

# ABC, Inc.

## Investment Policy Statement

### Part I. THE PLAN

ABC, Inc. (Plan Sponsor) sponsors a Defined Contribution Plan for the benefit of its employees and will appoint a Committee to serve as the Plan Fiduciaries. The Plan is intended to provide eligible employees with the long-term accumulation of retirement savings through a combination of employee and employer contributions to individual participant accounts and the earnings thereon.

The Plan is a qualified employee benefit plan intended to comply with all applicable federal laws and regulations, including the Internal Revenue Code of 1986, as amended, and the Employee Retirement Income Security Act of 1974 (ERISA), as amended. In addition, the Plan is intended to comply with ERISA Section 404(c).

The Plan's participants and beneficiaries are expected to have different investment objectives, time horizons and risk tolerances. To meet these varying investment needs, participants and beneficiaries will be able to direct their account balances among a range of investment options to construct diversified portfolios that reasonably span the risk/return spectrum. Participants and beneficiaries alone bear the risk of investment results from the options and their asset allocation.

### Part II. THE PURPOSE OF THE INVESTMENT POLICY STATEMENT

This Investment Policy Statement is intended to assist the Plan's fiduciaries by establishing guidelines for making investment-related decisions in a prudent manner. It outlines the underlying philosophies and processes for the selection, monitoring and evaluation of the investment options offered by the Plan.

Specifically, this Investment Policy Statement:

- Defines the Plan's investment objectives.
- Defines the roles of those responsible for the Plan's investments.
- Describes the criteria and procedures for selecting the investment options.
- Establishes investment procedures, measurement standards and monitoring procedures.
- Describes investment options and investment managers that fail to satisfy established objectives.

This Investment Policy Statement will be reviewed periodically, and, if appropriate, may be amended to reflect changes in the capital markets, plan objectives, or other factors relevant to the Plan.

This Investment Policy Statement (including the criteria for the selection and monitoring of investment options under the Plan) does not apply to employer securities (also known as Company stock) if offered under the Plan.

### Part III. INVESTMENT OBJECTIVES

The Committee will select the Plan's investment options based on the following criteria:

- Maximization of return within reasonable and prudent levels of risk.
- Provision of returns comparable to returns for similar investment options.
- Provision of exposure to a wide range of investment opportunities in various asset classes and vehicles.
- Control administrative and management costs.
- Provision of appropriate diversification within investment vehicles.

#### Part IV. ROLES AND RESPONSIBILITIES

Subject to the terms of the Plan document, the Committee is responsible for selecting the trustee(s); hiring the recordkeeper; selecting the investment option(s); hiring the investment consultant(s); and appointing the members of the investment committee. The Committee is also responsible for:

- Establishing and maintaining the Investment Policy Statement.
- Periodically evaluating the Plan's investment performance and recommending investment option changes.
- Providing for Plan participant investment education and communication.

#### Part V. MONITORING OF PLAN PROVIDER

Plan providers will be monitored on an ongoing basis, no less frequently than every five years, or as other plan demographics change, to ensure comprehensive investment/fund offerings and competitive total plan costs/expenses.

Investment line-ups will be compared to appropriate providers to ensure the plan has access to competitive investments. Total plan costs and services will be reviewed to ensure that they are competitive.

#### Part VI. SELECTION OF INVESTMENT OPTIONS

The selection of investment options offered under the Plan is among the Committee's most important responsibilities. Set forth below are the considerations and guidelines employed in fulfilling this fiduciary responsibility.

The Plan intends to provide an appropriate range of investment options that may span the risk/return spectrum. Further, the Plan's investment options will allow Plan participants to construct portfolios consistent with their unique individual circumstances, goals, time horizons and tolerance for risk. Major asset classes to be considered will include:

##### Conservative Investments

Cash and liquid investments including, but not limited to, money market, stable value, and guaranteed interest accounts.

##### Income Investments

Income oriented investments including, but not limited to, low, medium, and high quality bond funds, with short, intermediate, and/or long term duration. Management styles may be indexed and actively managed international, global, and domestic styles.

