then the Lord God took the man and put him into the garden of Eden to cultivate it and keep it." (Genesis 2:15)

Wealth is a result of human productivity.

"But you shall remember the Lord your God, for it is He who is giving you power to make wealth…" (Deuteronomy 8:18)

"Poor is he who works with a negligent hand, but the hand of the diligent makes rich." (Proverbs 10:4)

"How long will you lie down, O sluggard? When will you arise from your sleep? 'A little sleep, a little slumber, a little folding of the hands to rest,' your poverty will come in like a vagabond and your need like an armed man. (Proverbs 6:9-11)

"He who watches the wind will not sow and he who looks at the clouds will not reap." (Ecclesiastes 11:4)

"He who loves pleasure will become a poor man; he who loves wine and oil will not become rich." (Proverbs 21:17)

"Wealth obtained by fraud dwindles, but the one who gathers by labor increases it." (Proverbs 13:11)

Principle of Leadership and Governance

The manner in which leaders (of governments, corporations, etc.) govern significantly influences the productivity of the people they lead.

"When the godly are in authority, the people rejoice. But when the wicked are in power, the people groan." (Proverbs 29:2)

"You shall do no wrong in judgment, in measurement of weight, or capacity. You shall have just balances, just weights…" (Leviticus 19:35-36)

"You shall have a full and just weight; you shall have a full and just measure, that your days may be prolonged in the land which the Lord your God gives you. For everyone who does these things, everyone who acts unjustly is an abomination to the Lord your God." (Deuteronomy 25:15-16)

Environments with greater civil and economic freedom tend to provide more fertile ground for investment due to increased human productivity.

"You shall not distort justice; you shall not be partial and you shall not take a bribe, for a bribe blinds the eyes of the wise and perverts the words of the righteous. Justice, and only justice, you shall pursue, that you may live and possess the land which the Lord your God is giving you." (Deuteronomy 16:19-20)

Principle of Inherent Value

Investors and markets are not always rational.

"The heart is more deceitful than all else and is desperately sick. Who can understand it?" (Jeremiah 17:9)

Eagerness for gain, or fear of loss, can drive investors into bubbles and crashes.

"The naive believes everything, but the sensible man considers his steps." (Proverbs 14:15)

Opportunities and risks can be identified using a disciplined valuation process to determine an investment's inherent value.

"Or what king, when he sets out to meet another king in battle, will not first sit down and consider whether he is strong enough with ten thousand men to encounter the one coming against him with twenty thousand?" (Luke 14:31)

Principle of Instability

Markets and economies are not stable.

"Do not weary yourself to gain wealth, cease from your [a] consideration of it. When you set your eyes on it, it is gone. For wealth certainly makes itself wings like an eagle that flies toward the heavens." (Proverbs 23:4-5)

"Yet the fool multiplies words. No man knows what will happen, and who can tell him what will come after him?" (Ecclesiastes 10:14)

"Come now, you who say, 'Today or tomorrow we will go to such and such a city, and spend a year there and engage in business and make a profit.' Yet you do not know what your life will be like tomorrow. You are just a vapor that appears for a little while and then vanishes away." (James 4:13-14)

Due to instability, provisions against uncertainty may fail.

"…for He causes His sun to rise on the evil and the good, and sends rain on the righteous and the unrighteous." (Matthew 5:45)

Diversification helps manage risk.

"Cast your bread on the surface of the waters, for you will find it after many days. Divide your portion to seven, or even to eight, for you do not know what misfortune may occur on the earth." (Ecclesiastes 11:1-2)

"Know well the condition of your flocks and pay attention to your herds; for riches are not forever, nor does a crown endure to all generations." (Proverbs 27:23-24)

"Sow your seed in the morning and do not be idle in the evening, for you do not know whether morning or evening sowing will succeed, or whether both of them alike will be good." (Ecclesiastes 11:6)

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Portfolio Construction *& Investment Selection*

Investing, for some, has become a game to win. While this approach may be financially beneficial to an investment manager after a period of noteworthy returns or beating a market benchmark, we believe that an investment process tailored to investor goals is more effective.

Most investors do not invest with the goal of beating an arbitrary market benchmark; rather, they invest with specific and personal purposes for their wealth in mind. Therefore, our portfolio management process focuses on generating absolute returns versus tying returns to a benchmark. Instead, our benchmark is how well we help our clients meet their unique needs and financial goals.

