Sample Investment Policy Statement

HBK SORCE FINANCIAL LLC

Created on:

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INVESTMENT POLICY STATEMENT

ABC COMPANY

401(k) Profit Sharing Plan

Approved on April 14, 2005

By ABC COMPANY 401(k) Profit Sharing Plan 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.

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EXECUTIVE SUMMARY

Type of Plan:	401(k) Profit Sharing Plan
Plan Sponsor:	ABC COMPANY
Plan IRS Tax Identification:	55-5555555
Current Assets:	$5,000,000
Participant-Directed Investment Options:	Yes
Frequency to Change Investment Options:	Daily
Investment Options:	Money Market (MM) Intermediate Bond (IB) Intermediate Government (IG) Large-Cap Value (LCV) Large-Cap Blend (LCB) Large-Cap Growth (LCG) Mid-Cap Value (MCV) Mid-Cap Blend (MCB) Mid-Cap Growth (MCG) Small-Cap Value (SCV) Small-Cap Blend (SCB) Small-Cap Growth (SCG) International Equity (IE)

PURPOSE

The purpose of this Investment Policy Statement (IPS) is to assist the ABC COMPANY ("Company") 401(k) Profit Sharing Plan Committee ("Committee") [See Appendix A] in effectively supervising, monitoring and evaluating the investment of the ABC COMPANY 401(k) Profit Sharing 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 and the record keepers and administrators.

3. Establishing the number and characteristics of offered investment options [See Appendix B].

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

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

The Plan is a defined contribution plan started in 2004 and is a qualified employee retirement plan sponsored by ABC COMPANY. The purpose of the Plan is to encourage employees to build long-term careers with ABC COMPANY by providing eligible employees with a convenient way to save on a regular and long-term basis for retirement.

The Plan currently covers 36 employees. Plan size is currently $5,000,000 and annual contributions should total approximately $300,000.

Employee contributions are made through payroll deductions each payroll period and remitted to the custodian for investment into the employee designated investment options.

Key Information

Name of Plan:	ABC COMPANY 401(k) Profit Sharing Plan
Plan Sponsor:	ABC COMPANY
Plan IRS Tax ID:	55-5555555

STATEMENT OF OBJECTIVES

This IPS has been developed after careful consideration by the Committee of 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. Providing participants an adequate number of investment options to develop a properly diversified personal account portfolio.

2. Providing participants with sufficient information so the participant can make an informed decision about his or her selection of investment options.

3. Permitting participants to change investment options on a daily basis.

4. Allowing each plan participant to make their own investment contribution and allocation decisions. [Target allocations provided to participants are summarized in Appendix C]

5. Properly control and account for all costs of administering the plan and managing the investments.

ASSET CLASS GUIDELINES

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 D. The following thirteen asset classes were selected and ranked in ascending order of “risk” (least to most).

Money Market (MM)
Intermediate Bond (IB)
Intermediate Government (IG)
Large-Cap Value (LCV)
Large-Cap Blend (LCB)
Large-Cap Growth (LCG)
Mid-Cap Value (MCV)
Mid-Cap Blend (MCB)
Mid-Cap Growth (MCG)
Small-Cap Value (SCV)
Small-Cap Blend (SCB)
Small-Cap Growth (SCG)
International Equity (IE)

DUTIES AND RESPONSIBILITIES

401(k) Profit Sharing 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 Managers

As distinguished from the Committee and HBK Sorce Financial 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. 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.

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 reporting 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 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

Performance Objectives

The Committee acknowledges that 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, 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.

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).

Asset Class Summary

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		
Blend	S&P 400	Mid-Cap Blend
Growth	Russell Mid Cap Growth	Mid-Cap Growth
Value	Russell Mid Cap Value	Mid-Cap Value

Asset Class Summary - Continued

Asset Class	Index	Peer Group
Small-Cap Equity		
Blend	Russell 2000	Small-Cap Blend
Growth	Russell 2000	Small-Cap Growth
Value	Russell 2000	Small-Cap Value
International Equity	MSCI EAFE	Foreign Stock
Fixed Income	Met Life GIC	
Intermediate-term Bond	Lehman Brothers Gov't/Credit Intermediate	Intermediate-Term Bond
Intermediate Government	Lehman Brothers Government Bond	Intermediate Government
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 fund 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 or a representative 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 the proper use of 12b-1 fees to offset these fees.