##### Equity Investments

Funds that invest in equity securities, both domestic and foreign, including, but not limited to, small, medium, and large market capitalization, with value, blend, and growth investment objectives, which may be actively managed or indexed.

##### Managed Funds or Accounts

Funds or accounts that invest in a combination of conservative, income, and equity investments, "fund of funds" accounts combining several of the above investments into one or a series of investments, and "manager of managers" accounts combining several different investment styles and fund managers into one account or a series of accounts.

##### Other

Appropriate investments in other styles or asset classes offered through vehicles such as commingled trusts, insurance company separate accounts through a group annuity contract, and mutual funds.

After determining the asset classes, the Committee will evaluate and choose the appropriate investment option(s) desired. If an investment manager (responsible for the management of the underlying investment vehicle, such as a mutual fund, commingled account or separate account) is chosen as the investment option, the following minimum criteria shall be considered:

1. It should be a bank, insurance company, investment management, mutual fund company or an investment advisor under the Registered Investment Advisors Act of 1940;
2. It should operate in good standing with regulators and clients, with no material pending or concluded legal actions; and
3. All relevant quantitative and qualitative information on the fund manager and fund should be made available by the manager and/or vendor.

In addition to the minimum criteria above, all investments under consideration should meet the following standards for selection:

1. Investment performance should be competitive with an appropriate style-specific benchmark and the median return for an appropriate, style-specific peer group;
2. Specific risk and risk-adjusted return measures should be reviewed by the Company and be within a reasonable range relative to appropriate, style-specific benchmark and peer group;
3. It should demonstrate adherence to the stated investment objective, without excess style drift over trailing performance periods;
4. Fees should be competitive compared with similar investments;
5. Attractive qualitative characteristics, including, but not limited to, acceptable manager tenure; and
6. The investment manager should be able to provide performance, holdings, and other relevant information in a timely fashion with specified frequency.

Furthermore, investment managers will be evaluated and selected from an investment manager "score card," detailed in Part VII (Investment Monitoring and Reporting).

#### Part VII. INVESTMENT MONITORING AND REPORTING

The ongoing monitoring of investments is a regular and disciplined process. Monitoring confirms that the criteria remain satisfied and that an investment option continues to be appropriate. The process of monitoring investment performance relative to specified guidelines will be consistently applied. Frequent change of investments is neither expected nor desired.

Monitoring will utilize the same investment selection criteria used in the original selection analysis. Unusual, notable, or extraordinary events will be communicated by the investment manager and/or vendor on a timely basis to the Company and appointed Committee. Examples of such events include portfolio manager or team departure, violation of investment guidelines, material litigation against the firm, or material changes in firm ownership structure and announcements thereof.

If overall satisfaction with the investment option is acceptable, no further action is required. If areas of dissatisfaction exist, the investment manager and the Committee must take steps to remedy the deficiency. If over a reasonable period the manager is unable to resolve the issue, removal of the investment option may result.

For supported asset classes, an investment manager (fund) "score card" will be maintained and documented (see addendum) in order to substantiate acceptable levels of manager performance and appropriate style characteristics. Based upon objective criteria, derived from Modern Portfolio Theory concepts, each fund will receive a score reflecting its overall performance.

If a fund fails to meet the criteria standards, as determined by its score, it will be placed on a "watch list." (In the event a fund receives a score which is below that of "watch list" status, or experiences extraordinary circumstances which may render it inappropriate to maintain, it may be considered for removal at the earliest feasible date.) If this fund continues to remain on "watch list" for the following three quarters, the fund will be considered for possible removal.

Furthermore, throughout the seven quarters subsequent to being placed on the watch list, the fund may be considered for removal if it fails to achieve the criteria standards in at least four of the next seven quarters. If the fund meets criteria standards for four consecutive quarters, it may be removed from the watch list.

Managed Funds or Accounts will be scored and monitored using the previously described guidelines described above, however, due to the unique importance of these professionally managed vehicles for less sophisticated participants in the plan, funds or accounts failing to achieve criteria standards will be carefully reviewed before removed from the plan in the absence of a reasonable alternative.