The first step in the investment process is creating a goals-based financial plan. Our financial advisors work with clients to develop a detailed financial plan based on their unique situation. Together, they identify sources of income and wealth and determine investment horizons based on future financial obligations.

Blue Trust's team of investment professionals at our national office in Atlanta is dedicated to constructing strategies based on various time horizons. The strategies are dynamically adjusted as the economic environment changes. Our financial advisors around the country leverage our internally constructed investment strategies to create solutions customized to each client's specific goals. Our clients should expect a diversified portfolio carefully constructed to align with their near- and long-term financial goals and cash flow needs.

Defining Risk

The investment management industry has traditionally looked to modern portfolio theory as a framework for selecting the optimal mix of assets to maximize expected return for a given level of risk. However, risk means different things to different investors. For example, investors focused on outperforming a market benchmark will consider tracking error a risk. Tracking error is essentially the difference between the portfolio's returns and the returns of the benchmark.[8]

Investors who utilize modern portfolio theory to select portfolios define risk as the one-year variation in returns a portfolio may experience. Riskier portfolios generally experience larger one-year swings in performance than less risky portfolios. The problem is that a one-year risk metric has no relationship to longer-term returns and investor goals. The result is a relatively fixed proportion of stocks and bonds that generally remains static over the investor's time horizon, which may not be the most appropriate mix to meet future goals.

We measure our success by our ability to meet clients' future cash flow needs. We do this by continually increasing our exposures to markets with higher economic growth and attractively valued assets. As such, our definition of risk is the possibility of failing to achieve the minimum returns needed to meet our clients' financial goals, irrespective of market index returns. Therefore, the underlying risks we consider during the portfolio construction process vary with the portfolio's return goal and time horizon.

Time-Based Asset Allocation

Rather than following a near-term focused, risk-based, static asset allocation approach, Blue Trust believes that time-based asset allocations that are dynamically adjusted over the investor's holding period are more effective in meeting future financial goals. Our framework, Principles-Based Investing, considers an investor's time horizon in relation to the current economic environment and relative attractiveness of various markets to determine which asset allocation mix best matches the client's future cash flow needs. As a result, each portfolio's mix of assets changes as prevailing market conditions change.

For short-term investment portfolios focused on preserving capital, volatility and downside risk are relevant concerns. However, volatility is largely unrelated to investment performance over longer periods, and therefore, it is not a risk that we consider when building our long-term portfolios. Over longer time horizons, our primary concern is inflation risk or the potential loss of purchasing power.

We believe we can maximize expected returns by attempting to reduce the risk of an unexpected negative outcome over the associated time horizon. We do so by matching the duration (or time horizon) of a portfolio's assets with the duration of its liabilities. We define liabilities as future financial goals that require cash flow, such as a new car purchase, college tuition, or retirement expenses. Each liability is assigned a time horizon and a corresponding set of investments based on that time horizon. As the liability date approaches, the allocation shifts to shorter-term strategies so that the portfolio remains appropriately invested until cash is withdrawn.

Blue Trust offers four primary strategies, based on time horizons, that we can combine to create bespoke solutions for each client's needs. Each portfolio has an absolute return objective, meaning that its returns are not measured against a market index. Instead, Blue Trust's Investment Subcommittee has selected objectives or minimum target rates of return (or goals) for each portfolio that they believe can reasonably be achieved over the associated time frame.

Investors with a short-term investment time horizon would hold short-term bonds and money market securities to protect capital and maintain principal. Those with intermediate time horizons will be impacted by inflation, so they may want to add higher-returning assets, such as corporate bonds, to their portfolio to maintain purchasing power. Investors who have more than 10 years to invest should, in most cases, have equities as the majority of their asset allocation. Not only do equities effectively outpace inflation over longer time periods, the volatile nature of the asset class creates opportunities to dynamically adjust exposures as different markets show signs of growth and relative attractiveness. We believe those with more than 16 years to invest will do best by maximizing long-term growth potential through an all-equity portfolio, leaning into areas of the market with the greatest growth potential at reasonable valuations while remaining broadly diversified. A disciplined investment process is critical to take advantage of these opportunities as they arise.