5. Initially ABC COMPANY intends to pay the advisory fee on the Vanguard funds but reserves the right to pass this fee along to the participants who choose to invest in those funds.

Default Fund

If a participant fails to provide the Plan with an investment direction, the Committee will direct the investment of the participant's account, until such time as the participant provides his or her first affirmative direction. In consideration of the risk tolerances, time horizons and investment needs of the average participant, and of the common investment allocations by fiduciaries of large retirement plans, accounts for participants who do not affirmatively select their investment alternatives will be invested to the Money Market fund. Such monies will continue to be invested in the Money Market fund, until and unless the Committee decides to change this decision for all participants who have not provided investment directions or until the Committee determines that a different investment selection is appropriate for a participant. In making these decisions, the Committee is not responsible for inquiring into the specific goals or needs of a participant.

INVESTMENT POLICY REVIEW

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.

Approved:

_____
Investment Committee Member/Trustee
April 14, 2005

APPENDIX A – COMMITTEE MEMBERS

ABC COMPANY Retirement Plan Investment Committee Members

_____, Investment Committee Member or Trustee

_____, Investment Committee Member or Trustee

_____, Investment Committee Member or Trustee

APPENDIX B – DESIGNATED FUNDS

Asset Class	Fund Name	Market Index	Peer Group
Money Market	Gartmore Money Market	90 day T-Bills	Money Market Database
Large-Cap Blend	Davis NY Venture A Vanguard Total Stock Index	S&P 500	Large-Cap Blend
Large-Cap Growth	Amer Funds Growth Fund R2	Russell 200 Growth	Large-Cap Growth
Large-Cap Value	Amer Funds Washington R2	Russell 200 Value	Large-Cap Value
Mid-Cap Blend	Oppenheimer Main Opp N	S&P 400	Mid-Cap Blend
Mid-Cap Growth	Goldman Sachs Grth Opp A	Russell Mid Cap Growth	Mid-Cap Growth
Mid-Cap Value	Goldman Sachs Mid Value A	Russell Mid Cap Value	Mid-Cap Value
Small-Cap Blend	Delaware Small Cap Value A	Russell 2000 Blend	Small-Cap Blend
Small-Cap Growth	Franklin Small Cap Grwth II R	Russell 2000 Growth	Small-Cap Growth
Small-Cap Value	Goldman Sachs Sm Val A	Russell 2000 Value	Small-Cap Value
International Equity	Amer Funds Europacific R2 AIM European Growth R	MSCI EAFE	Foreign Stock
Intermediate Bond	Amer Funds Bond Fund R2 Vanguard Total Bond Index	Lehman Brothers Gov't/Credit Intermediate	Intermediate-Term Bond
Intermediate Government	Goldman Sachs Gov't Income A	Lehman Brothers Gov't Bond	Intermediate Government

APPENDIX C – ASSET ALLOCATION MODELS

Asset Class	Conservative	Mod/Cons	Moderate	Mod/Aggr	Aggressive
Money Market	10%	5%	5%	5%	0%
Intermediate-Term Bond	30%	30%	25%	20%	20%
Large Growth	15%	15%	20%	20%	25%
Large Value	30%	25%	20%	15%	10%
Mid-Cap Growth	0%	5%	10%	10%	15%
Mid-Cap Value	5%	5%	0%	5%	0%
Small Growth	0%	5%	10%	10%	15%
Small Value	5%	5%	0%	5%	0%
World Stock	5%	5%	10%	10%	15%
Totals:	100%	100%	100%	100%	100%

APPENDIX D – ASSET CLASS RISK AND RETURN CHARACTERISTICS

Asset Class	Modeled Return	Modeled Standard Deviation	Index Proxy
Large-Cap Equity	9.13	15.98	S&P 500
Mid-Cap Equity	9.55	19.00	S&P Mid-Cap 400
Small-Cap Equity	9.63	20.89	Russell 2000
International Equity	9.06	20.89	MSCI EAFE IL
Intermediate Fixed Income	4.61	5.00	Lehman Bros Interm Govt
GIC	2.09	1.30	3 Month T-Bill

GLOSSARY

ADV
Disclosure document required to be filed (and updated annually) by a Registered Investment Advisor with the Securities and Exchange Commission. This form details the advisor's practices, operations, fees, and individuals associated with the advisor, if registered as a firm.

Alpha
The statistical measure of a portfolio's return in excess of the market return adjusted for risk. It is a measure of the manager's contribution to performance with reference to security selection.

