

# INVESTMENT POLICY STATEMENT

## ABC Company (Defined Contribution Plan)

Approved on September 1, 2002

By ABC Company Investment Committee

**This investment policy statement should be reviewed and updated at least annually. Any change to this policy should be communicated in writing on a timely basis to all interested parties.**

*This Investment Policy Statement (IPS) has been prepared by invest<sup>mgt</sup>. It is intended to serve as an example of the type of information that would be included in a comprehensive IPS. Clients are advised to have legal counsel review their IPS before it is approved.*

# EXECUTIVE SUMMARY

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<b>Type of Plan:</b>	Defined Contribution Plan – 401(k)
<b>Plan Sponsor:</b>	ABC Company
<b>Plan IRS Tax Identification:</b>	56-1234567
<b>Current Assets:</b>	\$20,000,000
<b>Participant-Directed Investment Options:</b>	Yes, 404(c) adopted
<b>Frequency to Change Investment Options:</b>	Daily
<b>Investment Options:</b>	Money Market (MM) Intermediate Bond (IB) Large-Cap Value (LCV) Large-Cap Blend (LCB) Large-Cap Growth (LCG) Mid-Cap Blend (MCB) Small-Cap Blend (SCB) International Equity (IE)

## Evaluation Benchmarks and Modeled Portfolios:

### Trustee Counseling Index™ (% Equity Exposure)\*

	LCB	LCG	LCV	MCB	SCB	IE	IB	SB	MM
<b>TCI (20)</b>	5	5	5	0	0	5	40	30	10
<b>TCI (40)</b>	10	10	10	0	5	5	35	20	5
<b>TCI (60)</b>	10	10	10	10	10	10	35	0	5
<b>TCI (80)</b>	15	15	15	10	10	15	15	0	5

- \*The TCI™ series of indexes have several unique design features, two of which are:
- (1) They illustrate a series of prudently diversified portfolios; and
  - (2) They illustrate the performance of a diversified portfolio, calculated using the performance of the median mutual fund manager for each peer group represented in the allocation.

## **PURPOSE**

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The purpose of this Investment Policy Statement (IPS) is to assist the ABC Company Employee Retirement Savings Plan Committee (Committee) [See Appendix C] in effectively supervising, monitoring and evaluating the investment of the Company's Retirement Plan (Plan) assets. The Committee has the authority to oversee the investment of the Plan's assets. The Committee will discharge its responsibilities under the Plan solely in the interests of Plan participants and their beneficiaries. The Plan's investment program is defined in the various sections of this IPS by:

1. Stating in a written document the Committee's attitudes, expectations, objectives and guidelines for the investment of all Plan assets.
2. Encouraging effective communications between the Committee and service vendors by stating the responsibilities of the Committee, the investment managers, the investment consultant, and the record keepers and administrators.
3. Establishing the number and characteristics of offered investment options.
4. Providing rate-of-return and risk characteristics for each asset class represented by various investment options. [See Appendix A]
5. Establishing procedures for selecting, monitoring, evaluating, and, if appropriate, replacing investment options.
6. Complying with all ERISA, fiduciary, prudence and due diligence requirements experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international political entities that may impact the Plan assets.

This IPS has been formulated, based upon consideration by the Committee of the financial implications of a wide range of policies, and describes the prudent investment process the Committee deems appropriate.

## **BACKGROUND**

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The Plan is a defined contribution plan started in 1985 and is one of two qualified employee retirement plans sponsored by ABC Company. The purpose of the Plan is to encourage employees to build long-term careers with ABC Industries by providing eligible employees with a convenient way to save on a regular and long-term basis for retirement.

The Plan currently covers 2,500 employees. The number of employees is anticipated to increase at the rate of 5% per year for the next five years. Plan size is currently \$20,000,000, and annual contributions should total \$2,500,000 - \$3,000,000.

Employee contributions are made through payroll deductions each payroll period and remitted to the trustee for investment into the employee designated investment options. The Company has elected to adopt 404(c) provisions, and provides a match of \$1.00 for each \$2.00 contributed by the participant.

### ***Key Information***

**Name of Plan:** ABC Retirement Plan  
**Plan Sponsor:** ABC Company  
**Plan IRS Tax ID:** 56-1234567  
**Related Retirement Plans:** ABC Defined Benefit Plan

Additional key information, which is subject to change from time-to-time, is contained in Appendix \_\_\_\_ (the appropriate appendix).