Time-Based Solutions Overview

Time Frame	Short Term	Intermediate Term	Long Term	Ultra Long Term
Target Investment Horizon	2 years	5 years	10+ years	20 years
Recommended Usage	1-2 years	3-9 years	10+years	16+ years
Minimum Goal	Maintain Principal	Meet/Exceed Inflation	4% Real Return*	6% Real Return*
Primary Source of Risk	Volatility	Volatility, then Inflation	Inflation, then Volatility	Inflation
Primary Source of Return	Short-Term Bonds	Intermediate-Term Bonds	Global Stocks	Global Stocks

Sample List of Goals	(1 – 2 years)	(3 – 9 years)	(10 – 15 years)	(16+ years)
Car Purchase	$35,000			
College Educations		$200,000		
Early Retirement Years			$500,000	
Later Retirement Years				$1,000,000
Time-Based Solutions	$35,000	$200,000	$500,000	$1,000,000

The bottom table on the previous page shows how a combination of time-based strategies can be used together to address investors' cash flow needs over various timeframes. Clients will typically utilize multiple time-based strategies simultaneously as they have cash flow goals that span multiple time horizons.

It is important to note that portfolios are customized to each client's unique situation. As with any investment strategy, there is potential for profit as well as the possibility of loss. Blue Trust does not guarantee any minimum level of investment performance or the success of any investment strategy.

The client's portfolio in this case includes a short-term investment strategy driven by the need to make a short-term purchase (like a car). For this illustration, if there were no short- or intermediate-term cash flow needs, long-term, and ultra-long-term strategies would appropriately comprise the entire portfolio.

Strategy Construction

Our portfolio construction approach is informed by our core principles, which are based on the belief that future growth is likely to occur in markets that are more conducive to greater human productivity, and good leadership and governance.

In very basic terms, the following formula describes how our core principles guide our portfolio strategies:

+ What you get
— What you pay
+/- Uncertainty of environment

= Long-term investor return

An investor's long-term return on investments equals the difference between what is earned from an investment and its price, allowing for a range of unexpected outcomes. We believe economic growth largely determines investor results, and valuation determines the price investors pay for these results.

While we routinely attempt to increase our exposures to faster growing markets with attractive valuations to maximize portfolio returns, we realize that the future is uncertain and fundamental drivers of return are not always rewarded equally by the market. Therefore, we believe adequate diversification is necessary to account for a wide range of potential outcomes.

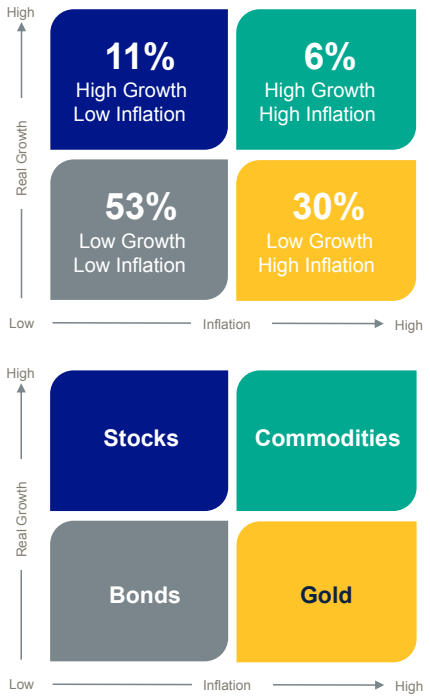
Our strategy construction process is further detailed in the following five steps.

Step 1: Identify a future range of economic seasons (combinations of high/low growth and high/low inflation).

The presence of growth and inflation creates four distinct scenarios that we refer to as economic seasons. An economic season is characterized by whether economic growth is high or low and, correspondingly, inflation is high or low. We believe that economic seasons, coupled with valuations, generally drive asset class returns. However, we also believe that no one can know with certainty which economic seasons will prevail in the future.

To address this, we assign probabilities to four distinct outcomes based on our analysis of the economic environment and our conviction in each scenario, illustrated in the accompanying chart with sample probabilities. By managing portfolios based on probabilities rather than certainty, we are positioned effectively for what we believe is the most likely economic scenario, but also prepared for unexpected outcomes.