American Depository Receipts (ADRs)
Financial assets issued by U.S. banks that represent indirect ownership of a certain number of equity shares in a foreign firm. ADRs are held on deposit in a bank in the firm's home country.

Basis Point
1.00% = 100 Basis Points

Beta
The statistical measure of the volatility, or sensitivity, of rates of return on a portfolio or security in comparison to a market index. The beta value measures the expected change in return per one percent change in the return on the market. Thus, a portfolio with a beta of 1.1 would move 10% more than the market.

Board Room Risk
The risk that trustees will not ride out short-term volatility (and therefore alter a sound long-term strategy) due to pressure put on them in their role as trustees.

Broad Fixed Income
Funds that diversify their assets among several fixed income sectors - usually government, corporate, and high yield domestic obligations.

Correlation Coefficient
Correlation measures the degree to which two variables are associated. Correlation is a commonly used tool for constructing a well-diversified portfolio. Traditionally, equities and fixed-income asset returns have not moved closely together. The asset returns are not strongly correlated. A balanced fund with equities and fixed-income assets represents a diversified portfolio that attempts to take advantage of the low correlation between the two asset classes.

Dollar-weighted Rate of Return
Method of performance measurement that calculates returns based on the cash flows of a security or portfolio. This return is also referred to as the internal rate of return (IRR).

Duration
A measure of the average maturity of the stream of interest payments of a bond. The value of a given bond is more sensitive to interest rate changes as duration increases, i.e. longer duration bonds have greater interest rate volatility than shorter duration bonds. Duration is always shorter than **maturity** except for zero coupon bonds.

Emerging Markets
Managers who primarily concentrate on investments in newly emerging second and third world countries in the regions of the Far East, Africa, Europe, and Central and South America. These portfolios are characterized by aggressive risk/return profiles that generate high volatility in search of high returns.

End Point Sensitivity
The performance of a manager/fund may vary depending on which ending time periods are used to analyze performance. Therefore it is important to look at performance for a number of market cycles or time periods to gain an accurate assessment of the manager/fund's performance.

ERISA
The Employee Retirement Income Security Act is a 1974 law governing the operation of most private pension and benefit plans. The law eased pension eligibility rules, set up the **Pension Benefit Guaranty Corporation**, and established guidelines for the management of pension funds.

Fiduciary
Indicates the relationship of trust and confidence where one person (the fiduciary) holds or controls property for the benefit of another person. For example, the relationship between a trustee and the beneficiaries of the trust.

Any person who (1) exercises any discretionary authority or control over the management of a plan or the management or disposition of its assets, (2) renders investment advice for a fee or other compensation with respect to the funds or property of a plan, or has the authority to do so, or (3) has any discretionary authority or responsibility in the administration of a plan.

Geometric Return
A method of calculating returns which links portfolio results on a quarterly or monthly basis. Suppose a $100 portfolio returned +25% in the first quarter (ending value is $125) but lost 20% in the second quarter (ending value is $100).

Over the two quarters the return was 0% - this is the geometric return. However, the **Arithmetic Return** calculation would simply average the two returns: (+25%)(.5) + (-20%)(.5) = +2.5%.

Global Bond
Funds that invest in fixed income securities, primarily from developed countries around the world, including the U.S..

Guaranteed Investment Contracts (GICs)
Contract between an insurance company and a corporate profit sharing or pension plan that guarantees a specific rate of return on the invested capital over the life of the contract. Although the insurance company takes all market, credit, and interest rate risks on the investment portfolio, it can profit if its returns exceed the guaranteed amount. For pension and profit-sharing plans, guaranteed income contracts are a conservative way of assuring beneficiaries that their money will achieve a certain rate of return.

Intermediate Bond
Fixed income funds of investment grade securities that have a duration of more than 3.5 but less than 6.0 years or an average effective maturity of more than 4.5 but less than 7.0 years.

International Equity
Funds that invest in non-U.S. stocks, primarily in developed countries around the world. Although, most international funds include an allocation to emerging markets as well.

Large-Cap Blend
Equity funds that invest in stocks that represent the largest 5% of the top 5,000 U.S. stocks and where the P/E and P/B is comparable to that of the S&P 500.

Large-Cap Growth
Equity funds that invest in stocks that represent the largest 5% of the top 5,000 U.S. stocks and where the P/E and P/B is greater than that of the S&P 500.

