

# **Investment Policy Statement**

Prepared on: February 04, 2013

Prepared for:

**Sample Individual Client**

432 Elm St  
Chicago IL 60630

## Executive Summary

Client Name: Sample Individual Client  
Client Type: Individual Investor  
Client Subtype: Taxable Portfolio  
Type of Policy: Individual  
State of Domicile: IL  
Tax Id: 142123121  
Current Assets: \$2,100,000  
Modeled Return: 5.4%  
1-Yr Loss Limit (Worst case scenario): -9.0%

This Investment Policy Statement should be reviewed by an attorney knowledgeable in this specific area of the law. Any change to this policy should be communicated in writing and on a timely basis to all interested parties. If any term or condition of this Investment Policy Statement conflicts with any trust and/or plan document, the document shall control, as long as such term or condition is consistent with the law.

## Purpose

The purpose of this Investment Policy Statement (IPS) is to assist the Client in effectively supervising, monitoring and evaluating the Client's investment Portfolio (Portfolio). The client's investment program is defined in the various sections of this IPS by:

1. Stating in a written document the Client(s)'s attitudes, expectations, objectives and guidelines for the investment of all of the Client's assets.
2. Encouraging effective communications between the Client(s) and all parties involved with the investment management decisions.
3. Establishing formal criteria to select, monitor, evaluate and compare the performance results achieved by each investment option on a regular basis.
4. Complying with all applicable 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 Client.

## Statement of Objectives

### Background

The assets covered by this IPS currently total approximately \$2,100,000 in market value. Same as Current Assets

This IPS has been arrived at upon consideration by the Client of a wide range of policies, and describes the prudent investment process the Client deems appropriate. This process includes offering various asset classes and investment management styles that, in total, are expected to offer the opportunity to diversify the portfolio in a manner consistent with the specified risk and return requirements of the portfolio.

### The objectives of the Portfolio are:

Investment goals and objectives are long term growth and preservation of capital.

### Time Horizon

The investment guidelines are based upon an investment horizon of greater than five years. The Client's strategic asset allocation is also based on this long-term perspective. Short-term liquidity requirements are anticipated to be non-existent, or at least should be covered by cash inflows. Short-term liquidity requirements are anticipated to be minimal.

### Risk Tolerances

The Client(s) recognizes that some risk must be assumed in order to achieve the investment objectives of the Client. In establishing the risk tolerances of the IPS, the ability to withstand short and intermediate term variability were considered. A 1-yr loss limit of -9.0% has been calculated for the portfolio. Statistically speaking, there is a 2.5% chance that the 1-year return will actually be lower than -9.0%.

The Client's long time horizon, current financial condition and several other factors suggest collectively some interim fluctuations in market value and rates of return may be tolerated in order to achieve the longer-term objectives.

### Performance Expectations

The desired investment objective is a long-term rate of return on assets that is at least 5.4%. The target rate of return for the Client has been based upon the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in the IPS. The client realizes market performance varies and a 5.4% rate of return may not be meaningful during some periods. Accordingly, relative performance benchmarks for the investment options are set forth in the "Monitoring" section.

## Duties and Responsibilities

### Investment Advisor

The Investment Advisor serves as an objective, third-party professional to assist the Client in managing the overall investment process. The advisor is responsible for guiding the Client through a disciplined and rigorous investment process, consisting of:

1. The preparation and maintenance of this investment policy statement.
2. Selecting sufficient asset classes with different and distinct risk/return profiles so that the Portfolio can be prudently diversified.
3. Prudently selecting investment options
4. Controlling and accounting for all investment expenses associated with the Portfolio.
5. Monitoring and supervising all service vendors and investment options.

### Custodian

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

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

## Asset Class Guidelines

Long-term investment performance, in large part, is primarily a function of asset class mix. Historically while interest-generating investments, such as bonds, 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 given the client's long time horizon.

Focusing on balancing the risks and rewards of each broad asset class, the following implementation peer groups were selected and ranked in ascending order of "risk" (least to most) according to the most recent quarter's median 3-year Standard Deviation values. The performance expectations (both risk and return) of each broad asset class are contained in Appendix A.

Intermediate-Term Bond  
World Bond  
Long-Term Bond  
High Yield Bond  
Large Blend  
Real Estate  
Mid-Cap Blend  
Foreign Large Blend  
Small Blend  
Diversified Emerging Mkts

## Rebalancing of Strategic Allocation

The percentage allocation to each peer group may vary depending upon market conditions. Please reference the allocation table below for the lower and upper limits for each peer group. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation and allocation ranges of the plan. If there are no cash flows, the allocation of the portfolio will be reviewed quarterly. If cash flows are insufficient to bring the portfolio within the target allocation ranges, the client shall decide whether to effect transactions to bring the allocation of portfolio assets within the threshold ranges.