Probabilities of Economic Seasons



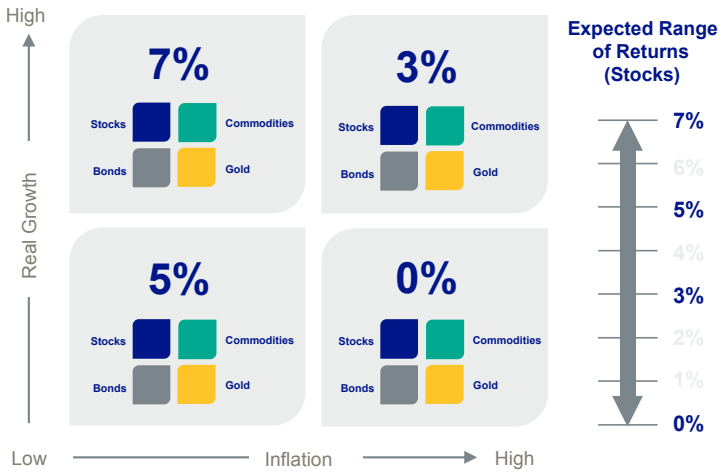
Expectations are hypothetical numbers and for illustrative purposes only.

We then calculate expected returns for each asset class based on the potential for each economic season and current valuations to guide us through the next steps of the portfolio construction process.

Step 2: Estimate asset class returns for each potential economic season based on current valuations.

Asset classes tend to have preferences for specific economic seasons, which can be observed in historical return patterns. For example, stocks tend to prefer high-growth and low-inflation environments, while bonds often do well in low-growth, low-inflation environments. Commodities have historically performed best in high-growth, high-inflation environments. Gold, on the other hand, typically performs well in low-growth, high-inflation environments. The preference of these asset classes for each potential economic scenario is illustrated on the next page.

Given these preferences along with current valuations, we assign expected returns to each asset class for all four economic seasons, which gives us a range of potential returns over the prescribed time horizon and aids us in determining appropriate weights for each asset class across the portfolios. We illustrate this below, using stocks as an example.



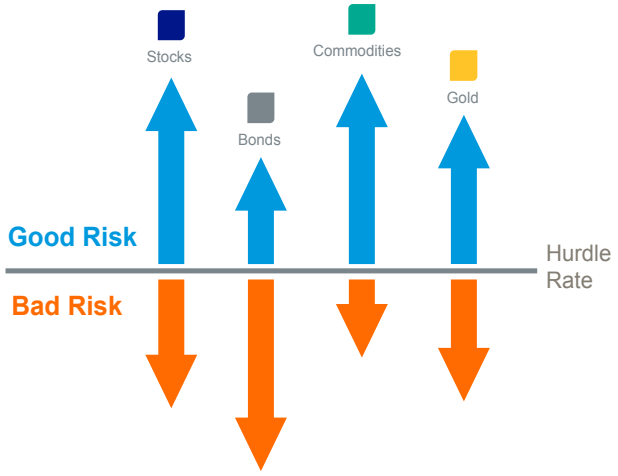
Expectations are hypothetical numbers and for illustrative purposes only.

Step 3: Compare asset class returns with the targeted absolute return hurdle rate of each time-based portfolio strategy.

We then compare the range of expected returns for each asset class to the minimum required return threshold that our clients need to accomplish their goals. Portfolios with the highest return goals have higher allocations to the asset classes expected to perform best, given the economic season and valuations.

Because we define risk as the possibility of not meeting the minimum return needed for our clients to achieve their future financial goals, we consider potential asset class returns above our hurdle rate to be good risks, while expected returns below the hurdle rate translate to bad risk. We strive to maximize the ratio of good risk-to-bad risk in the portfolio.

Expected Range of Returns



The graph in the previous column provides a hypothetical visualization of the good risk-to-bad risk ratio. It emphasizes asset classes that have more upside potential (blue) relative to the hurdle rate line than those with more downside potential (orange) below the line.

Step 4: Determine the optimal mix of asset classes in each portfolio to maximize the expected upside to downside return.

Placing reasonable probabilities around future growth and inflation expectations allows us to capitalize on growth opportunities in favorable economic environments while managing downside risks in less favorable environments. In effect, prudent asset allocation in a time-based portfolio is centered on economic exposures, whereas in a risk-based portfolio, asset allocation is predicated on statistical correlations.

