

Bristol Wealth Group
Presentation to SMHG's Board of Directors
September 17, 2020

Bristol Wealth Group (BWG), a 50/50 joint venture of Louis Ricciardi and Bristol County Savings Bank, is headquartered in Taunton, Massachusetts. We employ Raymond James Financial Services Advisors, Inc. as our broker/dealer. Please see attached publication *Discovering Raymond James*. Raymond James provides back office services such as trading access to stock exchanges and bond dealers, custody of assets, assistance with regulatory compliance, statement generation, online account access, and cybersecurity.

All financial planning and investment management decisions are made locally by BWG's investment advisors. BWG chooses and subscribes to its own security research providers. Our internal Investment Committee maintains an approved securities list. The Committee reviews research reports, discusses each position, and votes whether to add or remove a security from the list.

Our responses to SMHG's *Presentation Guidelines* are labeled and elaborated below.

Item 2a. Applicable State Laws and Regulations

BWG understands SMHG Trustees' obligation to comply with Massachusetts General Law Title IV, Chapter 32B, Section 20 regarding other post-employment benefit (OPEB) liability trust funds. This law compels SMHG to act in a fiduciary capacity to discharge its duties for the primary purpose of enhancing the value of the OPEB fund. BWG has experience managing such funds. Two of the references we submitted along with our Statement of Interest have OPEB accounts with us: The Town of North Attleborough and Southeastern Regional Planning & Economic Development District (SRPEDD). These clients have been pleased with our services, and we believe they will corroborate that assessment when you inquire.

BWG observes all provisions of the Massachusetts Uniform Securities Act as codified in M.G.L. Part I, Title XV, Chapter 110A. The firm and all of its investment advisors are properly registered with the Commonwealth of Massachusetts. All state registrations are renewed annually. BWG is subject to oversight by the Massachusetts Securities Division of the Secretary of the Commonwealth as well as by the Securities and Exchange Commission and the Financial Industry Regulatory Authority (FINRA). Our federal and state regulatory filings and registrations can be examined by visiting FINRA's BrokerCheck website at <https://brokercheck.finra.org>. Please query the respective Central Registration Depository (CRD) numbers as follows: Louis Ricciardi, CEO, CRD# 1010465; Carl Begin, CIO, CRD# 3048768; Dean Larabee, COO, CRD# 2932134. The Raymond James broker/dealer CRD number is 6694.

Raymond James Financial Services Advisors, Inc. is a federally registered investment adviser with the Securities and Exchange Commission pursuant to the Investment Advisers Act of 1940. As part of its statement of interest and in compliance with the above mentioned regulations, BWG has mailed to Treasurer Maureen Valente for further circulation its Form ADV, Part 2A Disclosure Brochure which describes our business practices and professional qualifications; Form ADV, Part 2B which provides background information specific to each of Louis Ricciardi, Carl Begin and Dean Larabee; and the Wrap Fee Program Brochure which describes fee-based account management.

BWG embraces the recently implemented Massachusetts fiduciary rule (M.G.L. Part I, Title XV, Chapter 110A, Section 204). Similarly, we comply with Securities and Exchange Commission Regulation Best Interest (BI). BWG places the client's interests ahead of its own,

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recommending only securities that are suitable for the client's goals and financial circumstances. We provide full disclosure of all compensation we receive and any potential conflicts of interest.

BWG adheres to the Massachusetts Prudent Investor Act (M.G.L. Part II, Title II, Chapter 203C) and the Uniform Prudent Management of Institutional Funds Act (UPMIFA) (M.G.L. Part I, Title XXII, Chapter 180A). We approach asset management as a fiduciary, working with you to comply with SMHG's legal obligations by implementing a modern portfolio theory-based investment strategy that continuously considers the following factors:

- SMHG's Investment Policy Statement;
- The intended duration and preservation of the fund;
- The spending goals for the fund;
- Other resources of SMHG that may affect distribution needs;
- Expected tax consequences, if any;
- General economic conditions;
- The potential impact of inflation or deflation;
- The expected total return of the fund from both income and market value appreciation; and
- The role of each security in the whole portfolio.

Item 2b. Portfolio Protections

Raymond James is a member of the Securities Investor Protection Corporation (SIPC), a non-profit entity created by federal statute in 1970. For detailed information please visit www.sipc.org. SIPC protects client assets up to \$500,000, including claims of up to \$250,000 in cash, in the event of a custodial firm's bankruptcy or insolvency. In such cases resolution is accomplished by delivery to the client of all non-negotiable securities (stocks and bonds) that are registered in the name of a client. SIPC does not cover futures, investment contracts, fixed annuities, currency and precious metals. BWG would not utilize non-covered investments in the SMHG accounts.