Peer Group	Strategic Allocation	Lower Limit	Upper Limit
Real Estate	7%	2%	12%
Diversified Emerging Mkts	6%	1%	11%
Long-Term Bond	9%	4%	14%
Large Blend	20%	15%	25%
World Bond	10%	5%	15%
Small Blend	8%	3%	13%
High Yield Bond	6%	1%	11%
Intermediate-Term Bond	6%	1%	11%
Foreign Large Blend	18%	13%	23%
Mid-Cap Blend	10%	5%	15%

## Implementation

Each investment option should be managed by: (i) a bank; (ii) an insurance company; (iii) a registered investment company (mutual fund); or, (iiii) a registered investment adviser. The Client will apply the following due diligence criteria in selecting each money manager or mutual fund.

### fi360

#### fi360 Fiduciary Score Avg (3yr)

Threshold: <= 25 | Pass 1 of the last 1 quarters | Treat missing data values as a failure

\*Please reference the fi360 Fiduciary Score Methodology document in Appendix C for additional details.

### Expenses

#### Prospectus Net Exp Ratio (Optional)

Threshold: Top 50% of peer | Pass 3 of the last 4 quarters | Treat missing data values as a failure

### Performance

#### 10 Year Return (Optional)

Threshold: Top 50% of peer | Pass 7 of the last 8 quarters | Treat missing data values as a failure

#### 3 Year Return (Optional)

Threshold: Top 50% of peer | Pass 7 of the last 8 quarters | Treat missing data values as a failure

#### 5 Year Return (Optional)

Threshold: Top 50% of peer | Pass 7 of the last 8 quarters | Treat missing data values as a failure

### Risk

#### Alpha (Optional)

Threshold: Top 50% of peer | Pass 3 of the last 4 quarters | Treat missing data values as a failure

### Operations

#### Style (Optional)

Threshold: No Style Drift | Pass 3 of the last 4 quarters | Treat missing data values as a failure

#### Assets (Optional)

Threshold: >= 75 Mil | Pass 3 of the last 4 quarters | Treat missing data values as a failure

#### Inception Date (Optional)

Threshold: >= 5 Years | Pass 3 of the last 4 quarters | Treat missing data values as a failure

#### Manager Tenure (Optional)

Threshold: > 5 Years | Pass 3 of the last 4 quarters | Treat missing data values as a failure

In addition to meeting any required criterion, 6 of the 9 optional criterion must be satisfied to meet the overall Due Diligence Criteria.

## Monitoring - Performance Objectives

The Client(s) 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 Client(s) intends to evaluate investment performance from a long-term perspective.

The Client(s) is aware the ongoing review and analysis of the investment options is just as important as the due diligence process. The performance of the investment options will be monitored on an ongoing basis and it is at the Client'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 Client will review each investment; specifically:

1. The investment option's adherence to the Watch List Criteria identified below;
2. Material changes in the investment option's organization, investment philosophy and/or personnel; and,
3. Any legal, SEC and/or other regulatory agency proceedings affecting the investment option's organization.

## Monitoring - Benchmarks

Performance benchmarks have been established for each investment option. 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).

### Peer Group

Diversified Emerging Mkts  
Foreign Large Blend  
High Yield Bond  
Intermediate-Term Bond  
Large Blend  
Long-Term Bond  
Mid-Cap Blend  
Real Estate  
Small Blend  
World Bond

### Benchmark Index

MSCI EM NR USD  
MSCI ACWI Ex USA NR USD  
BofAML US HY Master II TR USD  
Barclays US Govt/Credit 5-10 Yr TR USD  
S&P 500 TR  
Barclays US Govt/Credit Long TR USD  
S&P MidCap 400 TR  
DJ US Select REIT TR USD  
Russell 2000 TR USD  
Citi WGBI NonUSD USD

## Monitoring - Watch List Criteria

The decision to retain or terminate an investment option cannot be made by a formula. Also, extraordinary events do occur that may interfere with the investment option's ability to prudently manage investment assets. It is the Client's confidence in the investment option's ability to perform in the future that ultimately determines the retention of an investment option. An investment option may be placed on a Watch List and a thorough review and analysis of the investment option may be conducted, when:

### fi360

#### fi360 Fiduciary Score Avg (3yr)

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\*Please reference the fi360 Fiduciary Score Methodology document in Appendix C for additional details.

### Expenses

#### Prospectus Net Exp Ratio (Optional)

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### Performance

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Threshold: Top 50% of peer | Pass 7 of the last 8 quarters | Treat missing data values as a failure

#### 5 Year Return (Optional)

Threshold: Top 50% of peer | Pass 7 of the last 8 quarters | Treat missing data values as a failure

### Risk

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**Operations**

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Inception Date (Optional)

Threshold: >= 5 Years | Pass 3 of the last 4 quarters | Treat missing data values as a failure

Manager Tenure (Optional)

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In addition to meeting any required criterion, 6 of the 9 optional criterion must be satisfied to meet the overall Due Diligence Criteria.

