Creating Your Investment Policy Statement

The purpose of this call...	The purpose of this ***investor education training*** is to help you make higher quality investment decisions in the emerging ***“Crowdfunding Capital Markets.”*** On this call, we’ll limit the discussion to any and all investment opportunities using the *Regulation Crowdfunding* (Reg-CF) and Regulation A Tier II (Reg-A+) exemption as outlined within the JOBS Act of 2012, to raise capital. In this effort, this workbook is designed as a step-by-step, “fill in the blank” form you should use to perform basic due diligence on any opportunity you’re considering.
Who is this training for?	This call is designed for anyone who wants to learn more about investing in private market deals. It doesn’t matter if you’re a Wall Street Insider or you’re brand new to investing, this training is for you. Regardless of your prior investing experience, we’ll assume you are brand new to the ***Crowdfunding Capital Markets***. The **Crowdfunding Capital Markets** operate by a different set of rules than the ***Public Capital Markets***. With this in mind, the process you’re about to learn will help you invest in alignment with the current rules and regulations set by the Securities and Exchange Commission (SEC). As always, all investing activity carries some sort of risk. ***“Early Stage Companies”*** and ***“Emerging Growth Companies”*** should

	be considered high risk and speculative in nature. Please do not invest with funds you cannot afford to lose.
Goal of Today's Call	Give you a step by step framework for investing into private market deals. Why? Historically speaking, the private markets are where the majority of wealth has been created for individual investors (real estate and small business ownership). But most investors lack the knowledge – and skills – for creating real economic freedom in the private markets… 
What is the Mega Trend?	Once upon a time, regular people had job security and pension plans. This meant the whole problem of "saving for retirement" was taken care of. All they had to do was work for 20, 30, 40 years for one employer, and then eventually, that employer would take care of them. As a strange result of this, it meant working class people had plenty of money to throw into the stock market.

	Back in the 1950's MOST of the people investing in the public markets were individual investors. (92%) Today, less than 20% of all investments are owned by individual investors. Why? **The Quest For Greater Returns** Money has been flowing out of the public markets – and into the private markets – for decades. Yields have been collapsing
Opportunity	For the world's largest institutions, the answer they've turned to is the private markets. More and more of their money There's never been a better time in history to start investing in private market deals.
Problem	Investing in the Private Markets is harder than investing in the public markets. Getting access to the right opportunities is challenging. Getting access to capital can be difficult. Performing due diligence can be time consuming, complex, and expensive. **And finding knowledgeable, qualified, and trustworthy experts who can help you out is a real problem.**

	Banks have no real interest in teaching you – their "unsophisticated" customers – how to get access to their best deals. They'd rather collect your cash, give you a pitiful yield, and lend your money to other people for a huge mark up. Most financial advisors get paid from an assets under management model (AUM) or a commission based model. ***In practice, it means they have a large conflict of interest when it comes to giving you investment advice;*** *they will tell you to do things like "invest for the long haul" and "stay fully invested" because it generates fees for them.* The so-called "Guru" crowd is full of scammers and charlatans who've built multi-billion-dollar businesses peddling "Get Rich Quick" trading strategies and "Can't Lose" investment opportunities. But these people don't have any skin in the game or otherwise have accountability for what they say. You want to learn how to manage your own investments, grow your wealth, and have the kind of financial means that gives you the freedom to enjoy your life… But it seems like the only people getting richer from your investing activity are other people… You're here because you want to fix that problem, once and for all.
Catalyst	But the clock is ticking…

	You need to start making changes right now to the way you're earning, saving, and investing if you're ever going to have a chance at reaching your goals. And no matter what the "experts" tell you about the stock market… When you look at where they are putting their money, it's not where they're telling you to put yours… Instead, they're doing private market deals. So, why not cut out the middleman and invest in those deals yourself? But if you're planning on investing in the private markets, you need a more disciplined approach to investing. Investments are illiquid; if you make a "bad investment," there's no easy, fast, and simple way to sell your position and cash out. The "Stupid Tax" – the cost of not knowing what you're doing – is much higher.
Mechanism	In a world dominated by institutional investors, if you want to play this game, you need to treat investing like a real business. This means having a proven, durable, and scalable process for deploying capital into sound investments, based on your personal goals… not a random "benchmark!"
What kind of results should I expect?	By federal law, we cannot legally promise (or otherwise guarantee) that you will make any money using this workbook. Nor can we guarantee you will avoid poorly-performing investments.