Investment styles or asset classes where no score is applied (select specialty funds) will be reviewed where appropriate.

The Company retains full responsibility for the offering and monitoring of any Company stock offered as an investment option under the Plan, which will be reviewed periodically as determined by the Company based on criteria determined by the Company.

#### Part VIII. MANAGER REMOVAL

An investment manager (i.e., fund) may be removed when the Committee has lost confidence in the manager's ability to:

- Achieve performance, style, allocation, and/or risk objectives.
- Maintain acceptable qualitative standards (e.g., stable organization, compliance guidelines).

If the investment manager has failed to adhere to and/or remedy one or both of the above conditions, they may be considered for removal from the plan. Any decision by the Committee to remove an investment manager will be made on an individual basis, and will be made based on all the known facts and circumstances, including, but not limited to:

- The objective analysis (described above)
- Administrative impact on the plan
- Timing
- Employee communications issues
- The availability of other (potential replacement) managers
- Underwriting and plan provider limitations
- Financial considerations (hard and soft dollar fees)
- Professional or client turnover
- A material change in the investment process
- Other relevant factors

Considerable judgment will be exercised in the manager removal decision-making process. A manager shall be removed using one of the following approaches:

- Remove and replace (map assets) with an alternative manager.
- Freeze the assets managed by the removed manager and direct new assets to an alternative manager.
- Phase out the manager over a specific time period.
- Remove the manager and do not provide a replacement manager.

Replacement of a removed manager follows the criteria outlined in Part VI (Selection of Investment Options).

#### Part IX. PARTICIPANT EDUCATION AND COMMUNICATION

The Plan will communicate to employees that they control their own investments and investment changes. Investment communications materials, educational materials, and enrollment support will be available to help Plan participants make educated and informed choices, including:

1. Periodic enrollment and investment education, through one or more of the following: on-site meetings, phone conference, web conference, Internet, phone (voice-response and live representatives), and written materials;
2. ERISA Section 404(c) disclosure;
3. Summary Plan Description made available to all employees;
4. Information regarding investment risk, inflation, potential taxation impact, investment earnings, and asset classes; and
5. Other investment tools (e.g., investment risk profile questionnaire) to assist employees in making educated and informed investment decisions.

Part X. COORDINATION WITH THE PLAN DOCUMENT

Notwithstanding the foregoing, if any term or condition of this investment policy conflicts with any term or condition in the Plan, the terms and conditions of the Plan shall control.

Part XI. ERISA 404(c)

The Company intends to comply with ERISA Section 404(c) and the regulations there under, thereby relieving the Plan Fiduciaries from liability for investment performance that is the direct result of investment decisions made by Plan participants. The intention to comply with ERISA Section 404(c), and the regulations promulgated hereunder, will be communicated to employees in writing, with a notice that will be included in the employee enrollment kits that will be distributed to every eligible employee.

Part XII. INVESTMENT INFORMATION AND ADMINISTRATIVE SUPPORT

The Committee should require the investment manager and/or vendor to offer the following administrative information and support:

1. Daily valuation of all investments;
2. Daily access to account information via toll-free number and Internet access;
3. The ability to make investment transfers for both existing and future individual account balances on a daily basis (non-business days and holidays excluded);
4. Zero cost to the plan participant for investment changes (for at least the first four investment transfers per year);
5. Participant account investment reports produced no less frequently than annually, with similar information available via the Internet at least quarterly; and
6. Quarterly investment performance updates available for participant review via the Internet.

Part XIII. REVIEW PROCEDURES

This Investment Policy Statement will be periodically reviewed and amended, if appropriate, at any time and without notice, by action of the Plan Sponsor or Plan Fiduciaries.