Raymond James possesses excess insurance purchased through Lloyds of London. This provides the firm with aggregate coverage of \$750,000,000, including a sub-limit of \$1,900,000 per individual client for cash above basic SIPC for wrongful extraction of customer funds. The Federal Deposit Insurance Corporation (FDIC) protects client cash deposits up to a limit of \$250,000. The Raymond James Bank Deposit Program gives clients access to additional banks through a network that allows up to \$3,000,000 to be FDIC insured. They do this by depositing up to \$245,000 each in interest bearing accounts in multiple FDIC-insured banks. Please see attached publications *Learning How Raymond James Protects Your Account* and *Raymond James Bank Deposit Program*.

BWG would not engage in short selling or margin trading. In fact, this could only be done if a client signed account opening documents specifically to authorize these activities. We believe both short selling and margin trading are inappropriate for SMHG. Securities in non-

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margin accounts are not loaned to other parties. Clients can and sometimes do pledge investment assets as collateral for loans, but this can only be requested by the client. Neither BWG nor Raymond James has authority to pledge client accounts.

Cybersecurity is a top priority for us. Raymond James maintains a dedicated cyberthreat center staffed by certified information security analysts. Systems are regularly tested for penetration vulnerabilities. Encryption, secure virtual private networks, antivirus monitoring and firewall technologies are employed. All advisor emails are monitored for both regulatory compliance and protection against phishing attempts and malware. Quarterly technology reviews are conducted by independent auditors. Please see the attached publication *Keeping Your Account and Personal Information Secure*. We will be happy to provide a copy of Raymond James' Statement on Standards for Attestation Engagements No. 18 (SSAE 18) report. The annual SSAE 18 is an audit report that examines the internal controls of a service organization regarding financial reporting, security, processing integrity, privacy controls, and confidentiality. We have several large tax-exempt accounts to whom we automatically send the report each year so they can incorporate it into their own audits.

BWG investment advisors work closely with clients to understand their financial goals, distribution requirements, and risk tolerances. Close relationships with clients promote mutual understanding that helps protect against venturing away from the client's risk/reward comfort range. Our biannual presentations to the SMHG Board will evidence compliance with the Investment Policy. Advisors constantly monitor accounts to ensure investments are within the client's target asset allocation. Email communications containing private data such as account numbers are encrypted. SMHG would, via corporate resolution signed by its officers, name individuals who would be authorized to initiate transactions for the accounts. Distribution and other administrative requests would be verified by a telephone call from the advisor to one or more of the authorized persons. We recommend implementing an Automated Clearing House (ACH) link to SMHG's bank account(s) to enable speedier, more secure distributions versus using paper checks.

SMHG will be able to view the status of its accounts and all activities occurring therein 24 hours a day using *Client Access*, Raymond James' secure, convenient online account access system. Among its benefits are instant availability of your financial information wherever you are and the ability to receive statements and other communications electronically. All statements and tax reporting documents are retained in *Client Access* for six (6) years. BWG retains these same reports internally for ten (10) years. There is a *Client Access* mobile app for those who like to check accounts on their smart phones.

There are no additional charges for any of the asset protections described above, nor are there any return trade-offs.

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Item 2c. Investment Policy

SMHG's *Investment Policy* is very similar those of the other organizational tax-exempt accounts we manage. BWG will not have any difficulty complying with current policy guidelines. Given the heightened scrutiny of governance practices, we recommend regular, thorough reviews of investment policy provisions and we assist our clients throughout the process.

We have a rather comprehensive investment policy sample that we will share with you when you revisit the terms of yours. Some entities have adopted our template as their own after customizing the wording. It contains some sections that you may want to add. For example, you may want to expressly enumerate forbidden activities such as the purchase of non-listed securities, futures trading, options trading, et cetera. Investment policies often set maximum portfolio percentage limits for individual securities within the stock portfolio or limit the percentage that can be devoted to international equities. More specificity regarding performance benchmark indices, volatility measures and efficiency ratios may also be worthwhile additions.

Item 2d. Portfolio Recommendations

Assuming SMHG opened a \$10 million account with BWG but voted to set aside \$3 million for a 2021 rate holiday, we would recommend creating three dedicated investment buckets: one for the rate holiday reserve, one for non-operating surplus invested in fixed income securities, and one account for the non-operating surplus equity portfolio. The rate holiday funds would be held in ultra-short maturity securities with the primary goal of preserving value until distribution. The non-operating surplus fixed income portfolio, due to its longer time horizon, would be invested in longer maturity notes and bonds with investment grade credit ratings of "A" or better. The non-operating surplus equity account would be invested in a diversified portfolio of stocks. Splitting non-operating surplus into two parts isolates the objectives of each bucket and will result in cost savings to SMHG as explained below.

If SMHG's Board votes to not have a rate holiday, then BWG will either return the reserve funds to SMHG's bank accounts, continue holding in ultrashort securities, and/or transfer to the non-operating surplus accounts whatever part of the reserve the Board decides to invest for a longer time horizon. BWG will be available for consultation at all times.

We recommend focusing on total portfolio return over time; that is, striving to achieve long-term returns from a combination of dividends, interest income and market value appreciation. Tilting too heavily toward either income or growth can result in the opportunity cost of forfeited appreciation potential or excessive performance volatility, respectively.