The belief that proper diversification is necessary to increase the likelihood of successfully achieving each portfolio's target rate of return underpins all of our asset allocation decisions. Rather than maintaining static allocations to multiple asset classes the way that risk-based portfolio strategies are diversified, we dynamically change our exposures to each asset class as valuation and growth dynamics change. For example, the typical, risk-based, growth-oriented portfolio strategy is heavily weighted toward global equities regardless of the market environment. We remain "agnostic" to asset class if we have a high probability of meeting our absolute return objectives.

For instance, in a year like 1999, when stocks were more expensive than they had been in a century, our current investment process would have led us to dramatically reduce equity exposure in our strategies that allocate to global stocks. Conversely, equity valuations bottomed out in 2009. Our investment process allows us to increase global equity exposure to 100 percent to meet our return objectives when conditions permit. A traditional static portfolio would likely have maintained its targeted allocation to equities under both scenarios, regardless of changing valuations.

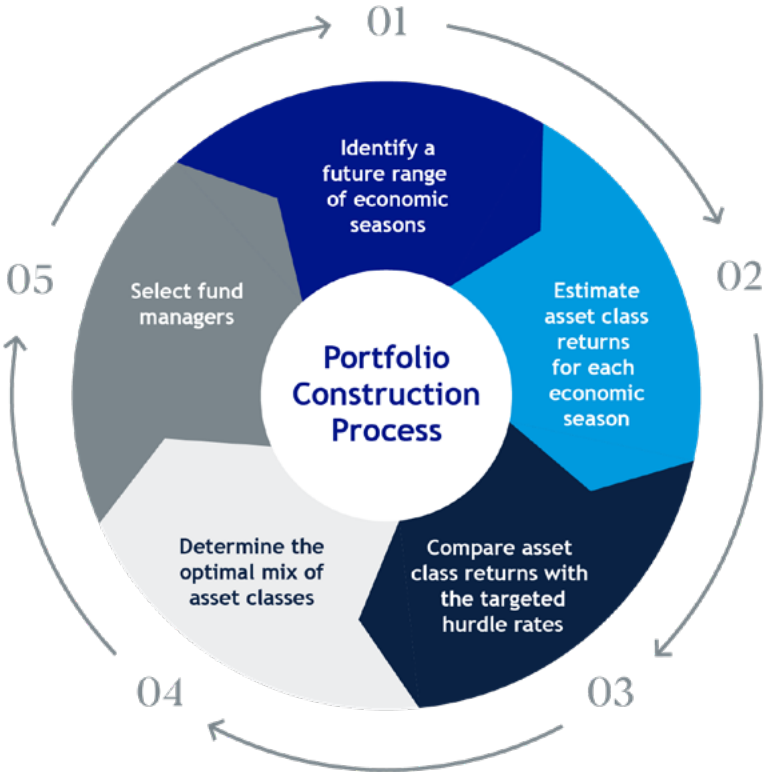
Ultimately, matching asset classes and investments to investors' need for capital is a key aspect of goal attainment. We believe that a dynamic approach to asset allocation based on time horizon maximizes the probability of successfully achieving investor goals.

Step 5: Select fund managers to achieve desired asset class exposures.

Once we have determined each strategy's target asset allocation, we identify third-party fund managers that will most effectively capture the desired portfolio exposures for the lowest fee. We employ a thorough screening and due diligence process to find what we believe are the best investment options within each category, which results in a combination of viable off-the-shelf solutions and customized investment strategies. Fund managers are evaluated based on their investment process, the people responsible for crafting and implementing the investment process, overall value, and performance.

[9] Also known as "pre-emerging" markets, frontier markets are more established than least developed countries (LDCs) but less established than emerging markets.

We prefer managers that are systematic and process-driven so that we can set reasonable expectations for performance. A robust and repeatable investment process is especially important during periods of market volatility or when performance is particularly disappointing. However, we will utilize active managers if we believe the benefit warrants the cost. For example, accessing information in specialized or less liquid asset classes such as frontier markets[9] can be difficult and time-consuming. We believe we can more effectively access the asset class by paying for an experienced portfolio manager's expertise.



Although we prefer low-cost funds, we focus less on absolute cost and more on the value we receive for the fees we pay. For example, we would consider a slightly higher fee for better performance potential to be a reasonable trade-off. Also, while strong performance is the goal of any investment strategy, we view performance as a way to validate a predictable investment process rather than a way to identify good future investment performance. Past performance allows us to understand how investments have behaved in various market environments, which can help us develop expectations for performance in similar environments going forward. However, because of the limitations of judging an investment on past performance on a stand-alone basis, we do not consider it an important component of our due diligence process or particularly useful when selecting investments.