***NOTE: This document provides SAMPLE wording and should be reviewed by legal counsel prior to signing and executing.***

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Name of Plan Trustee	Signature	Date
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Name of Plan Trustee	Signature	Date
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Name of Plan Trustee	Signature	Date
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ADDENDUM TO PART VII: INVESTMENT MONITORING AND REPORTING

# The Scorecard<sup>SM</sup> System

## Methodology:

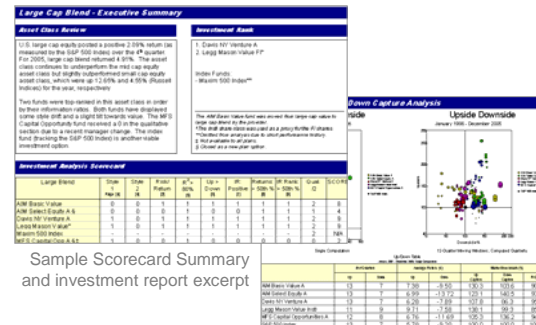
The Scorecard<sup>SM</sup> System methodology incorporates both quantitative and qualitative factors into evaluating fund managers and their investment strategies. The scoring system is built around pass/fail criteria, on a scale of 0 to 10 (with 10 being the best).

Eighty percent of the fund's score is quantitative, incorporating modern portfolio theory statistics, quadratic optimization analysis, and peer group rankings (among a few of the quantitative factors). There are eight factors, which are explained on the next page (titled "Quantitative Factors"). Funds are evaluated over a 5 year period unless a fund option in that asset class has less than 5 years but greater than 3 years of performance, in which case the fund with under 5 years of history may be evaluated. Funds with less than 3 years of performance history are omitted from the analysis and removed from consideration.

The other 20% of the score is qualitative, taking into account manager tenure, the fund's expense ratio relative to the average fund expense ratio in that asset class category, and the fund's strength of statistics (statistical significance). Other criteria that may be considered in the qualitative score includes the viability of the firm managing the assets, management or personnel issues at the firm, and/or whether there has been a change in direction of the fund's stated investment strategy.

Combined, these factors are a way of measuring the relative performance, characteristics, behavior and overall appropriateness of a fund for inclusion into a plan as an investment option. General fund guidelines are shown in the "Scorecard Point System" table below.

Scorecard Point System	
Good:	9-10 Points
Acceptable:	7-8 Points
Watch List:	5-6 Points
Poor:	0-4 Points



# Evaluation Criteria

## Quantitative Factors (1-8):

- |     |  |                           |
|-----|--|---------------------------|
| 1)* | <b>Style Analysis:</b> Returns-based analysis to determine the style characteristics of a fund over a period of time. Fund passes if it reflects the appropriate style characteristics. Style analysis helps ensure proper diversification in the plan.  | Style Factors – 30%       |
| 2)* | <b>Style Drift:</b> Returns-based analysis to determine the behavior of the fund/manager over multiple (rolling) time periods. Fund passes if the fund exhibits a consistent style pattern. Style consistency is desired so that funds can be effectively monitored within their designated asset class. |                           |
| 3)* | <b>R-Squared:</b> Measures the % of a fund's returns that are explained by the benchmark. Fund passes with an R2 > 80%. This statistic measures whether the benchmark used in the analysis is appropriate.   |                           |
| 4)  | <b>Risk/Return:</b> Fund passes if its risk is less than the benchmark or its return is greater than the benchmark. Favorable risk/return characteristics are desired.   | Risk/Return Factors – 30% |
| 5)  | <b>Up/Down Capture Analysis:</b> Measures the behavior of a fund in up and down markets. Fund passes with an up capture > its down capture. This analysis measures the relative value by the manager in up and down markets.   |                           |
| 6)  | <b>Information Ratio:</b> Measures a funds relative risk and return. Fund passes if ratio is > 0. This statistic measures the value added above the benchmark, adjusted for risk.  |                           |
| 7)  | <b>Returns Peer Group Ranking:</b> Fund passes if its median rank is above the 50 <sup>th</sup> percentile.  | Peer Group Rankings – 20% |
| 8)* | <b>Information Ratio Peer Group Ranking:</b> Fund passes if its median rank is above the 50 <sup>th</sup> percentile. This ranking ranks risk adjusted excess return.  |                           |

### \* Asset Allocation Portfolios

The evaluation criteria utilizes the same metrics as the Core Asset Classes, with the following exceptions. For example, 1) Risk Level, below, replaces 1) Style Analysis, left.

