


# **2010 Investment Policy Statement**

**For**



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## EXECUTIVE SUMMARY

**Current Assets:**

**Time Horizon:**

**Expected Return:**

**Risk Tolerance:**

**Asset Allocation:**

	<u>Lower Limit</u>	<u>Typical Allocation</u>	<u>Upper Limit</u>
Equities	35.0%	<b>50.0%</b>	65.0%
Bonds	15.0%	<b>30.0%</b>	40.0%
Hedge	10.0%	<b>15.0%</b>	20.0%
Cash & Equivalents	1.0%	<b>5.0%</b>	20.0%

**Evaluation Benchmark:**

Total return to exceed the performance of a policy index based upon the asset allocation of the portfolios to various broad asset classes. Specifically, the policy index will be a weighted index comprised of:

1. 50% S&P 500
2. 50% Lehman Aggregate Bond

# **Statement of Investment Policy, Objectives, and Guidelines**

## **SCOPE OF THIS INVESTMENT POLICY**

This statement of investment policy reflects the investment policy, objectives, and constraints of the entire Portfolio.

## **PURPOSE OF THIS INVESTMENT POLICY STATEMENT**

This statement of investment policy is set forth by the Portfolio Manager of the Portfolio in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives of assets.
3. Offer guidance and limitations to all Advisors regarding the investment of assets.
4. Establish a basis for evaluating investment results.
5. Manage assets according to prudent standards as established in common trust law.
6. Establish the relevant investment horizon for which the assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

## **DELEGATION OF AUTHORITY**

The Portfolio Manager of SIPCO is a fiduciary, and is responsible for directing and monitoring the investment management of your assets. As such, the Portfolio Manager is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. Advisor. The Advisor has discretion to purchase, sell, or hold the specific securities that will be used to meet the investment objectives outlined.

2. Custodian. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the client, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the managed accounts.

## **DEFINITIONS**

1. "Portfolio Manager" shall refer to the SIPCO team personnel that direct the composites.
2. "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over asset management or any authority or control over management, disposition or administration of the client's assets.
3. "Advisor" shall mean any individual or group of individuals, employed to manage the investments of all or part of the clients assets.
4. "Securities" shall refer to the marketable investment securities, which are defined as acceptable in this statement.
5. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met.

**Your investment horizon is \_\_\_\_\_years**

## **ASSIGNMENT OF RESPONSIBILITY**

### **RESPONSIBILITY OF THE ADVISOR(S)**

Each SIPCO Advisor will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the Advisor(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
2. Reporting, on a timely basis, quarterly investment performance results.

## **GENERAL INVESTMENT PRINCIPLES**

1. Investments shall be made solely in the interest of the client.
2. The assets shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the investment of a client of like character and with like aims.
3. Investments of the Client shall be diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

## **INVESTMENT MANAGEMENT POLICY**

1. Preservation of Capital - Consistent with their respective investment styles and philosophies, Portfolio Manager should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.
2. Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the Portfolio Manager recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Client's objectives. However, the Advisors are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
3. Adherence to Investment Discipline - Portfolio Manager are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

## **INVESTMENT OBJECTIVES**

In order to meet its needs, the investment strategy of the client is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income.

Specifically, the primary objective in the investment management for Client assets shall be:

## **SPECIFIC INVESTMENT GOALS**

The goal of each Portfolio Manager, over the investment horizon, shall be to:

1. Meet or exceed the market index, or blended market index, selected and agreed upon by both the Advisor and the client that most closely corresponds to the style of investment management.
2. Display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.

## **DEFINITION OF RISK**

The Portfolio Manager realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the client's assets understands how it defines risk so that the assets are managed in a manner consistent with the Client's objectives and investment strategy as designed in this statement of investment policy. The Portfolio Manager defines risk as:

High volatility (fluctuation) of investment returns.

## **LIQUIDITY**

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Portfolio Manager will periodically provide investment counsel with an estimate of expected net cash flow.

## **MARKETABILITY OF ASSETS**

The Portfolio Manager requires that all of Client assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Client, with minimal impact on market price.