Instead, our due diligence process attempts to be forward-looking. Because we seek certain exposures from our fund managers, we look for managers that can achieve these exposures most effectively.

All investments are considered within the context of the overall investment strategy. We are more concerned with how each investment impacts the strategy's attributes rather than judging its merits on a stand-alone basis.

We repeat steps 1-5 regularly to ensure that our strategies are still aligned and exposed optimally for the ever-changing economic environment and market conditions.

Our portfolio construction and investment selection processes are systematically driven to avoid the emotional pitfalls that often plague investors. As a result, we tend to ignore many of the headline distractions that can lead investors to deviate from their investment plans.

The benefits of diversification are not always obvious to investors, who may focus on the inevitable side effects of a diversified portfolio. By nature, a diversified portfolio will always hold some assets that are not currently performing well, which may concern some investors. Similarly, there will always be asset classes that outperform a diversified portfolio, which can stir dissatisfaction. Focusing on these side effects can trigger emotional reactions in investors who prefer always to hold the best-performing asset class instead of a diversified portfolio.

Although we try to remove emotion and short-term thinking from our investment process, the ride may not always be smooth. While we tend to perform well in markets that reward economic growth and valuation discipline, our portfolios face headwinds when the opposite occurs. And, although we believe diversified portfolios that account for various scenarios are most appropriate for our clients over time, there may be better performing assets over shorter time periods.

However, we maintain that staying the course during periods of discomfort is critical for investors to achieve their long-term financial goals. Otherwise, falling victim to the fear and greed cycle described earlier in this paper tends to result in investors buying high and selling low, which is never an effective investment strategy.

[9] Also known as "pre-emerging" markets, frontier markets are more established than least developed countries but less established than emerging markets.

04 Implementation

Blue Trust defines success as increasing the probability of meeting your financial goals. A clearly defined investment philosophy and process can help you achieve those goals. However, the principles that underpin investment decisions, like asset allocation, factor selection, fund selection, and security selection—and the outcomes of these decisions—only partially influence the likelihood of meeting your future cash flow needs.

More than any other component of the investment process, developing a financial plan and sticking to it over time has the greatest impact on long-term investment success. To implement our investment strategy, we begin by working with each client to identify financial goals, set reasonable expectations, and develop a goals-based financial plan.

Investment Success Begins with a Financial Plan

All humans can suffer from negativity bias, the natural tendency to focus on negative events instead of neutral or positive circumstances. Negativity bias helps explain why investors often dwell on one investment in a portfolio that's not performing well, even if everything else is working. However, like other behavioral biases, focusing on a single underperforming investment rather than the whole picture is unlikely to improve your chances of success.

Numerous factors contribute to an investment strategy's effectiveness, though not to the same degree. We believe that investment success starts with a comprehensive financial plan. In fact, our research shows that the development of a goals-based financial plan is the primary contributor to long-term investment success. Moreover, when investors follow their financial plan regardless of the prevailing market environment, the result far outweighs the impact of day-to-day investment decisions.

While we aren't discounting the importance of consistently implementing an investment process over time, in our experience, it is critical to consider clients' investment strategies within the context of their overall financial plans to be successful. We strongly believe that prioritizing the steps above in order of their relative impact leads to better outcomes for our clients.

Managing Investor Behavior

We believe developing a financial plan and staying the course are critical for long-term success; as such, investors who work with a trusted advisor to implement a disciplined strategy can increase the likelihood of meeting their future cash flow needs. Conversely, research has consistently shown that investors who are left to make decisions on their own often let emotion and behavioral biases cloud their judgment, resulting in subpar investment performance. Both DALBAR's Quantitative Analysis of Investor Behavior and Morningstar's investor (dollar-weighted) returns show that poorly timed trades cause the average investor to underperform the broader market and the funds that they own. Our financial advisors serve an important role in the investment process, helping investors avoid such self-defeating behaviors by sticking to their financial plans in good and bad markets.

Without knowing where to start, investors may forego the financial plan and instead set arbitrary goals for their investment portfolios. Often driven by a cycle of fear and greed, such goals might include keeping up with popular market benchmarks, like the S&P 500, or minimizing volatility in order to limit the possibility of temporary loss.

