Willow Creek Financial Services, Inc.

Investment Management

Philosophy

Investment management is an integral component of the personalized wealth management and financial planning process. Willow Creek Financial Services (Willow Creek) designs and manages portfolios utilizing a disciplined long-term strategy based on sound fundamentals proven to influence investment success. The foundation of Willow Creek's investment management philosophy is based on rigorous academic research and financial science, which shows that a properly diversified selection of uncorrelated asset classes, managed with a disciplined rebalancing methodology, is the best approach to provide investors the highest probability of attaining their financial goals.

The core tenets of Willow Creek's Investment Management Program include:

- Customize and manage tax-efficient portfolios to achieve the financial goals of our clients
- Optimize investment portfolios to compensate investors for the level of risk assumed
- Minimize unnecessary portfolio risk through diversification
- Maintain portfolio allocation via systematic rebalancing
- Apply strict discipline in all aspects of portfolio management
- Use low-cost, tax-efficient institutional class investments
- Adhere to fiduciary standards – Clients are always the first priority

Markets Work: *Risk & Return*

Markets throughout the world have a history of rewarding investors for the capital they supply. Companies compete with each other for investment capital, and investors compete with each other to find the most attractive returns. This competition creates efficient markets, which is to say current market prices are amazingly accurate and rapidly reflect new information. Although short-term security "mispricings" do occur from time to time, predictable patterns leading to consistent market out-performance are difficult to identify in advance. Traditional "Wall Street" or active managers strive to beat the market by taking advantage of pricing "mistakes" with speculative stock-picking and market timing, which often proves costly and ineffective. This futility of speculation is good news for the educated investor because it provides evidence that markets do work and security pricing is fair and accurate.

Willow Creek recognizes that risk and reward are inextricably intertwined, and investors cannot earn greater returns without accepting higher levels of risk. The investor's objective is to earn the highest possible return at an acceptable level of risk. There are two primary factors that affect the investor's risk tolerance: the financial ability to afford market risk within the investment program and the personal willingness to accept return volatility. Willow Creek works directly with clients to establish an appropriate level of risk.

Stocks: *Passive vs. Active Management*

The passive approach to equity management assumes that markets do work and stock picking attempts are futile. By investing in an entire asset class and by eliminating emotion and speculation from the portfolio decision process, passive managers know that clients will be rewarded with capital market returns. Furthermore, passive management stands on solid theoretical ground and has enormous empirical support.

On the other hand, traditional active fund managers believe that markets do not work and stock prices react to information slowly enough to allow them to systematically outperform markets and most other investors by taking advantage of security "mispricings". However, countless academic studies provide a history of professional active management and the message is very clear: the "beat the market" and speculative stock picking efforts of active managers are impressively and overwhelmingly negative. Additionally, the high volume of trades generated by active managers imposes excessive trading and tax costs on their clients, thereby reducing portfolio return.

For a quarter of a century Willow Creek has embraced passive management fundamentals, taking advantage of Nobel Prize winning academic theory in the design of investment portfolios. This disciplined, low-cost approach has consistently outperformed actively managed portfolios over the long-term.

