INVESTMENT POLICY STATEMENT

ABC Company

(Defined Benefit Plan)

Approved on September 1, 2002

By ABC Company Investment Board

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^{mgt}. 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

Type of Plan:	Defined Benefit Plan
Plan Sponsor:	ABC Company
Plan IRS Tax Identification:	56-1234567
Current Assets:	$200,000,000
Time Horizon:	Greater than 5 years
Modeled Return:	7.6% (5.1% over the Consumer Price Index)
Modeled Loss:	-8.9% (Probability level of 5%)

Asset Allocation:

	Lower Limit	Strategic Allocation	Upper Limit
Domestic Large-Cap Equity			
Blend	5%	10%	15%
Growth	5	10	15
Value	5	10	15
Mid-Cap Equity	5	10	15
Small-Cap Equity	5	10	15
International Equity	5	10	15
Intermediate-term Fixed Income	30	35	40
Cash Equivalent	0	5	10

Evaluation Benchmarks:

Trustee Counseling Index™ (% Equity Exposure)*

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

The purpose of this Investment Policy Statement (IPS) is to assist the Defined Benefit Board of Trustees (Board) [See Appendix C] in effectively supervising, monitoring and evaluating the investment of the Company's Retirement Plan (Plan) assets. The Plan's investment program is defined in the various sections of the IPS by:

1. Stating in a written document the Board's attitudes, expectations, objectives and guidelines for the investment of all Plan assets.

2. Setting forth an investment structure for managing all Plan assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.

3. Providing guidelines for each investment portfolio that control the level of overall risk and liquidity assumed in that portfolio, so all Plan assets are managed in accordance with stated objectives.

4. Providing rate-of-return and risk characteristics for each asset class represented by various investment options. [See Appendix A]

5. Encouraging effective communications between the Board, the investment consultant (Consultant) and hired money managers.

6. Establishing formal criteria to select, monitor, evaluate and compare the performance results achieved by the money managers on a regular basis.

7. 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 Board of the financial implications of a wide range of policies, and describes the prudent investment process the Board deems appropriate.

BACKGROUND

The Plan is a defined benefit plan established in conjunction with the spin-off of Defined Benefit in July 1985. The Plan covers the hourly employees of Defined

Benefit, including those who were previously covered under the Defined Benefit Corporation Retirement Plan for Hourly Rate Employees. The Board will discharge its responsibilities under the Plan solely in the long-term interests of Plan participants and their beneficiaries.

The Plan currently covers 364 employees. The number is anticipated to increase at the rate of 10% per year for the next 5 years. Plan size is currently $200,000,000 and annual contributions are not currently required due to the well-funded status of the Plan. Under current regulations, the Plan is not required to make any quarterly contributions for _____ (the current year).

Key Information

Name of Plan: ABC Retirement Plan

Plan Sponsor: ABC Company

Plan IRS Tax ID: 56-1234567

Related Retirement Plans: ABC Defined Contribution Plan

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

STATEMENT OF OBJECTIVES

This IPS has been arrived at upon consideration by the Board by a wide range of policies, and describes the prudent investment process the Board 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. Maintain the purchasing power of the current assets and all future contributions by producing positive real rates of return on Plan assets.

2. Maintain a fully funded status with regard to the Accumulated Benefit Obligation and 90% of the Projected Benefit Obligation.

3. Have the ability to pay all benefit and expense obligations when due.

4. Maintain a "funding cushion" for unexpected developments and for possible future increases in benefit structure and expense levels.

5. Maintain flexibility in determining the future level of contributions.

6. Maximize return within reasonable and prudent levels of risk in order to minimize contributions.

7. Control costs of administering the plan and managing the investments.

Investment results are the critical element in achieving the investment objectives, while reliance on contributions is a secondary element.

Time Horizon

The investment guidelines are based upon an investment horizon of greater than five years. Interim fluctuations should be viewed with appropriate perspective. Similarly, the Plan's strategic asset allocation is based on this long-term perspective. Short-term liquidity requirements are anticipated to be non-existent, or at least should be covered by the annual contribution.

-Or-

[There is a requirement to maintain sufficient liquid reserves to provide for the payment of retirement benefits. Analysis of the cash flow projections of the Plan indicates benefit payments will exceed contributions for at least several years. The Board's Secretary will notify the Investment Managers well in advance of the withdraw orders to allow sufficient time to build up necessary liquid reserves.]