## **STATEMENT OF OBJECTIVES**

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This IPS has been arrived at upon consideration by the Committee by a wide range of policies, and describes the prudent investment process the Committee deems appropriate. This process includes offering various asset classes and investment management styles that, in total, are expected to offer participants a sufficient level of overall diversification and total investment return over the long-term. The objectives are:

1. Comply with Department of Labor 404(c) safe harbor provisions by:
  - a. Notifying participants that a 404(c) plan is constituted, including a statement that fiduciaries of the plan may be relieved of certain liabilities.
  - b. Providing participants at least three investment options that each have a different risk/return profile;

- c. Providing participants with sufficient information so the participant can make an informed decision about his or her selection of investment option(s); and
  - d. Permitting participants to change investment options on a daily [quarterly] basis. Because each plan participant shall make investment contribution and allocation decisions, the Committee shall refrain from giving what could be construed as investment advice.
2. Have the ability to pay all benefit and expense obligations when due.
  3. Control and account for all costs of administering the plan and managing the investments.

## **ASSET CLASS GUIDELINES**

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The Committee believes long-term investment performance, in large part, is primarily a function of asset class mix. The Committee has reviewed the long-term performance characteristics of the broad asset classes, focusing on balancing the risks and rewards.

History shows that while interest-generating investments, such as bond portfolios, have the advantage of relative stability of principal value, they provide little opportunity for real long-term capital growth due to their susceptibility to inflation. On the other hand, equity investments, such as common stocks, clearly have a significantly higher expected return but have the disadvantage of much greater year-by-year variability of return. From an investment decision-making point of view, this year-by-year variability may be worth accepting, provided the time horizon for the equity portion of the portfolio is sufficiently long (five years or greater).

The performance expectations (both risk and return) of each asset class are contained in Appendix A. The following nine asset classes were selected and ranked in ascending order of “risk” (least to most).

- Money Market (MM)
- Short Bond (SB)
- Intermediate Bond (IB)
- Large Cap Value (LCV)
- Large Cap Blend (LCB)
- Large Cap Growth (LCG)
- Mid Cap Blend (MCB)
- Small Cap Blend (SCB)
- International Equity (IE)

The Committee has considered the following asset classes for inclusion in the asset mix, but has decided to exclude these asset classes at the present time:

Global Fixed Income  
Real Estate

## **DUTIES AND RESPONSIBILITIES**

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### ***Retirement Plan Committee***

As fiduciaries under the Plan, the primary responsibilities of the Committee are:

1. Prepare and maintain this investment policy statement.
2. Provide sufficient asset classes with different and distinct risk/return profiles so each participant can prudently diversify his/her account.
3. Prudently select investment options.
4. Control and account for all investment, record keeping and administrative expenses associated with the Plan.
5. Monitor and supervise all service vendors and investment options.
6. Avoid prohibited transactions and conflicts of interest.

### ***Investment Consultant***

The Committee will retain an objective, third-party Consultant to assist the Committee in managing the overall investment process. The Consultant will be responsible for guiding the Committee through a disciplined and rigorous investment process to enable the Committee to meet the fiduciary responsibilities outlined above.

### ***Investment Managers***

As distinguished from the Committee and Consultant, who are responsible for managing the investment process, investment managers are responsible for making investment decisions (security selection and price decisions). The specific duties and responsibilities of each investment manager are:

1. Manage the assets under their supervision in accordance with the guidelines and objectives outlined in their respective Service Agreements, Prospectus or Trust Agreement.
2. Exercise full investment discretion with regards to buying, managing, and selling assets held in the portfolios.
3. Vote promptly all proxies and related actions in a manner consistent with the long-term interest and objectives of the Plan as described in this IPS. Each investment manager shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.
4. Communicate to the Committee all significant changes pertaining to the fund it manages or the firm itself. Changes in ownership, organizational structure, financial condition, and professional staff are examples of changes to the firm in which the Committee is interested.
5. Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement Plans with like aims in accordance and compliance with ERISA and all applicable laws, rules, and regulations.

### ***Custodian***

Custodians are responsible for the safekeeping of the Plan's assets. The specific duties and responsibilities of the custodian are:

1. Maintain separate accounts by legal registration.
2. Value the holdings.
3. Collect all income and dividends owed to the Plan.
4. Settle all transactions (buy-sell orders).
5. Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall portfolio since the previous report.

## **INVESTMENT MANAGER SELECTION**

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The Committee will apply the following due diligence criteria in selecting each money manager or mutual fund.