- 1) **Risk Level:** The fund's standard deviation is measured against the category it is being analyzed in. The fund passes if it falls within the range for that category.
- 2) **Style Diversity:** Fund passes if it reflects appropriate style diversity (returns-based) among the four major asset classes (Cash, Fixed Income, U.S. & International Equity) for the given category.
- 3) **R-Squared:** Measures the % of a fund's returns that are explained by the benchmark. Fund passes with an R2 > 90%.
- 8) **Sharpe Ratio Peer Group Ranking:** Fund passes if its median rank is above the 50<sup>th</sup> percentile. This ranking ranks risk adjusted return.

## Qualitative Factors (9-10):

- |       |  |                           |
|-------|--|---------------------------|
| 9-10) | Two points may be awarded based on qualitative characteristics of the fund. Primary considerations are given to manager tenure, fund expenses and strength of statistics, however, other significant factors may be considered.<br><br>It is important to take into account non-quantitative factors, which may impact future performance. | Qualitative Factors – 20% |
|-------|--|---------------------------|

The Scorecard<sup>SM</sup> System was developed and created by 401(k) Advisors, Inc. Patent Pending. ©2007 All rights reserved. 401K-1101

## Disclosures and Notes

- Some funds, accounts, or share classes used in the enclosed analysis may not be available for investment. Performance history prior to inception (if applicable) reflects another share class or account reflecting the advisor's historical performance record.
- Investment objectives and strategies vary among fund, and may not be similar for funds included in the same asset class.
- *Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted.*
- The performance data quoted may not reflect the deduction of additional fees, if applicable. If reflected, additional fees would reduce the performance quoted.
- Performance data is subject to change without prior notice.
- Performance of indexes reflects the unmanaged result for the market segment the selected stocks represent. Indexes are unmanaged and not available for direct investment.
- The information used in the analysis has been taken from sources deemed to be reliable, including, third-party providers such as *Zephyr, Morningstar*, firms who manage the investments, and/or the retirement plan providers who offer the funds.
- Every reasonable effort has been made to insure completeness and accuracy; however, the final accuracy of the numbers and information is the responsibility of the investment manager(s) of each fund and/or the retirement plan providers offering these funds. Discrepancies between the figures reported in this analysis, and those reported by the actual investment managers and/or retirement plan providers, may be caused by a variety of factors, including: Inaccurate reporting by the manager/provider; Changes in reporting by the manager/provider from the time this report was prepared to a subsequent retro-active audit and corrected reporting; Differences in fees and share-classes impacting net investment return; and, Scriveners error by 401(k) Advisors preparing this report.
- Fund scores will change as the performance of the funds change and as certain factors measured in the qualitative category change (e.g., manager tenure). Fund scores are not expected to change dramatically from each measured period, however, there is no guarantee this will be the case. Scores will change depending on the changes in the underlying pre-specified Scorecard factors.
- Neither past performance or statistics calculated using past performance are a guarantee of a fund's future performance. Likewise, a fund's score using 401(k) Advisor's Scorecard<sup>SM</sup> System does not guarantee the future performance or style consistency of a fund.
- The purpose of this report is to assist fiduciaries in selecting and monitoring investment options. A fund's score is meant to be used by the plan sponsor and/or fiduciaries as a tool for selecting the most appropriate fund.
- 401(k) Advisors, a registered investment advisor, prepared this report and believes that this information is relevant to the plan sponsor as the plan sponsor makes investment selections.
- Fund selection is at the discretion of the investment fiduciaries, which are either the plan sponsor or the committee appointed to perform that function.
- Index funds and select Specialty funds are not scored by the Scorecard<sup>SM</sup> System.
- The enclosed Investment Due Diligence report, including the Scorecard<sup>SM</sup> System, is intended for plan sponsor and/or institutional use only. The materials are not intended for participant use.
- The enclosed Investment Due Diligence report and Scorecard is not an offer to sell mutual funds. An offer to sell may be made only after the client has received and read the appropriate prospectus.
- For a copy of the most recent prospectus, please contact your Investment Advisor/Consultant.
- For the most current month-end performance, please contact 401(k) Advisors at (800) 959-0071.

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