

# **Investment Policy Statement**

Prepared on: February 04, 2013

Prepared for:

**Sample Personal Trust**

567 Main Street  
Pittsburgh PA 15222

## Executive Summary

Client Name: Sample Personal Trust

Client Type: Personal Trust

Client Subtype: Personal Trust

Fiduciary Standard of Care: UPIA

State of Domicile: PA

Tax Id: 00-0000000

Current Assets: \$3,500,000

Modeled Return: 5.2%

1-Yr Loss Limit (Worst case scenario): -3.5%

"Safe Harbor" Compliance Options: Selected

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 Trustee(s) in effectively supervising, monitoring and evaluating the management of the Investment Portfolio (Portfolio). The trust's investment program is defined in the various sections of this IPS by:

1. Stating in a written document the Trustee(s)'s attitudes, expectations, objectives and guidelines for the investment of all of the trust's assets.
2. Encouraging effective communications between the Trustee(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 trust.

## Statement of Objectives

### Background

The assets covered by this IPS currently total approximately \$3,500,000 in market value.

This IPS has been arrived at upon consideration by the Trustee of a wide range of policies, and describes the prudent investment process the Trustee 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 the continued support of the trust goals.

4. Follow general "safe harbor" rules:

- i. Use prudent experts (registered investment adviser (including mutual funds), bank, or insurance company) to make the investment decisions
- ii. Demonstrate that the prudent expert was selected by following a due diligence process
- iii. Give the prudent expert discretion over the assets
- iv. Have the prudent expert acknowledge their co-fiduciary status (mutual funds are exempt from this requirement – the prospectus is deemed to serve as the fund's fiduciary acknowledgement).
- v. Monitor the activities of the prudent expert to ensure that the expert is performing the agreed upon tasks.

### Time Horizon

The investment guidelines are based upon an investment horizon of greater than five years. The Trust'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.

### Risk Tolerances

The Trustee(s) recognize that some risk must be assumed in order to achieve the investment objectives of the trust. 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 -3.5% has been calculated for the portfolio. Statistically speaking, there is a 2.5% chance that the 1-year return will actually be lower than -3.5%.

The trust'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 5.2%. The target rate of return for the Trust 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 Trustee(s) realizes market performance varies and a 5.2% 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**

### **Trustee**

As a fiduciary to the Trust, the primary investment responsibilities of the Trustee are:

1. Prepare and maintain 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 select investment options.
4. Control and account for all investment, record keeping and administrative expenses associated with the Trust.
5. Monitor and supervise all service vendors and investment options.
6. Avoid prohibited transactions and conflicts of interest.

### **Custodian**

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

1. Value the holdings.
2. Collect all income and dividends owed to the trust.
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 trust since the previous report.

### **Investment Advisor**

The Investment Advisor serves as an objective, third-party professional retained to assist the Trustee(s) in managing the overall investment process. The Advisor is responsible for guiding the Trustee(s) through a disciplined and rigorous investment process to enable the Trustee(s) to meet the fiduciary responsibilities outlined above.

## **Asset Class Guidelines**

The Trustee(s) believes 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 trust'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  
Inflation-Protected Bond  
Long-Term Bond  
Emerging Markets Bond  
Moderate Allocation  
Large Blend  
Large Value  
Mid-Cap Value  
Mid-Cap Blend  
Small Growth

## **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 portfolio. If there are no cash flows, the allocation of the portfolio will be reviewed quarterly. If the Trustee(s) judges cash flows to be insufficient to bring the portfolio within the target allocation ranges, the Trustee(s) 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 |
|--------------------------|----------------------|-------------|-------------|
| Long-Term Bond           | 18%                  | 14%         | 22%         |
| Large Blend              | 16%                  | 13%         | 19%         |
| Emerging Markets Bond    | 10%                  | 8%          | 12%         |
| Large Value              | 8%                   | 6%          | 10%         |
| Intermediate-Term Bond   | 6%                   | 5%          | 7%          |
| Moderate Allocation      | 4%                   | 3%          | 5%          |
| Small Growth             | 12%                  | 10%         | 14%         |
| Mid-Cap Value            | 14%                  | 11%         | 17%         |
| Inflation-Protected Bond | 7%                   | 6%          | 8%          |
| Mid-Cap Blend            | 5%                   | 4%          | 6%          |

## 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 Trustee(s) 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 Trustee(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 Trustee(s) intends to evaluate investment performance from a long-term perspective.

The Trustee(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 Trustee'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 Trustee(s) will meet to review whether 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

The Trustee(s) has determined that performance benchmarks be 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

Emerging Markets Bond  
Inflation-Protected Bond  
Intermediate-Term Bond  
Large Blend  
Large Value  
Long-Term Bond  
Mid-Cap Blend  
Mid-Cap Value  
Moderate Allocation  
Small Growth

### Benchmark Index

JPM EMBI Global TR USD  
Barclays US Treasury US TIPS TR USD  
Barclays US Govt/Credit 5-10 Yr TR USD  
S&P 500 TR  
Barclays ABS TR USD  
Barclays US Govt/Credit Long TR USD  
S&P MidCap 400 TR  
Russell Mid Cap Value TR USD  
Morningstar Moderately Aggr Target Risk  
Russell 2000 Growth TR 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 Trustee'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)

Threshold:  $\leq 25$  | 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 - Measuring Costs**

The Trustee(s) 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 Trustee(s) 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 by**

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**Signature**

**Date**

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**Name**

**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.