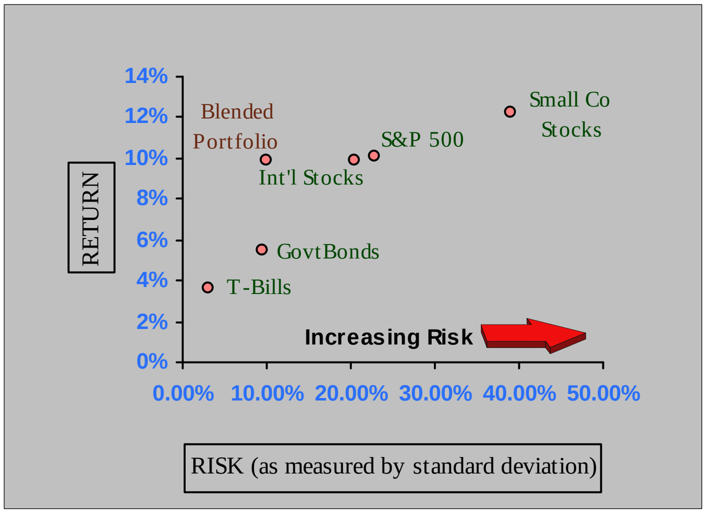
Diversification and Asset Allocation

An important component of successful investment management is reducing risks that do not generate additional expected portfolio return. Avoidable risks include holding too few securities or asset classes, betting on countries, industries or sectors, following market predictions and speculating on information from the media or Wall Street. The key to eliminating these risks is ***diversification***, which is the formal name for the principle: *You should not put all your eggs in one basket.*

Nobel Laureate Dr. Harry Markowitz first identified the benefits of diversification through his works on Modern Portfolio Theory. Modern Portfolio Theory assumes investors are rational and risk-averse, meaning that given two assets that offer the same expected return, investors will prefer the less risky one. Additionally, the theory states that portfolio returns should be evaluated as a whole rather than on the success or failure of any single investment. Optimal portfolios can then be mathematically constructed to maximize return for a given level of risk by combining an uncorrelated portfolio of assets. Changing market environments will affect how each asset behaves, and each asset class will react differently. For example, while one asset rises in value, others may simultaneously decrease. This offsetting pattern (or correlation) of returns that exists between securities is the engine that drives risk-reduction within a portfolio. Study after study has confirmed that adding more securities to your portfolio (that are not perfectly correlated) reduces the impact of any one investment, thereby decreasing the overall portfolio's standard deviation, or risk.

Willow Creek believes a well-diversified portfolio is the most reliable way to capture the long-term expected returns associated with global market asset classes. Table I below clearly illustrates that adding uncorrelated securities to a blended portfolio has historically diminished risk without sacrificing much return.

Table I



Past performance is not a guarantee of future results
*Blended portfolio allocation = 20% T-bills, 20% Long-term Government Bonds, 20% international stocks, 20% S&P 500, and 20% U.S. Small Company Stocks
Source: DFA 2.0 Returns Software

Although certain investment risks can be diversified away, there is an additional risk affecting security returns that is non-diversifiable called systematic, or market, risk. The rise and fall of markets is unpredictable, creating market risk in every equity investment strategy. Each asset class has varying levels of volatility and overall portfolio return will generally depend upon how much market risk is accepted within the portfolio's asset allocation. A number of empirical studies have proven ***asset allocation*** or asset class selection – choice of riskier assets (e.g. stocks) vs. less risky assets (e.g. bonds or cash equivalents), for instance – is what matters most in determining the risk and return of a portfolio.

While stocks have historically outperformed other asset classes, very few investors demonstrate the ability to handle the risk and volatility of an all stock portfolio. Willow Creek Advisors work extensively with each client to establish a portfolio mix that meets their individual risk/reward profile. This is accomplished through strategic asset allocation, which divides the client portfolio among asset classes after a careful assessment of financial goals, short and long-term cash flow needs, investment time horizon, and tolerance for market volatility. Based on sound academic research, Willow Creek is able to estimate the portfolio volatility of different combinations of asset classes to find the optimal portfolio strategy best suited to the individual client.

Stock, Size and Value Premiums

While diversification is necessary to minimize unnecessary risks, another key function of successful asset management includes capturing the highest expected return, given a specific level of risk. Financial science constantly studies which sources of long-term investment returns consistently compensate investors for the additional risk assumed. Academics Eugene Fama and Kenneth French identified three risk dimensions, known as the *Fama/French Three-factor Model*, that have historically led to market out-performance.