	That being said, if you don't currently have a well-defined ***investment policy statement*** – and due diligence process – like the one described in this call, you'll almost certainly benefit by implementing what you learn today.
Additional Resources	• Equifund Investment Policy Statement Generator • Equifund Basic Due Diligence Tool
Disclaimers	
Before we begin...	Nothing in this training should be considered as professional advice or individualized advice. Please consult your financial professionals before making any investment. All investments carry some sort of risk. Regulation Crowdfunding should be considered a risky asset class with a high rate of failure. Please don't risk any capital you need immediate access to, or otherwise cannot afford to lose.
Considerations	Before investing in the private markets, it's useful to understand how the IRS rules and regulations could impact your returns. According to "Topic No. 409 Capital Gains and Losses" on IRS.gov… Almost everything you own and use for personal or investment purposes is a capital asset. Examples include a home, personal-use items like household furnishings, and stocks or bonds held as investments.

When you sell a capital asset, the difference between the adjusted basis in the asset and the amount you realized from the sale is a capital gain or a capital loss.

Generally, an asset's basis is its cost to the owner, but if you received the asset as a gift or inheritance, refer to Topic No. 703 for information about your basis.

Short-Term or Long-Term

To correctly arrive at your net capital gain or loss, capital gains and losses are classified as long-term or short-term.

Generally, if you hold the asset for more than one year before you dispose of it, your capital gain or loss is long-term. If you hold it one year or less, your capital gain or loss is short-term.

For exceptions to this rule, such as property acquired by gift, property acquired from a decedent, or patent property, refer to Publication 544, Sales and Other Dispositions of Assets; or for commodity futures, see Publication 550, Investment Income and Expenses

As always, please consult your tax advisor or other financial professionals for individual guidance regarding your individual situation. We here at Equifund are not tax professionals, nor do we play one on television.

However, it is commonly accepted that reducing tax liability can materially impact your potential return on investment.

Basic Financial Fitness	Can you maintain your current lifestyle for at least the next six (6) months based only on...
	
	#1) Your current ***Cash*** and ***Cash Equivalents***
	
	• ***Cash and cash equivalents help [companies/investors] with their working capital needs since these liquid assets are used to pay off current liabilities, which are short-term debts and bills***
	    ○ Cash equivalents should be highly liquid and easily sold on the market. The buyers of these investments should be easily accessible.
	
	• **Demand Deposit Accounts (checking/savings);** funds can be withdrawn at any time (bills, coins, and currency notes)
	
	• **Investments that can readily be converted into cash;** The investment must be short term, usually with a maximum investment duration of three months or less. (aka “Marketable Securities”)
	    ○ ***Certificates of deposit (CDs)*** may be considered a cash equivalent depending on the maturity date.
	    ○ ***Preferred shares of equity*** may be considered a cash equivalent if they are purchased shortly before the redemption date and not expected to experience material fluctuation in value.
	
	#2) Passive Investment Income
	
	• According to the IRS There are two kinds of passive activities.

	○ Trade or business activities in which you don't materially participate during the year. ○ Rental activities, even if you do materially participate in them, unless you're a real estate professional. ● **Participation as an investor.** You don't treat the work you do in your capacity as an investor in an activity as participation unless you're directly involved in the day-to-day management or operations of the activity. Work you do as an investor includes: ○ Studying and reviewing financial statements or reports on operations of the activity, ○ Preparing or compiling summaries or analyses of the finances or operations of the activity for your own use, and ○ Monitoring the finances or operations of the activity in a nonmanagerial capacity. ❑ **If "NO":** Reconsider if making any investments into ***Crowdfunding Capital Markets*** makes sense for your personal financial situation. ❑ **If "YES:** Proceed to the next step
Key Concepts, Terms, and Definitions	
What are institutional Investors?	According to former SEC Commissioner Luis A. Aguilar… ***The proportion of U.S. public equities managed by institutions has risen steadily over the past six decades, from about 7 or 8% of market capitalization in 1950, to about 67 % in 2010.***

The shift has come as more American families participate in the capital markets through pooled-investment vehicles, such as mutual funds and exchange traded funds (ETFs).

