

# Investment Policy Statement

Linda Forest IRA  
Individual Client

**Approved on Jan 11, 2007**

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.

## Executive Summary

<b>Type of Client:</b>	Individual Client
<b>Client Name:</b>	Linda Forest IRA
<b>Client Sub-type:</b>	Taxable Portfolio
<b>Type of Policy:</b>	Individual
<b>State of Domicile:</b>	ND
<b>Tax Id:</b>	12-51468721
<b>Current Assets:</b>	\$1,000,000.00
<b>Time Horizon:</b>	Long - More than 5 years
<b>Modeled Return:</b>	7.4%
<b>1-Yr Loss Limit:</b>	-4.3%

### Asset Allocation:

#### Allocation Range Legend

LL: Lower Limit  
SA: Strategic Allocation  
UL: Upper Limit

Broad Asset Class	Peer Group	LL	SA	UL
Fixed Income - Broad Fixed Income	Multisector Bond	5.0	20.0	100.0
Fixed Income - Global Fixed Income	World Bond	5.0	15.0	100.0
Fixed Income - Intermediate Fixed Income	Intermediate-Term Bond	5.0	5.0	100.0
Fixed Income - Short-term Fixed Income	Short-Term Bond	5.0	5.0	100.0
International Equity - Diversified	Foreign Large Blend	5.0	12.0	100.0
Large Cap Equity	Large Blend	5.0	12.0	100.0
Mid Cap Equity	Mid-Cap Blend	5.0	11.0	100.0
Money Market	Money Market Taxable	5.0	5.0	100.0
Other	Specialty-Real Estate	5.0	7.0	100.0
Small Cap	Small Blend	5.0	8.0	100.0

## 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 attitudes, expectations, objectives and guidelines for the investment of all of the Client's assets.
2. Encouraging effective communications between the Client 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.

## Statement of Objectives

### Background

The assets covered by this IPS currently total approximately \$1,000,000 in market value.

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:

Provide a secure retirement for Linda and her husband. A terminal value of at least \$3,000,000 is desired at age 65.

Investment managers are instructed to evaluate all investment options according to objective economic criteria established by the manager and if there are equally attractive investments, social factors may be considered.

### 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 minimal.

### Risk Tolerances

The Client recognizes and acknowledges some risk must be assumed in order to achieve the investment objectives of the portfolio, and that there are uncertainties and complexities associated with contemporary investment markets. In establishing the risk tolerances for this IPS, the Client's ability to withstand short and intermediate term variability was considered.

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.

A 1-yr loss limit of -4.3% has been calculated for the portfolio. Statistically speaking, there is a 5% chance (one in every twenty years) that the 1-year return will actually be lower than -4.3%.

## **Expected Return**

In general, the Client would like the assets to earn at least a targeted return of 7.4%.

## **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 Portfolio since the previous report.

### **Separate Account Managers**

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 Portfolio.
3. Seek approval from the Client prior to purchasing and/or implementing the following securities and transactions:
  - a. Letter stock and other unregistered securities; commodities or other commodity contracts; and short sales or margin transactions.
  - b. Securities lending; pledging or hypothecating securities.
  - c. Investments in the equity securities of any company with a record of less than three years continuous operation, including the operation of any predecessor.
  - d. 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 Portfolio 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 Client 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 Client is interested.

6. Effect all transactions for the Portfolio subject “to best price and execution.” If a manager utilizes brokerage from the Portfolio assets to effect “soft dollar” transactions, detailed records will be kept and communicated to the Client.
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 Portfolios with like aims in accordance and compliance with all applicable laws, rules, and regulations.
8. Take in to consideration the Client’s Mission-based/ Socially Responsible Investment (SRI) preferences. It has become a generally accepted practice to permit the inclusion of an SRI strategy as a secondary screen to a normal (unrestricted) investment process. If there are equally attractive investment options, then social factors may be considered.

## **Asset Class Guidelines**

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

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.

The following asset classes 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.

Money Market Taxable  
Short-Term Bond  
Intermediate-Term Bond  
Multisector Bond  
World Bond  
Large Blend  
Foreign Large Blend  
Mid-Cap Blend  
Small Blend  
Specialty-Real Estate

### **Rebalancing of Strategic Allocation**

The percentage allocation to each asset class may vary depending upon market conditions. Please reference the allocation table in the Executive Summary for the lower and upper limits for each asset class. 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 Client judges cash flows to be 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.

## Implementation

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

1. Regulatory oversight: 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.
2. Correlation to style or peer group: The investment option should be highly correlated to the asset class being implemented. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the investment option to the appropriate peer group.
3. Performance relative to a peer group: The investment option's performance should be evaluated against the peer group's median manager return, for 1-, 3- and 5-year cumulative periods. [Suggested threshold: Performance should be above the peer group median for 1-, 3-, and 5-year periods.]
4. Performance relative to assumed risk: The investment option's risk-adjusted performance (Alpha and/or Sharpe Ratio) should be evaluated against the peer group's median manager's risk-adjusted performance. [Suggested threshold: Risk-adjusted performance should be above the peer group median.]
5. Minimum track record: The investment option should have sufficient history so that performance statistics can be properly calculated. [Suggested threshold: Inception date should be 3-years or more.]
6. Assets in the product: The investment option should have sufficient assets so that the portfolio manager can properly trade the account. [Suggested threshold: The investment option should have at least \$75 million under management (can include assets in related share classes).]
7. Holdings consistent with style: The underlying securities of the investment option should be consistent with the associated broad asset class. [Suggested threshold: At least 80% of the underlying securities should be consistent with the broad asset class. 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 investment option's fees should be fair and reasonable. [Suggested threshold: Fees should not be in the bottom quartile (most expensive) of the peer group.]
9. Stability of the organization: There should be no perceived organizational problems. [Suggested threshold: The same Plan management team should be in place for at least two years.]

## Monitoring

### Performance Objectives

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

The Client 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 meet to review whether each investment option continues to conform to the search criteria outlined in the Implementation section; specifically:

1. The investment option's adherence to the due diligence criteria;
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.

### **Benchmarks**

The Client has determined that performance objectives 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).

<b>Peer Group</b>	<b>Index</b>
Foreign Large Blend	MSCI World ex US NDTR_D
Intermediate-Term Bond	Lehman Brothers 5-10 Yr Govt/Credit Bond
Large Blend	Russell 1000
Mid-Cap Blend	Standard & Poors Midcap 400 PR
Money Market Taxable	3 Month T-Bill
Multisector Bond	Lehman Brothers U.S. Universal Bond
Short-Term Bond	Lehman Brothers 1-5 Yr Govt/Credit Bond
Small Blend	Russell 2000
Specialty-Real Estate	DJ Wilshire REIT
World Bond	Citigroup Non-USD WGBI USD

### **Watch List Criteria**

An investment option may be placed on a Watch List and a thorough review and analysis of the investment option may be conducted, when:

1. An investment option performs below median for their peer group over a 1-, 3- and/or 5-year cumulative period.
2. An investment option'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 investment option.
4. There is a significant decrease or increase in the investment option's assets.
5. There is an indication the investment option is deviating from the stated style and/or strategy.
6. There is an increase in the investment option's fees and expenses.
7. Any extraordinary event occurs that may interfere with the investment option's ability to prudently manage investment assets.

The decision to retain or terminate an investment option cannot be made by a formula. 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.

**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. Custodial fees.
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 Client 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:**

Linda Burns  
Burns Specialty Consulting

**Signature**

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**Date**

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**Approved by:**

Client

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