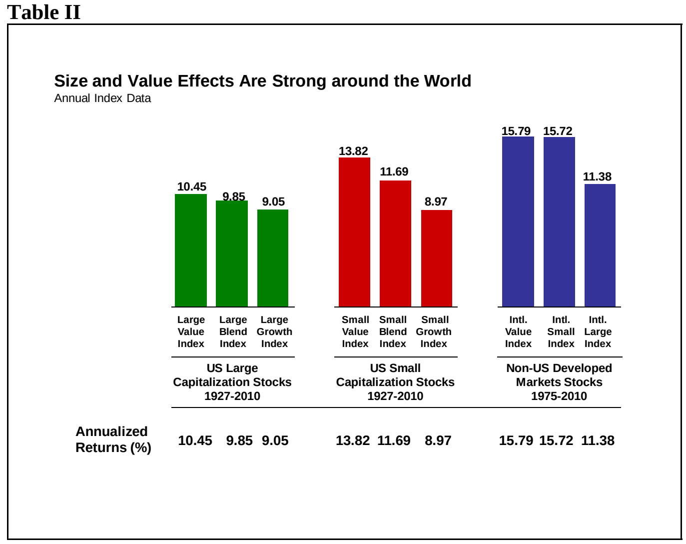
Three Equity Factors:

1.) Market: Stocks have higher expected returns than fixed income
2.) Size: Small company stocks have higher expected returns than large company stocks
3.) Price: Lower-priced "value" stocks have higher expected returns than higher-priced "growth" stocks

The first factor states that stocks are riskier than bonds and have greater expected returns. The underlying performance of stocks is driven by the other two factors: small vs. large companies and value vs. growth stocks. The size of a company influences its expected return, with smaller companies offering higher expected returns coupled with higher risk. The small cap (or size) return premium is defined as the difference between the average returns of small company stocks and large company stocks (or small minus large).

The third dimension of the *Fama/French Three-factor Model* demonstrates that "value" (or discounted) stocks that are currently "out of favor" in the market have higher rate of return expectations than "growth" stocks, those that are currently "in favor". Numerous academic studies illustrate that value stocks (or stocks trading at low multiples of their book value per share) have historically offered higher returns. The value return premium is defined as value stock returns minus growth stock returns. Table II illustrates the historical advantage of value vs. growth stocks and small company vs. large company stocks in domestic and international markets.

Table II



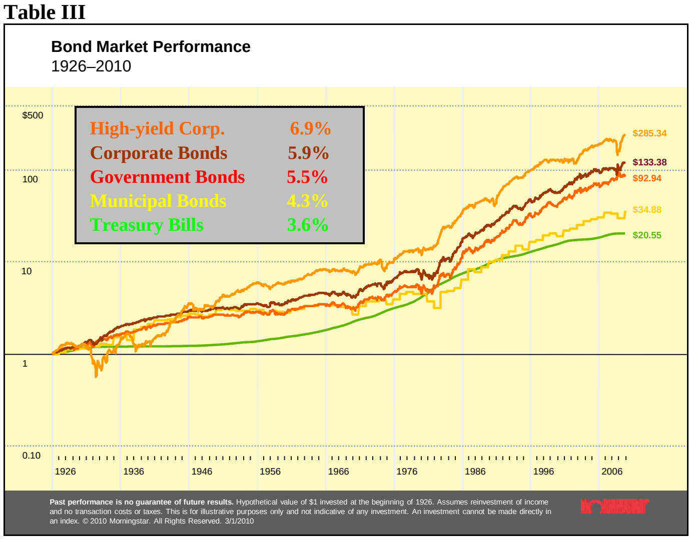
Past performance is not a guarantee of future results

While past performance of any asset class is not a guaranteed predictor of future returns, Willow Creek believes the risk/return factors associated with the *Fama/French Three-factor Model* will continue in the long run. Therefore, simply tilting the equity allocation of the portfolio to include more small company and value stocks allows the investor to take advantage of the historical return premiums. Since the early 1990's, Willow Creek has been recommending institutional mutual funds from Dimensional Fund Advisors (www.dfaus.com), an investment firm which pioneered the advantages of passively-managed, small company and value investing.