The growth in assets managed by institutions has also affected, and been affected by, the significant changes in market structure and trading technologies over the past few decades, including the development of the national market system, the proliferation of trading venues — including both dark pools and electronic trading platforms — and the advent of algorithmic and high-speed trading.

These changes — largely driven by the trading of institutional investors — have resulted in huge increases in trading volumes. For example, in 1990, the average daily volume on the NYSE was 162 million shares. Today, just 23 years later, that average daily volume is approximately 2.6 billion shares — an increase of about 1,600%.

Simply stated, institutional investors are dominant market players, but it is difficult to fit them into any particular category. This poses a challenge for regulators, who must take into account all the many different ways institutional investors operate, and interact, with the capital markets.

In doing all this, institutional investors — like all investors — depend on the assurance of a level playing field, access to complete and reliable information, and the ability to exercise their rights as shareowners. That is why fair and intelligent regulation is necessary for the proper functioning of our capital markets.

With that in mind, I would like to discuss two specific regulatory issues of particular interest to institutional investors:

- First, the importance of reliable information to investors, and some troubling efforts to scale back disclosures and reduce transparency; and
- Second, the need for institutional investors to be heard on corporate governance issues, especially on executive compensation.

The Importance of Reliable Information — How the JOBS Act Affects Institutional Investors

As you well know, disclosure is the foundation of our federal securities laws. Fair and accurate disclosure has been the central goal of U.S. securities laws for 80 years. This goal is so fundamental to our understanding of securities regulation that the benefits of transparency might almost be taken for granted.

A recent academic paper demonstrates the value of public disclosure in a compelling way. This paper found that newly public companies with the highest levels of institutional investment significantly outperformed those with the lowest levels.

According to the study, institutional investors were not appreciably better than individual investors at picking big winners, but they were much better at avoiding the worst-performing investments.

<table>
<tr><td></td><td>
The interesting thing is how they did it: The authors found little evidence that institutions were able to exploit private information to improve investment returns. Nor did the evidence of that particular study suggest that institutions were able to improve the performance of companies they invest in through active monitoring.
Instead, it seems that these institutional investors succeeded by making better use of the available public information — focusing on fundamentals like operating history, prior earnings, size, and liquidity.
This is a significant observation for securities regulators and lawmakers. If investors improve performance by focusing on a company's publicly available information, then preserving access to such information is critically important, for both investor protection and capital formation.
</td></tr>
<tr><td>Two Types of Investors</td><td>
<h3 align="center">The Ameteur Investor</h3>
Primary Motivation: Short Term Gains

For the ameteur, the defining "reason why" they invest in deals is because they are emotional, focused on "Get rich quick," and have no due diligence process
Are often fooled by fake scarcity (i.e. you'll never see a deal like this ever again)
Is willing to think in terms of days, weeks, and months.
Speculation based (Entertainment)
"When speculation becomes gambling, it then becomes addiction"

</td></tr>
</table>

	Investment Style: Reactive
	
	• Deals show up randomly and you are evaluating them on a 1:1 basis
	    ○ "Should I invest in [Bitcoin]?"
	
	Investment Process: None
	
	• Relies on "hot tips" or "advice" from unqualified sources
	• Dependent on a primary advisor
	
	Risk Profile: High
	
	• "How hard could it be?"
	    ○ Believes it's easy, simple, fast, safe, nearly guaranteed
	• "What was I thinking?"
	    ○ Was not thinking at all
	    ○ Because there is no process, there is no ability to use failure as feedback.