# **INVESTMENT GUIDELINES**

## **ALLOWABLE ASSETS**

1. Cash Equivalents
  - Treasury Bills
  - Money Market Clients
  - STIF Clients
  - Commercial Paper
  - Banker's Acceptances
  - Certificates of Deposit
  
2. Fixed Income Securities
  - U.S. Government and Agency Securities
  - Corporate Notes and Bonds
  - Mortgage Backed Bonds
  - Preferred Stock
  - Fixed Income Securities of Foreign Governments and Corporations
  
3. Equity Securities
  - Common Stocks
  - Convertible Notes and Bonds
  - Convertible Preferred Stocks
  - American Depository Receipts (ADRs) of Non-U.S. Companies
  - Stocks of Non-U.S. Companies (Ordinary Shares)
  
4. Mutual Funds
  - Mutual Funds which invest in securities as allowed in this statement.
  
5. Other Assets
  - Exchange Traded Funds (ETFs)

## **PROHIBITED ASSETS**

Prohibited investments include, but are not limited to the following:

1. Private Placements
2. Options
3. Limited Partnerships
4. Venture-Capital Investments
5. Real Estate Properties
6. Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs

## PROHIBITED TRANSACTIONS

Prohibited transactions include, but are not limited to the following:

1. Traditional Short Selling
2. Margin Transactions

## ASSET ALLOCATION

Every asset class has an associated level of risk and expected return. *(See page 13 that demonstrates various model portfolio allocations and historical returns.)* The amount of assets you invest in each category depends on your investment time horizon, tolerance for risk and acceptable volatility of returns.



## DUTIES & RESPONSIBILITIES

The Client should always be cognizant that he or she has the ultimate responsibility for the investment of the assets. The Advisor shall assist the Client to discharge this responsibility with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in such conduct with like aims.

The Advisor is responsible for assisting the Client in making an appropriate asset allocation decision based on the financial needs, objectives, and risk profile of the Client and implementing such decisions. The Advisor will also monitor the portfolio no less often than quarterly and will offer to meet clients on a regular basis.

The Client should provide the Advisor with all relevant information on financial condition, net worth, and risk tolerances and shall notify the Advisor promptly of any changes to this information. Failure to disclose all relevant information will limit the Advisor's ability to provide appropriate investment advice.

## MARKET TIMING

The Portfolio Manager and Client agree that the Portfolio Manager may periodically engage in market timing of equities and does not believe in buy-and-hold stock investing. In general, fixed-income/bond positions will be held to maturity, although in certain circumstances bonds may be sold prior to maturity for various reasons (e.g. tender offers, tax-loss selling, before or after downgrade). **For equities, the Portfolio Manager may exit positions at any given time and**

**reduce exposure below the initial target allocation as set forth in this IPS, or to zero exposure if deemed appropriate.** The Client understands that this may mean loss of opportunity in stocks and may result in underperformance of benchmarks with the stock portion of the portfolio. In addition, if the target percentage in stocks is exceeded by market appreciation or because of withdrawals, it will typically be brought back in line with the initial target if it exceeds that target by 5% or more (assuming your risk tolerance and financial situation have not changed). This will be reviewed at least on a quarterly basis and any reduction will be done with tax efficiency in mind.

## INVESTMENT STRATEGY & CONSTRAINTS

Investment of assets will generally be limited to investments in stocks or individual bonds rated BB- or better at the time of purchase. In addition, investments may also be made in various Exchange-Traded Funds (ETFs) in either fixed income, stocks, commodities, hedge, or inverse hedge instruments. Individual real estate investment trusts, mutual clients, or preferred stocks may also be purchased if deemed appropriate given the Client's investment objectives and risk profile. At all times the Portfolio Manager will do his best to maintain diversification of assets, whether diversified within an asset class or among various asset classes. If an ETF or mutual fund is purchased, and it holds many individual securities (i.e. Dow Jones Industrials, which is comprised of 30 stocks), that would be consistent with the term "diversification."