Bonds

Investors typically look to the fixed income portion of their portfolio to provide stability and to balance the risk of equities and other investments. Historically, bonds have demonstrated less volatility (i.e. risk) than stocks and have provided investors with moderate growth. Additionally, bonds are a source for income and short-term cash flow needs. Bonds have provided relatively stable returns over the past 83 years. Table III illustrates the hypothetical growth of $1 in bonds from January 1, 1926 through December 31, 2010.

Table III



In accordance with their higher risk of default, high-yield and corporate bonds outperformed government bonds and Treasury Bills. Historically, however, bonds have not proved to be the best investment vehicles for long-term growth. Nevertheless, there have been short periods of time when bonds have significantly outperformed stocks, such as the mid-1970s recession and the early 2000s bear market. For this reason, bonds provide excellent diversification benefits.

Willow Creek engineers low-cost, low risk bond strategies in order to temper portfolio volatility, balance the equity risk and achieve solid after-tax real returns. Costs typically consume a higher percentage of gross returns for fixed income investments than for equity investments but unlike some investment managers, Willow Creek's low-cost, tax-efficient strategies do not need to take the additional risks of investing in lower credit quality bonds, longer-term bonds, or high-yielding, higher-risk securities in order to enhance returns. Willow Creek emphasizes investments in short to intermediate-term high quality bonds that tend to have less risk and lower correlation with stocks than do long-term bonds. To help further minimize credit, liquidity, and reinvestment risk within a portfolio, WCFS diversifies bond holdings across various bonds, bond types, and maturities.

Investment Costs

While future returns to any individual investment or asset class cannot be controlled, investors *can* exert control over the degree to which those returns are reduced by ongoing fees and expenses. Management fees, trading commissions, market impact costs, bid/ask spreads, administrative expenses and sales commissions directly reduce investment returns. Therefore, all else being equal, investments with low ongoing expense ratios should be favored over investments with higher expenses.

A guiding principle of the Willow Creek discipline is keeping investment expenses transparent, straightforward, competitive and low, which proportionately increases net returns. Willow Creek maintains low portfolio management fees and utilizes low-cost, institutional investment vehicles in client portfolios that, in most cases, are not directly available to retail investors. Table IV illustrates the institutional fund expense ratio utilized in Willow Creek portfolios versus the average expense ratio for all mutual funds in each specific asset class.

Table IV

Morningstar Asset Class Category	Institutional Fund Expense Ratio	Morningstar Category Average Expense Ratio
U.S. Large Cap Stocks	0.22%	1.29%
U.S. Small Cap Stocks	0.41%	1.48%
International Large Cap Stocks	0.46%	1.46%
International Emerging Market Stocks	0.67%	1.72%
Bonds	0.16%	1.02%
60% Equity/40% Bonds Portfolio Average	**0.29%**	1.28%

* Portfolio is 20% U.S. Large Cap, 20% U.S. Small, 15% International Large, 5% International Emerging Markets and 40% Bonds

> **"After costs, the return on the average actively managed dollar will be less than the return on the average passively managed dollar for any time period."**
> ***William F. Sharpe, Nobel Laureate in Economics,1990***

Portfolio Rebalancing: *"Buy-low, Sell-high"*

Over time, some assets in a portfolio will do better than others. As this occurs, the asset classes within the portfolio drift away from their target allocations, thereby altering the risk level of the portfolio. To rebalance a portfolio to its original composition, some of the better performing assets must be sold with the proceeds used to purchase underperforming assets.