	The Professional Investor **Primary Motivation: Long Term Goals** • For the professional, the defining "reason why" they invest is because it fits the investors long term goals. ○ Is willing to think in terms of 3 years, 5 years, and 10+ year time horizons • Even if the strategy they use produces short term gains, they are committed to the strategy on a longer term basis

	Investment Style: Proactive
	
	● Deals show up on purpose and you are evaluation them on a 1:Many basis
	    ○ “Does this opportunity fit my Investment Policy Statement?”
	
	Investment Process: Institutionalized
	
	● All investment opportunities go through a repeatable and durable process
	
	Risk Profile: Variable
	
	● “How hard could it be?”
	    ○ Understands it’s very hard to get a competitive advantage, and looks for opportunities where s/he has superior knowledge or information.
	
	● “What was I thinking?”
	    ○ Has a written down explanation as to why the investment was made.
	    ○ In the event of any future problems or gain, this can be referred to when deciding what to liquidate or exit.

Core Topic	
What is an Investment Policy Statement?	Investment Policy Statement (IPS) An investment policy statement (IPS) is a document drafted between a portfolio manager and a client that outlines general rules for the manager. This statement provides the general investment

goals and objectives of a client and describes the strategies that the manager should employ to meet these objectives. Specific information on matters such as asset allocation, risk tolerance, and liquidity requirements are included in an investment policy statement.

Breaking Down Investment Policy Statement (IPS)

Investment policy statements are frequently — though not always — used by investment advisors and financial advisors to document an investment plan with a client. It provides guidance for informed decision-making and serves as both a roadmap to successful investing and a bulwark against potential mistakes or misdeeds. A well-devised IPS that contains only actionable provisions that are intended to be followed can help advisors "talk down" clients who want to drastically (and potentially harmfully) change direction with their portfolio when markets start to falter.

Investment Policy Statement Features

In addition to specifying the investor's goals, priorities and investment preferences, a well-conceived IPS establishes a systematic review process that enables the investor to stay focused on the long-term objectives, even as the market gyrates wildly in the short term. It should contain all current account information, current allocation, how much has been accumulated and how much is currently being invested in various accounts.

An IPS lists the investor’s investment objectives, along with his time horizon. Special attention should be given to describing the investor's risk/return profile, including naming asset classes that should be avoided as well as naming preferred asset classes. For example, an individual may have an IPS stating that by the time he

	is 60 years old, his job will become optional, and his investments will annually return $65,000 in today's dollars given a certain rate of inflation. This would be only one of many points included in an IPS. **Investment Policy Statement in Use** A well-conceived IPS includes a breakdown of asset allocation targets as well. For instance, it specifies the target allocation between stocks and bonds, further breaking down the target allocation into sub-asset classes, such as global securities by region. The targets should then have a minimum and maximum deviation that, when exceeded, will trigger portfolio rebalancing. The IPS should include monitoring and control procedures to be followed by everyone involved in the investment process. This includes establishing the frequency of monitoring, specifying benchmarks for comparison of portfolio returns and concrete procedures for making any future changes to the IPS. Serious investors think through the possible reasons for changing their IPS, such as financial or lifestyle changes. More important, they specify the reasons not to change their IPS (i.e., short-term market performance). Developing a solid investment policy statement is not a typical exercise for most investors. It requires a lot of thought. It also requires an understanding of how the market works as well as familiarity with investment principles and practices.
Regulations	**Regulations** There are two levels of legal and regulatory oversight: the legal requirements for clients who are fiduciaries or trustees for an

account, and the regulations applicable to an advisor's practice. It is important to understand the requirements for each.

What is a fiduciary?

A fiduciary is a person who holds a legal or ethical relationship of trust with one or more other parties (person or group of persons). Typically, a fiduciary prudently takes care of money or other assets for another person.

One party, for example, a corporate trust company or the trust department of a bank, acts in a fiduciary capacity to another party, who, for example, has entrusted funds to the fiduciary for safekeeping or investment.

Likewise, financial advisers, financial planners, and asset managers, including managers of pension plans, endowments, and other tax-exempt assets, are considered fiduciaries under applicable statutes and laws.

In a fiduciary relationship, one person, in a position of vulnerability, justifiably vests confidence, good faith, reliance, and trust in another whose aid, advice, or protection is sought in some matter.

