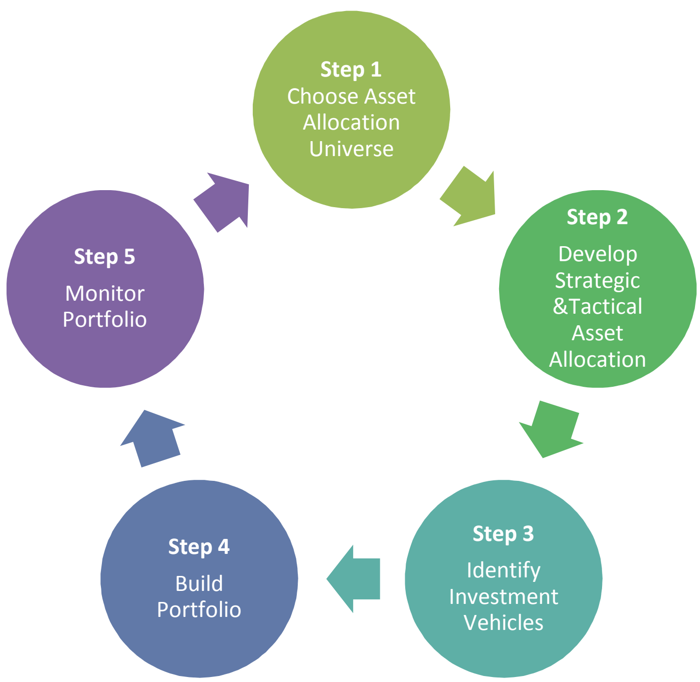
# Investment Philosophy

We provide our clients customized investment solutions with high client service levels.  We use asset allocation modeling as an integral component of the investment management process and philosophy. Our management team has developed investment strategies which balance expected return with overall portfolio risk by positioning assets to achieve specific investment goals. Currently, we offer eleven distinct asset allocation model portfolios based on our research of the optimal points along the efficient frontier and a client's need for taxable or tax-exempt fixed income investing. We work closely with our clients establishing their risk tolerance plus total performance and income goals.  Appropriate asset allocation requires an understanding of the unique circumstances applicable to each client and on-going refinement and measurement of their tailored portfolio in order to meet our clients' goals.

At Guaranty Bank & Trust, Wealth Management Group we employ a long-term focus without reference to one specific benchmark index as a portfolio construction device. Constructing a portfolio around multiple asset classes enhances the risk/return profile.

We use five steps in our investment management process. This process is an ongoing cycle repeating itself constantly as the portfolio matures.

## Portfolio Management Process




Prior to beginning the implementation of our investment philosophy and process, we first meet with a new client to create a written investment policy specifically designed for the client based on their long term goals and objectives. We believe this initial meeting and determination is critical to the performance of a client's investment portfolio.

After this initial meeting, the next step in the transition process is for us to compile a detailed review of the client's current investment assets. Assets that do not meet the qualitative standards we have established will be recommended for sale and funds will be transitioned to the particular asset classes and assets we initially recommend.  At this point we implement the on-going portfolio management process for our new client.

### *Step 1 - Choose Asset Allocation Universe*

An efficient portfolio delivers the highest expected return for a given level of risk, as defined by the standard deviation of the portfolio. The process of building an efficient portfolio involves historical risk/return analysis, as well as forward looking market projections.

Generally, a typical portfolio dedicates a given percentage to equities, alternatives, and fixed income securities. Within each broad asset class, we further diversify into sub-asset classes to gain exposure to low correlated strategies for diversification purposes. We strive to position portfolios to keep pace with broad markets on the upside while minimizing the downside risk. An investor's risk tolerance and investment time horizon are taken into consideration when determining asset class weighting.

## *Step 2 - Develop Strategic/Tactical Asset Allocation Targets*

Our trust committee employs a strategic and tactical approach to developing an asset allocation. Strategic asset allocation establishes long-term allocation targets while tactical asset allocation over- or under-weights these asset allocation targets based on our perception of current market opportunities.