Portfolio rebalancing provides two benefits. Preserving the portfolio risk level is the first benefit and the second is maintaining a disciplined "buy-low, sell-high" strategy. Assuming asset classes revert to their mean, portfolio rebalancing essentially forces investors to buy low and sell high. The discipline and patience required for this process cannot be underestimated because of the emotional difficulty experienced by investors in selling investments that have performed well and buying assets that have been declining in value. A disciplined rebalancing strategy with defined trading rules eliminates emotion from trading.

Willow Creek has always believed in the importance of portfolio rebalancing. Willow Creek's proprietary rebalancing strategy takes a proactive and innovative rebalancing approach: *Look often to find the best buy-low/sell-high opportunities but only rebalance when allocations stray outside of a set criterion.* Other rebalancing strategies do not take full advantage of market movements. If investors only check quarterly, or annually, they are simply choosing an arbitrary date and cannot expect to benefit from the best buy-low/sell-high opportunities. For example, annual rebalancing may have missed sporadic buy-low/sell-high opportunities associated with events like the 1987 stock market crash, the technology bubble in the late 1990's, the terrorist attacks on the U.S. in September 2001, and the 2008 financial crisis. These events are unpredictable, and dips or surges in the market may only last a short while so one needs to review accounts on a regular basis. ***Rebalancing, if pursued systematically and without emotion, is one of the best ways to reinforce the concept of buying low and selling high.***

Tax Management

Willow Creek places a strong emphasis on after-tax total return through our ongoing portfolio tax management program, which focuses on the following:

- Capital gains management and Tax loss harvesting – Tax minimization strategies
- Efficient asset location – Taxable vs. tax-deferred vs. tax-free accounts
- Effective use of municipal and government bonds
- Implementation of tax saving strategies including charitable giving
- Use of tax-efficient passively managed funds with low portfolio turnover
- Tax planning and coordination with the client's CPA or accountant

The Investor Experience

Willow Creek places as much importance on striving to ensure clients have an excellent investment experience as on exceptional portfolio management. This means more than just a high rate of return or helping investors meet or exceed their financial goals. Trust and communication are the foundation of a successful investment experience for Willow Creek clients. As a Registered Investment Advisor regulated by the U.S. Securities and Exchange Commission, Willow Creek is a **fiduciary**, which means "working exclusively for the client and putting the clients' interests first" in all aspects of portfolio management. Embracing this fiduciary responsibility helps minimize (or eliminate) client anxiety when considering investment options.

An important aspect of building trust is meeting and defining expectations in the portfolio management process. Willow Creek Advisors set clear expectations for the investor with a customized Investment Policy Statement (IPS). In order to avoid client surprises, the IPS outlines the portfolio's short and long-term risk/return objectives and defines the investment parameters and strategy before any actual investments are made. Furthermore, the IPS combined with Willow Creek's investment discipline helps investors avoid making emotional mistakes (like trying to time the market). This is particularly important when the market is volatile and portfolios may be suffering losses. Willow Creek continuously addresses such short-term concerns through educational meetings and the financial planning process, which helps shift the focus to the achievement of long-term financial goals.

A successful client investment experience is comprised of the following key elements:

- Trust and communication between Willow Creek and the client
- Clearly defined investment portfolios and expectations of risk and return
- Minimization or elimination of client anxiety in the investment process
- Timely and thoughtful consideration of client concerns and questions
- Clear and accurate account statements
- Investment management discipline

Conclusion

Managing structured portfolios for long-term success is Willow Creek's ultimate goal for its clients. Diversification, coupled with a disciplined investment approach based on Nobel Prize winning academic theory, is the foundation of the firm's investment management philosophy. Willow Creek enhances long-term portfolio wealth steadily without taking unnecessary risks, while applying an intelligent, consistent approach to asset management.

WILLOW CREEK
Financial Services

A WEALTH MANAGEMENT FIRM

FINANCIAL PLANNING
INVESTMENT MANAGEMENT
RETIREMENT PLANNING
PHILANTHROPIC/CHARITABLE GIVING
TAX PLANNING

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