In such a relation good conscience requires the fiduciary to act at all times for the sole benefit and interest of the one who trusts.

What is a trustee?

Trustee (or the holding of a trusteeship) is a legal term which, in its broadest sense, is a synonym for anyone in a position of trust and so can refer to any person who holds property, authority, or a position of trust or responsibility to transfer the title of ownership to

	the person named as the new owner, in a trust instrument, called a beneficiary. A trustee can also refer to a person who is allowed to do certain tasks but not able to gain income, although that is untrue. Although in the strictest sense of the term a trustee is the holder of property on behalf of a beneficiary,the more expansive sense encompasses persons who serve, for example, on the board of trustees of an institution that operates for a charity, for the benefit of the general public, or a person in the local government.
Who uses an investment policy statement?	**An investment policy is required under virtually all investor circumstances, with the exception of individual investors.** **ERISA** According to the US Employee Retirement Income Security Act of 1974, as amended (ERISA), for every qualified company retirement plan (e.g., 401[k], profit sharing, pension, 403[b]) there are certain fiduciary responsibilities for managing the plan assets with the care, skill, prudence and diligence of a prudent expert and by diversifying the investments of the plan so as to minimize the risk of large losses. The IPS documents these fiduciary responsibilities and ensures fiduciaries are adhering to these responsibilities. When auditing an ERISA plan, the U.S. Department of Labor regularly asks to review the associated IPS. This is due to ERISA regulations requiring that employee benefit plans are managed to

ensure that investment firms meet their financial responsibility to the employees covered by such plans

Under ERISA, all qualified plan trustees have a special responsibility to "prudently" manage their plan assets for the sole benefit of the plan participants. ERISA and the Department of Labor have established the following prudent procedures for plan trustees:

- An investment policy must be established
- Plan assets must be diversified
- Investment decisions must be made with the skill and care of a prudent expert
- Prohibited transactions must be avoided

A properly written IPS should help ensure compliance with these required procedures. The IPS sets forth the objectives, restrictions, funding requirements and general investment structure for the management of the plan's assets, and provides the basis for evaluating the plan's investment results.

By establishing the criteria and procedures for selecting investments and investment managers, an IPS can minimize "Monday morning quarterbacking" if investment performance is disappointing.

An IPS also can help trustees communicate a plan's investment guidelines and procedures to those assisting in the investment process, such as investment advisors or money managers. Finally, and most importantly, an IPS provides a guide for making future investment decisions. Having and using the policy statement compels the trustees to be more disciplined and systematic, which in itself should improve the odds of meeting the investment goals.

UPIA and other legislation

The US Uniform Prudent Investor Act (UPIA) is state-adopted legislation that governs the investment conduct of private family trusts. First enacted in 1994, it serves as the hallmark of subsequent legislation (as well as how the courts now interpret such requirements relating to ERISA).

UPIA requires a written investment policy for every trust in which trustees manage assets for the benefit of others. UPIA formally requires a focus on the total portfolio, rather than following its earlier regulatory guidance that individual investments should be evaluated independent of whether or not they were appropriate for portfolio inclusion.

The total portfolio is now the fiduciary's central consideration when judging the trade off between risk and return. There are no more restrictions on the types of investments that can be included in the portfolio; the trustee can invest in anything that helps achieve the risk/return objectives of the trust and that meets the other requirements of prudent investing.

UPIA specifies that diversification is part of the definition of prudent investing. It also makes clear that if appropriate investment processes are in place and followed, the trustees will not be held responsible for the results. Under UPIA, the delegation of investment and management functions is permitted and encouraged. Establishing and maintaining an IPS facilitates such delegation.