## RISK PROFILES

*(Your Risk Profile is checked – please confirm)*

### ***Conservative:***



Conservative investors seek to balance potential risks with the goal of low to moderate growth and income. Equities may represent up to 50% of the portfolio. Bonds purchased will not be rated below BB- at the time of purchase. Also, bonds purchased may be invested in intermediate on longer maturities to create higher income. In most instances, bonds will be held to maturity. Note, there is risk of loss of principal, perhaps substantial loss, in stocks, bonds and in real estate investment trusts.

### ***Moderate:***



Moderate investors seek to balance potential risks with the goal of moderate growth and income. Equities may represent up to 65% of the portfolio. Bonds purchased will not be rated below BB- at the time of purchase. In most instances, bonds will be held to maturity. Note, there is risk of loss of principal, perhaps substantial loss, in stocks, bonds and in real estate investment trusts.

**Long-Term Growth:**



Long-term growth investors seek a significant level of growth, and their risk tolerance allows them to employ higher risk and more aggressive strategies that may offer higher potential returns (with the risk of substantial loss). Equities may represent up to 90% of the portfolio and is the primary asset in the account. If bonds are purchased they will not be rated below BB- at the time of purchase. In most instances, bonds will be held to maturity. Note, there is risk of loss of principal, perhaps substantial loss, in stocks, bonds and in real estate investment trusts.

**Aggressive Growth:**



For qualified investors (See Addendum). Long-term growth investors seek a significant level of growth, and their risk tolerance allows them to employ higher risk and more aggressive strategies that may offer higher potential returns (with the risk of substantial loss). Equities may represent up to 160% and -30% of the portfolio and is the primary asset in the account. Note, there is risk of loss of principal, perhaps substantial loss.

**Model Portfolio Allocations and Historical Risk From 1926 to 2009**

Rolling 12 month returns

Allocation	Worst 12 Months	# Years with a Loss
100% Bonds	-8.10%	9 of 84
80% Bonds & 20% Stocks	-10.30%	12 of 84
70% Bonds & 30% Stocks	-14.20%	14 of 84
60% Bonds & 40% Stocks	-27.40%	16 of 84
50% Bonds & 50% Stocks	-33.50%	17 of 84
40% Bonds & 60% Stocks	-41.60%	21 of 84
30% Bonds & 70% Stocks	-49.70%	22 of 84
20% Bonds & 80% Stocks	-56.90%	23 of 84
100% Stocks	-70.10%	25 of 84

## **Model Portfolio Allocations and Historical Risk From 1950 to 2009**

### **Rolling 12 month returns**

<b>Allocation</b>	<b>Worst 12 Months</b>	<b># Years with a Loss</b>
100% Bonds	-8.10%	2 of 60
80% Bonds & 20% Stocks	-8.80%	2 of 60
70% Bonds & 30% Stocks	-12.50%	5 of 60
60% Bonds & 40% Stocks	-17.10%	8 of 60
50% Bonds & 50% Stocks	-21.50%	8 of 60
40% Bonds & 60% Stocks	-24.20%	9 of 60
30% Bonds & 70% Stocks	-31.90%	10 of 60
20% Bonds & 80% Stocks	-36.50%	11 of 60
100% Stocks	-49.80%	13 of 60

## **SECURITY DEFINITIONS**

*Stocks/Equities:* Stocks/equities represent a share of ownership in a corporation. Stock returns are based on company's dividends and profits and how investors assess its potential for future profits. Historically, stocks have provided the highest returns over time, but stock prices fluctuate, sometimes dramatically, and investors can sustain substantial losses. There is no protection of principal and dividends can be reduced or eliminated also. Investors typically choose stocks for growth of capital, which can hopefully keep them ahead of inflation over the long term. There is risk of substantial loss of principal in stocks.

*Bonds:* Bonds are IOUs issued by governments, agencies and corporations. Interest-rate changes directly affect prices and returns of bonds, but in general, bond prices fluctuate less than stocks. Investors typically choose bonds to receive income and to also diversify stock portfolios. There is risk of substantial loss of principal in bonds.

### *Credit Quality of Bonds: S&P Ratings System*

**High Quality:** Bonds that have a credit rating of AAA and AA are categorized as high quality.

**Medium Quality:** Bonds that have a credit rating of less than AA but greater than or equal to BBB- are considered medium quality.