Underlying the cycle of fear and greed are two key concepts that tend to motivate investor behavior, particularly when buying and selling investments—the Fear of Missing Out (FOMO) and the Fear of Loss (FOL). Because investors are motivated by greed, they fear underperforming their peers when markets are doing well, and they gauge success on how well they keep up with market benchmarks. However, FOL is also a strong motivator. Loss aversion suggests that financial losses are twice as psychologically powerful as gains. This mindset may cause investors to hold investments that are unsuitable for their financial goals and time horizons, or it may cause them to sell suitable investments at the wrong time because they view short-term losses as risky.

Investment decisions motivated by FOMO or FOL may satisfy investors' immediate emotional needs, but they can be detrimental to a long-term investment strategy. Emotionally driven decisions often lead investors to make poorly timed trades, ultimately resulting in buying into expensive markets and selling after assets have depreciated. The fear-and-greed cycle helps explain why many investors fall short of their financial goals.

Blue Trust's Approach

No matter an investor's definition of success, all investment strategies will disappoint at times. Strategies aimed at outperforming a market benchmark experience periods of temporary loss when the market falls. On the other hand, portfolios built to minimize volatility are unlikely to keep up with popular market indexes during positive market environments. Misunderstanding these trade-offs is why investors often abandon their investment strategies at the wrong time.

Unfortunately, most of the industry fuels these emotionally-driven investor behaviors by only offering investors static, risk-based, and short-term focused portfolios aimed at outperforming arbitrary market indexes. These portfolios typically have targeted allocations to asset classes that remain unchanged regardless of market conditions and are built independently of an investor's financial plan.

Blue Trust's different approach to managing portfolios attempts to remove harmful investor behaviors from the process rather than adapt to it. Our investment process is ongoing, beginning and ending with the client's financial plan. Instead of measuring our success against market benchmarks, we believe a more reasonable definition of success is how well an investment strategy meets our clients' future cash flow needs. Our investment approach strives to minimize the possibility of clients falling short of their goals. Our time-based portfolios are constructed with an absolute return focus based on investment horizons, not tying returns to a benchmark. We then dynamically allocate capital across regions and asset classes based on the prevailing market environment.

Because we manage diversified portfolios, at times our investment strategies may not keep up with popular market benchmarks. Similarly, there will be times when our strategies experience temporary losses. However, despite these trade-offs, we believe that failure to meet clients' future cash flow needs is a more relevant concern than the risks the rest of the industry focuses on—tracking error and portfolio volatility.

We embrace biblical, time-tested principles that serve as the philosophical foundation for our investment process. We believe that a well thought-out financial plan combined with a consistent investment process underpinned by strong philosophical beliefs can help investors stick to their investment plan throughout good and bad markets. Our investment principles can generally be condensed into three pillars that drive our portfolio construction process:

1. We strive to invest in markets and geographies that are growing at an above-average pace.
2. We are unwilling to overpay for an asset based on its growth potential.
3. We construct appropriately diversified portfolios relative to our clients' time horizons and future cash flow needs.

At a very high level, these principles encompass our view of the world, as well as the market and environmental characteristics that we believe lead to higher investment returns. We believe that adhering to these principles in both positive and negative market environments increases the probability of meeting the return targets we set for the portfolios we manage for our clients.

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Next Steps:
The Advisor-Client Relationship

If you do not have a financial plan, work with your financial advisor to develop one. A comprehensive financial plan identifies your goals and future cash flow needs and assigns time horizons to each goal. With your goals in mind, your financial advisor can construct a customized portfolio for you by combining our time-based investment strategies designed to meet your near- and long-term financial needs.

The process is ongoing, and you should routinely review your financial plan to determine if your goals or preferences have changed depending on your phase of life. Your financial advisor can help update your financial plan and investment strategy accordingly so that you remain on track toward your goals.

We believe investors are more likely to reach their long-term financial goals when they understand their objectives and trade-offs, choose an appropriate investment strategy with the help of their financial advisor, and stick to a disciplined process.

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For more than 45 years, Blue Trust has helped clients bring faith and finances together through financial expertise and biblical wisdom. Our advisors walk with clients across the wealth spectrum through every season of life, helping them steward what has been entrusted to them with clarity, confidence, and purpose.

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