Large-Cap Value
Equity funds that invest in stocks that represent the largest 5% of the top 5,000 U.S. stocks and where the P/E and P/B is less than that of the S&P 500.

Market Capitalization
A common stock's current price multiplied by the number of shares outstanding. It is the measure of a company's total value on a stock exchange.

Market Timing
A form of **Active Management** that moves funds between asset classes based on short-term expectations of movements in the capital markets. (Not

recommended as a prudent process.) It is very difficult to improve investment performance by attempting to forecast market peaks and troughs.

Mid-Cap Equities
Equity funds that invest in stocks that represent those firms between 5% and 20% according to size of the top 5,000 U.S. stocks.

Modern Portfolio Theory (MPT)
Essential to portfolio theory is the relationship between risk and return and the assumption that investors must be compensated for assuming risk. This portfolio approach shifts emphasis from analyzing the characteristics of individual investments to determining the statistical relationships among the individual securities that comprise the overall portfolio.

Quality Rating
The rank assigned a security by rating services such as Moody's and Standard & Poor's. The rating may be determined by such factors as: (1) the likelihood of fulfillment of dividend, income, and principal payment obligations, (2) the nature and provisions of the issue, and (3) the security's relative position in the event of liquidation of the company. Bonds assigned the top four grades (AAA, AA, A, and BBB) are considered "**Investment Grade**" because they are eligible bank investments as determined by the Comptroller of the Currency.

Real Estate
Funds that invest primarily in REIT equity instruments. The characteristics of these funds are more representative of small-cap stocks than direct investment in a diversified portfolio of real estate comprised of farm, residential, and commercial properties.

Risk-Free Rate of Return
The return on a 90-day Treasury bills. This is used as a proxy for no risk due to its U.S. Government issuance and short-term maturity. The term is really a misnomer since nothing is free of risk. It is utilized since certain economic models require a "risk-free" point of departure. See **Sharpe Ratio**.

R-squared (R^2)
Formally called the coefficient of determination, this statistic measures the overall strength or "explanatory power" of a statistical relationship. In general, a higher R^2 means a stronger statistical relationship between the variables that have been estimated, and therefore more confidence in using the estimation for decision-making.

Sharpe Ratio
Statistical measure of risk-adjusted return. It is calculated by subtracting the **Risk-Free Return** (usually 3 Month Treasury Bill) from the portfolio return, then dividing the resulting "excess return" by the portfolio's total risk level (standard

deviation). The result is a measure of return gained per unit of total risk taken. The Sharpe Ratio can be used to compare the relative performance of managers. If two managers have the same level of risk but different levels of excess return, the manager with the higher Sharpe Ratio would be preferable.

Short-Term Fixed Income
Fixed income funds of investment grade securities that have a duration of more than 1.0 but less than 3.5 years or an average effective maturity of more than 1.0 but less than 4.0 years. Also, used as a proxy for GICs, Stable Value Funds and Money Markets.

Small-Cap Equities
Equity funds that invest in stocks that represent the smallest 80% of the top 5,000 U.S. stocks.

Soft Dollars
The portion of a plan's commissions expense incurred in the buying and selling of securities that is allocated through a **Directed Brokerage** arrangement for the purpose of acquiring goods or services for the benefit of the plan.

Standard Deviation
Statistical measure of portfolio risk. It reflects the average deviation of the observations from their sample mean. Standard Deviation is used as an estimate of risk since it measures the width of the range of returns. The wider the typical range of returns, the higher the standard deviation of returns, and the higher the portfolio's risk. If returns are normally distributed (i.e. have a bell-shaped curve distribution), then approximately 2/3 of the returns would occur within plus or minus one Standard Deviation from the sample mean.

Systematic Risk
Attributable to common macroeconomic factors and sometimes referred to as market risk. Systematic Risk is the part of a security's total risk that is related to movements in the market portfolio and therefore cannot be diversified away.

Time-Weighted Rate of Return
Method of performance measurement that strips the effect of cash flows on investment performance by calculating sub period returns before and after a cash flow and averaging these sub period returns. Time-weighted performance removes the impact of cash flows and as a result is widely accepted as the appropriate method of comparison for investment managers and market index returns.

Unsystematic Risk
A risk pertaining to one element in a large environment or system. The risk of one stock is unsystematic, while the risk of the entire market of which it is an element is systematic. See **Systematic Risk**.