Risk Tolerances

The Board recognizes the difficulty of achieving the Plan's investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Board also recognizes some risk must be assumed to achieve the Plan's long-term investment objectives. In establishing the risk tolerances of the IPS, the ability to withstand short and intermediate term variability were considered. These factors were:

- ABC Company is in an industry that should experience milder fluctuations than the general economy. ABC believes it should be able to achieve above average growth during the next several years.

- ABC's strong financial condition enables it to adopt a long-term investment perspective.

- Demographic characteristics of participants suggest an above-average risk tolerance due to the younger-than-average work force.

- Actuarial data related to future projected benefit payments, along with future projected expenses of the Plan, are significantly less than conservative forecasted investment income projections. Therefore, liquidity requirements are immaterial over the next ten years, which implies that a higher risk profile is acceptable.

- Current Plan assets have been accumulated to exceed the value of the Plan's total accrued benefit liability, allowing for a less aggressive risk tolerance.

In summary, ABC Company's prospects for the future, current financial condition, and several other factors, suggest collectively the Plan can tolerate some interim fluctuations in market value and rates of return in order to achieve long-term objectives.

Performance Expectations

The desired investment objective is a long-term rate of return on assets that is at least 7.6%, which is 5.1% greater than the anticipated rate of inflation as measured by the Consumer Price Index (CPI). The target rate of return for the Plan 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 Board realizes market performance varies and a 7.6% rate of return may not be meaningful during some periods. Accordingly, relative performance benchmarks for the managers are set forth in the "Control Procedures" section. Over a complete business cycle, the Plan's overall annualized total return, after deducting for advisory, money management, and custodial fees, as well as total transaction costs, should perform above a customized index comprised of market indices weighted by the strategic asset allocation of the Plan.

ASSET CLASS GUIDELINES

The Board believes long-term investment performance, in large part, is primarily a function of asset class mix. The Board 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 eight asset classes were selected and ranked in ascending order of "risk" (least to most).

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)

The Board 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

Rebalancing of Strategic Allocation

The percentage allocation to each asset class may vary as much as plus or minus 5% depending upon market conditions. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Plan. If there are no cash flows, the allocation of the Plan will be reviewed quarterly.

If the Board judges cash flows to be insufficient to bring the Plan within the strategic allocation ranges, the Board shall decide whether to effect transactions to bring the strategic allocation within the threshold ranges (Strategic Allocation).

DUTIES AND RESPONSIBILITIES

Board Investment Committee

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

1. Prepare and maintain this investment policy statement.

2. Prudently diversify the Plan's assets to meet an agreed upon risk/return profile.

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

Investment Managers

As distinguished from the Board and Consultant, who are responsible for <u>managing</u> the investment process, investment managers are responsible for <u>making</u> 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. If managing a separate account (as opposed to a mutual fund or a commingled account), seek approval from the Board prior to purchasing and/or implementing the following securities and transactions:

    - Letter stock and other unregistered securities; commodities or other commodity contracts; and short sales or margin transactions.

- Securities lending; pledging or hypothecating securities.

- Investments in the equity securities of any company with a record of less than three years continuous operation, including the operation of any predecessor.

- Investments for the purpose of exercising control of management.

4. 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.

5. Communicate to the Board 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 Board is interested.

6. Effect all transactions for the Plan subject "to best price and execution." If a manager utilizes brokerage from the Plan assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Board.

7. 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.

8. If managing a separate account (as opposed to a mutual fund or a commingled account), acknowledge co-fiduciary responsibility by signing and returning a copy of this IPS.

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) initiated by the Investment Manager.

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

The Board 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

Performance Objectives

The Board 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 Board intends to evaluate manager performance from a long-term perspective.

The Board 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 Board'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 Board 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 Board 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).

Asset Class	Index	Peer Group
Large-Cap Equity		
Blend	S&P 500	Large-Cap Blend
Growth	Russell 200 Growth	Large-Cap Growth
Value	Russell 200 Value	Large-Cap Value
Mid-Cap Equity	S&P 400	Mid-Cap Blend

Small-Cap Equity	Russell 2000	Small-Cap Blend
International Equity	MSCI EAFE	Foreign Stock
Fixed Income		
Intermediate-term Bond	Lehman Brothers Gov't/Credit Intermediate	Intermediate-Term Bond
Money Market	90 day T-Bills	Money Market Database

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 Board's confidence in the manager's ability to perform in the future that ultimately determines the retention of a manager.

Measuring Costs

The Board 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.

INVESTMENT POLICY REVIEW

The Board 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:
________________________	________________________
Consultant September 1, 2002	Board September 1, 2002