**Monitoring - Measuring Costs**

The Client will review at least annually all costs associated with the management of the portfolio, including:

- 1. Expense ratios of each mutual fund against the appropriate peer group.
- 2. Administrative Fees; costs to administer the portfolio, including record keeping, custody and trust services.
- 3. The proper identification and accounting of all parties receiving soft dollars and/or 12b-1 fees generated by the portfolio.

**Investment Policy Review**

The IPS will be reviewed 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 by**

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**Signature**

**Date**

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**Name**

Sample Individual Client

**Signature**

**Date**

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## Appendix A: Capital Market Inputs

Capital Market Data last updated December 31, 2011. Returns include a default inflation rate of 2%.  
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	Return (%)	Risk (%)	Underlying Index	Peer Group
Large Cap Equity	7.8	16.0	SBBI Large Company Stocks	Large Blend
Mid Cap Equity	8.2	18.0	Russell Mid Cap	Mid-cap Blend
Small Cap Equity	8.5	22.0	SBBI Small Company Stocks	Small Blend
International Equity	8.3	17.8	MSCI EAFE	Foreign Large Blend
Emerging Market Equity	9.0	24.5	MSCI Emerging Markets	Diversified Emerging Markets
REITs	6.8	19.4	DJ US Select REIT	Real Estate
High Yield Bond	4.6	8.6	Credit Suisse High Yield Bond Index	High Yield Bond
Long-term Bond	3.9	10.1	Barcap U.S. Long Gov/Credit Bond	Long Term Bond
Intermediate-term Bond	3.4	4.6	Barcap U.S. Interm. Gov/Credit Bond	Intermediate Term Bond
International Bond	3.8	10.7	Citigroup World Gov Bond ex US	World Bond
Commodities	2.0	19.9	Gold, London PM Fix	Equity Precious Metals
Money Market	3.0	1.2	SBBI 30 day US Treasury Bill	Money Market Taxable

## Correlation Matrix

	LCE	MCE	SCE	IE	EM	REIT	HY	LTB	ITB	IB	MO	CO
Large Cap Equity (LCE)	1.00	0.93	0.76	0.64	0.67	0.60	0.61	0.28	0.24	0.08	0.16	0.02
Mid Cap Equity (MCE)	0.93	1.00	0.88	0.63	0.70	0.69	0.68	0.27	0.23	0.06	0.12	0.05
Small Cap Equity (SCE)	0.76	0.88	1.00	0.53	0.66	0.67	0.66	0.16	0.12	-0.01	0.08	0.03
International Equity (IE)	0.64	0.62	0.53	1.00	0.66	0.47	0.50	0.20	0.19	0.46	0.14	0.18
Emerging Market Equity (EM)	0.67	0.70	0.66	0.66	1.00	0.49	0.54	0.10	0.09	0.13	0.04	0.23
REITs (REIT)	0.60	0.69	0.67	0.47	0.49	1.00	0.61	0.23	0.19	0.11	0.07	0.06
High Yield Bond (HY)	0.61	0.68	0.66	0.50	0.54	0.61	1.00	0.35	0.33	0.14	0.10	0.06
Long-term Bond (LTB)	0.28	0.27	0.16	0.20	0.10	0.23	0.35	1.00	0.88	0.43	0.31	0.04
Intermediate-term Bond (ITB)	0.24	0.23	0.12	0.19	0.09	0.19	0.33	0.88	1.00	0.50	0.41	0.06
International Bond (IB)	0.08	0.06	-0.01	0.46	0.13	0.11	0.14	0.43	0.50	1.00	0.18	0.29
Money Market (MM)	0.16	0.12	0.08	0.14	0.04	0.07	0.10	0.31	0.41	0.18	1.00	-0.13
Commodities (CO)	0.02	0.05	0.03	0.18	0.23	0.06	0.06	0.04	0.06	0.29	-0.13	1.00

## Appendix C: fi360 Fiduciary Score« Methodology

The fi360 Fiduciary Score« is a peer percentile ranking of an investment against a set of quantitative due diligence criteria selected to reflect prudent fiduciary management. For each investment with at least a three-year history, fi360 calculates the fi360 Fiduciary Score based on the following due diligence criteria: regulatory oversight, minimum track record, stability of the organization, assets in the investment, composition consistency with asset class, style consistency, expense ratio/fees relative to peers, risk-adjusted performance relative to peers, and performance relative to peers. Investments are evaluated at the conclusion of each month. If an investment does not meet an individual due diligence criterion, points are awarded. Investments that satisfy all of the due diligence criteria receive a fi360 Fiduciary Score of 0. Every other investment is given a Score of 1-100 based on their point total, and representing their percentile ranking within their peer group. The fi360 Fiduciary Score Average is a one-, three-, five- or ten-year rolling average of an investment fi360 Fiduciary Score. The Average Score is also calculated on a monthly basis. The fi360 Fiduciary Score represents a suggested course of action and is not intended, nor should it be used, as the sole source of information for reaching an investment decision. Visit [fi360.com/fi360-Fiduciary-Score](http://fi360.com/fi360-Fiduciary-Score) for the complete methodology document.