The table below summarizes BWG's proposed asset allocation along with a general description of security types we would use for each investment objective. We assumed implementation of a 70% bond / 30% stock allocation for the non-operating surplus. SMHG's *Investment Policy* stipulated a maximum equity weighting of 35%. The proposed 70/30 allocation will keep the portfolio within these guidelines while offering the growth potential that stocks have historically generated over the long-term.

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Investment Strategy			
Investment Objectives	Estimated \$	Time Horizon	Recommended Investments
Rate Holiday Reserve - Money Market Allocation	\$3,000,000	Less than One (1) Year: Buy Securities with Maturities Matched to the Rate Holiday Target Date	U.S. Treasury Bills, FDIC-Insured Certificates of Deposit and/or Money Market Mutual Funds
Non-Operating Surplus - Fixed Income Allocation	\$4,900,000	Medium to Long-Term: Buy Securities with Maturities of 1 to 5 Years	U.S. Treasury Notes, FDIC-Insured Certificates of Deposit, Corporate Bonds Rated "A" or Better by S&P and Moody's
Non-Operating Surplus - Equity Allocation	\$2,100,000	Medium to Long-Term: Buy Equity Securities with the Intention of Generating Long-Term Total Return from Market Value Appreciation and Dividend Yield.	Common Stocks, Exchange Traded Funds (ETFs), and/or No-Load Mutual Funds
Total	\$10,000,000		

It is a core belief of BWG that a client's stock allocation is the appropriate risk-taking venue for the sake of market value appreciation. The bond allocation, however, should be high in credit quality, offset some of the inherent volatility of stock holdings, generate current yield, and structured so that maturities are synchronized with client distribution needs.

Our Statement of Interest included a Morningstar profile of a proposed equity portfolio. Please refer to the attached *Morningstar – Proposed Stock Portfolio*. The size of the non-operating surplus equity account would be sufficiently large enough to achieve portfolio diversification using individual stocks. There may be times when we add an exchange traded fund or mutual fund for diversified sector exposure without excessive company specific risk. The holdings you see in this proposal are being used for the organizations we listed as references. Please note the current emphasis on U.S. large company stocks and long-term appreciation potential. The 3, 5- and 10-year historical beta measure of volatility (page 2) for holding these positions is no more than 0.99, just below the 1.00 beta for the Standard & Poor's 500 Index. The mean historical returns and Sharpe Ratio measure of risk/reward efficiency outperformed the benchmark index. Our stock selection is guided by valuation metrics, correlation statistics, and by our assessment of cyclical and secular changes occurring in the macroeconomic landscape.

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Of course, past performance does not guarantee future returns, but we hope this discussion conveys the logic we employ in actively managing an equity account.

The rate holiday reserve has a target date so near that it would be wise to purchase only risk-free FDIC-insured certificates of deposit or U.S. treasury bills with maturities matched to the potential distribution date.

The non-operating surplus fixed income account would have more flexibility than the rate holiday reserve. We would consult with SMHG to understand future cash flow requirements, as needed/if any, and then implement a high quality, laddered maturity bond portfolio. Historically low interest rates are likely to persist for a number of years. Sensitivity to bond portfolio duration will be of paramount importance should the rate outlook change. In our experience, and working with Raymond James’ bond trading desk, we have access to all types of fixed income offerings and solutions. Once we have a deeper understanding of SMHG’s time horizon for this investment bucket we will perform a broad search and generate a suitable inventory from which to purchase the bonds.

Item 2e. Fee Structure

The rate holiday reserve and the non-operating surplus fixed income account would be held in a retail brokerage accounts. The only expense to SMHG would be commissions charged when a security is traded. The equity portfolio would be held in a discretionary, wrap fee account due to the continuous research, monitoring and trading activity involved. Wrap fee means the fee includes all asset management and trading activity. ETFs and no-load mutual funds have inherent management expenses, but we select only those with below average expense ratios. This is especially true with ETFs, which would more likely be used than a mutual fund.

There are no costs for issuing distribution checks or transferring funds via Automated Clearing House (ACH) between SMHG’s bank accounts and the investment account. There will not be any annual account maintenance fees. Monthly statements, interim reports as requested, tax reporting and *Client Access* are all included at no additional cost.

Investment Objectives	Account Cost Structure	Estimated Investment \$	Estimated & Actual Cost	Comment
Rate Holiday Reserve - Money Market Allocation	Commission	\$3,000,000	0.03%	Estimated based on trading activity
Non-Operating Surplus - Fixed Income Allocation	Commission	\$4,900,000	0.30%	Will average 0.30% for 1 to 5-year maturities
Non-Operating Surplus - Fixed Income Allocation	Fee	\$2,100,000	0.65%	Actual Annual % deducted quarterly
Total		<u>\$10,000,000</u>		

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The value weighted annual expense ratio, with and without the rate reserve, would be:

Inclusive of Rate Holiday Reserve	0.293%
Exclusive of Rate Holiday Reserve	0.405%

We look forward to collaborating closely with SMHG to design and implement investment strategies that will help you achieve your organizational goals.