1. *Regulatory oversight:* Each investment manager should be a regulated bank, an insurance company, a mutual fund organization, or a registered investment adviser.
2. *Correlation to style or peer group:* The product should be highly correlated to the asset class of the investment option. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the manager to the appropriate peer group.
3. *Performance relative to a peer group:* The product's performance should be evaluated against the peer group's median manager return, for 1-, 3- and 5-year cumulative periods.
4. *Performance relative to assumed risk:* The product's risk-adjusted performance (Alpha and/or Sharpe Ratio) should be evaluated against the peer group's median manager's risk-adjusted performance.
5. *Minimum track record:* The product's inception date should be greater than three years.
6. *Assets under management:* The product should have at least \$75 million under management.
7. *Holdings consistent with style:* The screened product should have no more than 20% of the portfolio invested in "unrelated" asset class securities. For example, a Large-Cap Growth product should not hold more than 20% in cash, fixed income and/or international securities.
8. *Expense ratios/fees:* The product's fees should not be in the bottom quartile (most expensive) of their peer group.
9. *Stability of the organization:* There should be no perceived organizational problems – the same portfolio management team should be in place for at least two years.

## **CONTROL PROCEDURES**

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### ***Performance Objectives***

The Committee acknowledges fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Recognizing that

short-term fluctuations may cause variations in performance, the Committee intends to evaluate manager performance from a long-term perspective.

The Committee is aware the ongoing review and analysis of the investment managers is just as important as the due diligence implemented during the manager selection process. The performance of the investment managers will be monitored on an ongoing basis and it is at the Committee's discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

On a timely basis, but not less than quarterly, the Committee will meet to review whether each manager continues to conform to the search criteria outlined in the previous section; specifically:

1. The manager's adherence to the Plan's investment guidelines;
2. Material changes in the manager's organization, investment philosophy and/or personnel; and,
3. Any legal, SEC and/or other regulatory agency proceedings affecting the manager.

The Committee has determined it is in the best interest of the Plan's participants that performance objectives be established for each investment manager. Manager performance will be evaluated in terms of an appropriate market index (e.g. the S&P 500 stock index for large-cap domestic equity manager) and the relevant peer group (e.g. the large-cap growth mutual fund universe for a large-cap growth mutual fund).

<b>Asset Class</b>	<b>Index</b>	<b>Peer Group</b>
<b>Large-Cap Equity</b>		
Blend	S&P 500	Large-Cap Blend
Growth	Russell 200 Growth	Large-Cap Growth
Value	Russell 200 Value	Large-Cap Value
<b>Mid-Cap Equity</b>	S&P 400	Mid-Cap Blend
<b>Small-Cap Equity</b>	Russell 2000	Small-Cap Blend
<b>International Equity</b>	MSCI EAFE	Foreign Stock
<b>Fixed Income</b>		
Intermediate-term Bond	Lehman Brothers Gov't/Credit Intermediate	Intermediate-Term Bond

A manager may be placed on a Watchlist and a thorough review and analysis of the investment manager may be conducted, when:

1. A manager performs below median for their peer group over a 1-, 3- and/or 5-year cumulative period.
2. A manager's 3-year risk adjusted return (Alpha and/or Sharpe) falls below the peer group's median risk adjusted return.
3. There is a change in the professionals managing the portfolio.
4. There is a significant decrease in the product's assets.
5. There is an indication the manager is deviating from his/her stated style and/or strategy.
6. There is an increase in the product's fees and expenses.
7. Any extraordinary event occurs that may interfere with the manager's ability to fulfill their role in the future.

A manager evaluation may include the following steps:

1. A letter to the manager asking for an analysis of their underperformance.
2. An analysis of recent transactions, holdings and portfolio characteristics to determine the cause for underperformance or to check for a change in style.
3. A meeting with the manager, which may be conducted on-site, to gain insight into organizational changes and any changes in strategy or discipline.

The decision to retain or terminate a manager cannot be made by a formula. It is the Committee's confidence in the manager's ability to perform in the future that ultimately determines the retention of a manager.

### ***Measuring Costs***

The Committee will review at least annually all costs associated with the management of the Plan's investment program, including:

1. Expense ratios of each investment option against the appropriate peer group.

2. Custody fees: The holding of the assets, collection of the income and disbursement of payments.
3. Whether the manager is demonstrating attention to “best execution” in trading securities.
4. Administrative Fees: Costs to administer the Plan, including record keeping, account settlement (participant balance with that of fund), and allocation of assets and earnings, and (when applicable) the proper use of 12b-1 fees to offset these fees.

## **INVESTMENT POLICY REVIEW**

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The Committee will review this IPS at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

Prepared:

Approved:

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Consultant  
September 1, 2002

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Committee  
September 1, 2002