Tactical asset allocation provides portfolio direction based on changes in short-term market expectations. Our investment management processes allow us the flexibility to over- or under-weight asset classes or establish allocations to asset classes that we do not include in our long-term focus. This approach is a value added strategy to complement our long-term allocation selection process. Current macro-economic and market conditions provide guidance in creating target tactical allocations. Additionally, we back-test our allocations using data from a variety of market environments and cycles to ensure stability and safety of returns.

Through our multiple sophisticated market and investment research tools and third party research analysts, we have access to detailed equity research, detailed fixed income research, historical returns, corporate balance sheet analysis, trading statistics, cash flow models and many other useful evaluation tools.

Long-term investment success is dependent on knowing when to over- or under-weight particular asset classes. Another key component of our process focuses on identifying secular and cyclical turning points including but not limited to expectations of the following:

GDP growth
Interest rates
Consumer spending
Market volatility
Political environment
Monetary and fiscal policy

Accounting rule changes
Tax changes
Investor sentiment
Equity valuations
Corporate profits
Yield spreads

An additional important aspect of the asset allocation process is determining where we are in the market cycle and indentifying when certain asset classes perform well.

## *Step 3 - Identify Investment Vehicles*

Our investment team employs a disciplined approach to analyzing and selecting investment vehicles.
Research is conducted internally
Investment of our clients' funds generally is limited to individual marketable securities or mutual funds in the following categories:

Primary Asset Classes:

- Cash and cash equivalents
- Fixed Income–Domestic Bonds
- Fixed Income–Non-U.S. Bonds
- Equities–U.S.
- Equities–Non-U.S.
- Equities–Emerging Markets
- Equities–REITs
- Satellite Asset Classes

Primary Security Types

- Mutual Funds–Stocks, Bonds, Money Market, Funds, and Alternatives
- Individual Stocks
- Individual Bonds, as long as they are rated A or better and traded on a major U.S. exchange
- Closed-end funds
- Unit Investment Trusts
- Bank certificates of deposit

## *Step 4 - Build Portfolio*

Portfolio construction guidelines are determined on an ongoing basis by our Trust Committee. Allocations are made following discussions regarding the relative merits of current portfolio holdings versus potential asset holdings that may be more attractive. These decisions are made on a collaborative basis by our committee. The portfolio construction process incorporates both fundamental, bottom-up and top-down analysis. The size of individual positions will be determined according to our investment team's conviction in the ability of the security to meet or exceed expectations, the security's risk-adjusted upside potential, relative attractiveness compared to other holdings in the portfolio, and overall portfolio diversification issues.

Risk management is used as an analytical framework supporting the investment team in the portfolio construction process. It is a separate function of the committee process, with the aim of generating alpha, managing volatility, and enhancing relative performance.

Portfolio risk is defined in absolute terms, and measured by the standard deviation of returns. The objective is to produce lower volatility than the S&P 500, Barclays Intermediate Government/Credit Bond Index. We utilize the following risk management methodology:

- Performance attribution in order to understand how decisions to hold or not to hold certain asset classes affect portfolio returns
- Style and asset class analysis to help ensure that our clients' portfolios adhere to their articulated - strategies -
- Risk analysis to evaluate differences in a portfolio versus a benchmark or market

A total asset allocation strategy is used as a source of alpha generation. Our macro-economic research process aims to identify secular, cyclical and structural influences on the markets.

## *Step 5 - Monitor Portfolio*

Portfolio maintenance involves an ongoing review of a client's objectives as well as periodic portfolio rebalancing. If not monitored, over time a portfolio can experience "drift" from target asset allocations which can produce risk and return characteristics that may be inconsistent with a client's goals and objectives. To ensure that a portfolio's target risk and return characteristics are appropriate given the current macro-economic and market environment, Guaranty Bank & Trust, Wealth Management Group adheres to a disciplined rebalancing strategy.

This component of the investment management process has several benefits. Our research indicates that periodic rebalancing increases expected return and reduces risk over long periods of time. Portfolios are reviewed:

- ✓ On at least an annual basis or more frequently as directed by the client;
- ✓ When an client's unique goals or constraints change;
- ✓ As a result of capital inflows or outflows to the account.

The Portfolio Manager also refines the portfolios based on tactical, or short-term, asset allocation decisions. These decisions reflect our opinions on current market conditions and opportunities.