	Government and institutional funds The following two acts are substantially similar to UPIA; both require a written IPS. • The 1997 Uniform Management Public Employee Retirement Systems Act. Addresses trustee responsibilities of government-sponsored qualified employee benefit plans • The 2006 Uniform Prudent Management of Institutional Funds Act. Addresses the responsibilities of trustees of nonprofit monies (primarily foundations and endowments)
	IPS and the investment process The investment process can be seen as occurring in six steps, as described below. Many experts believe that the creation of the IPS is the single most important step in this process.[6] All the other steps either lead into the IPS, or are directed by the IPS. 1. **Initial discovery:** The initial discussions and sharing of documents that allows both the client and the advisor to learn about one another. On the one hand, this might include learning about the client's circumstances, goals, income needs, restrictions, current holdings, risk tolerance, etc. The client should also attempt to learn as much as possible about the investment manager's investment philosophy, practices and procedures.

2. **Discussion and agreement:** All the issues related to what is to happen between client and advisor should be placed on the table. Where there are questions or a lack of clarity exists, further discussion may be needed. Eventually the client and advisors need to come to agreement on issues such as the degree of client involvement, the asset allocation to be used, the kinds of instruments to be utilized (or not), how tax considerations will be treated, investment goals, needs for liquidity or income, investment restrictions, investment methodology, and responsibilities of each party to the other.

3. **Creating the IPS:** Once the agreements have been reached on the full list of issues and policies to be followed, they need to be recorded. This document will become the IPS. The client(s) and the advisor sign the document, signifying each party's acknowledgment of the agreements.

4. **Investment implementation:** Until there is agreement between the advisor and client about the policies to be followed, no investment trades can responsibly happen. Once the IPS has been signed by all parties, the initial and ongoing trades can be implemented according to the road map provided by the IPS.

5. **Ongoing communication:** Meetings, reports and other communications will occur between advisor and client, generally as suggested in the IPS.

6. Monitoring and adjustment: Rarely does a portfolio stay as originally structured. The IPS should describe how the portfolio will be monitored for poor performers, how good performers will be identified, how (and if) re balancing and tax loss harvesting opportunities will be implemented, and it should address any other ways in which the investment

manager will try to ensure that the portfolio will stay in line with the objectives set forth in the IPS.

Clients and their needs change over time. It is therefore important that the advisor periodically return to the first step "discovery" to make sure the client's then-current needs and wishes are being addressed. Every year or two, the IPS should be reviewed by the client and the advisor to ensure continued agreement with its provisions.

Required components

Nothing should be included in the IPS to which the advisor or client cannot commit and be sure will be implemented.

An IPS usually has five major components that should be unique to each client.

1. All key factual data about the client, including where the client's assets are held, the amount of their assets under the management of portfolio manager, and the identification of the trustees or interested parties to the account. This can be as detailed or as simple as desired.

2. A discussion and review of the client's investment objectives, investment time horizon, anticipated withdrawals or deposits, need for reserves or liquidity, and attitudes regarding tolerance for risk and volatility.

3. Any constraints and restrictions on the assets, such as liquidity and marketability requirements, diversification concentrations, the advisor's investment strategy (including tax management), locations of assets by account type

	(taxable versus tax-deferred), how client accounts that are not being managed (if any) will be handled, and any transaction prohibitions. 4. The security types and asset classes to be included in or excluded from the portfolio, and the basic allocation among asset categories and the variance (rebalancing) limits for this allocation. 5. The monitoring and control procedures and responsibilities of each party. **The IPS and the advisor–client relationship[edit]** The IPS development process lays the foundation for a successful relationship between advisors and clients. An important benefit of utilizing and IPS in clarifying needs, procedures and expectations is that clients have a better understanding of what the advisor is going to do with their money, and of their advisor's approach. Clients have an opportunity to understand the reasons why each action is to be taken. As a result, clients tend to have more confidence in the advisor's abilities. Having that increased level of understanding and confidence becomes important when markets go through a down period. The IPS establishes investment guidelines and a framework for long-term investment thinking and can help calm nerves when things are particularly volatile.
Thoughts on Portfolio Building	Generally speaking, the commonly accepted wisdom about investing is to build a diversified portfolio of investments as a way to reduce risk and improve overall returns.

	There are lots of ways to think about building a portfolio, but generally speaking, a portfolio is constructed with a specific goal in mind, relative to all other investments you currently own.
Tech Tool Demo	• Equifund Investment Policy Statement Generator
Q&A	