**Low Quality:** Bonds that have a credit rating of less than BBB- are considered low quality.

### *Bond Duration*

Short-term: 5 years or less  
Intermediate-term: 5 to 10 years  
Long-term: 10 years or longer.

### *Real Estate Investment Trusts*

A real estate investment trust is a tax designation for a corporation investing in real estate that reduces or eliminates corporate income taxes. In return, REITs are required to distribute 90% of their income, which may be taxable, into the hands of the investors. There is risk of substantial loss of principal in real estate investment trusts.

### *Cash-equivalent investments:*

A cash investment is a very short-term IOU issued by a government, corporation, bank, or other financial institution. Using the interest payments from such IOUs, money market mutual clients provide income---most often, less than provided by bonds, while maintaining a stable price of \$1 a share. Investors typically rely on these types of investments to meet liquidity needs (withdrawal needs) and short-term goals. There is risk of loss due to inflation when investing in low-yielding cash-equivalent investments.

## **DEFINITIONS OF COMPOSITES**

*(Your composites are checked – please confirm)*



The **U.S. Growth Leaders Composite** includes all portfolios invested in equities with strong earnings and growth characteristics with stock capitalizations over 7.5 billion. The portfolios are concentrated in the healthcare, financial, technology, and energy sectors. The portfolios are typically invested in 30-40 equities chosen primarily from the United States. 15% of the portfolio can be invested in ADR securities from the major developed markets of Europe and Asia. The benchmark is the Russell 1000® Growth Index.



The **U.S. Value Leaders Composite** includes all portfolios invested in equities with high dividends and value characteristics with stock capitalizations over 7.5 billion. The portfolios are concentrated in the healthcare, financial, technology, and energy sectors. The portfolios are typically invested in 30-40 equities chosen primarily from the United States. 15% of the portfolio can be invested in ADR securities from the major developed markets of Europe and Asia. The benchmark is the Russell 1000® Value Index.



The **U.S. Bond Composite** includes all portfolios invested in fixed income securities. These portfolios are comprised primarily of investment grade corporate bonds. These bonds generally outperform Treasury bonds over market cycles. There are, of course, greater credit concerns as the bonds lack the full faith and credit of the U.S. or foreign government. The portfolio may also utilize positions that take advantage of interest rate and U.S. dollar movements. The benchmark is the Lehman Brothers Aggregate Bond Index.



The **Absolute Return Hedge Composite** includes all portfolios invested in a long-short equity strategy with the objective of providing a positive return while controlling downside risk. The portfolio will invest in actively traded exchange traded funds and public stocks of a wide variety of companies, with an emphasis on larger firms. The portfolio may also utilize positions that take advantage of interest rate and U.S. dollar movements. The portfolio is extremely flexible, with no mandates on holding any equity, contract, or bond securities. The benchmark is the S&P 500® Index.



The **U.S. Asset Allocation Composite** includes all balanced portfolios that have a 20-80% allocation to equities, with a typical allocation between 55-65%. These portfolios also utilize investment grade corporate bonds and actively traded bond ETFs., approximately 20-40%. These corporate bonds generally outperform Treasury bonds over market cycles. There are, of course, greater credit concerns as the bonds lack the full faith and credit of the U.S. or foreign government. The portfolio also may hedge equity risk by utilizing actively traded ETFs as well as actively traded leveraged ETFs. The portfolio may also utilize positions that take advantage of interest rate and U.S. dollar movements. The benchmark is 50% S&P 500® and 50% Lehman Brothers Aggregate Bond Index.



The **U.S. Bond Hedge Composite** includes all portfolios invested in a combination of fixed income securities with a long-short equity strategy. These portfolios are comprised primarily of investment grade corporate bonds, approximately 80%. These corporate bonds generally outperform Treasury bonds over market cycles. There are, of course, greater credit concerns as the bonds lack the full faith and credit of the U.S. or foreign government. The portfolio also may hedge equity risk by utilizing actively traded ETFs as well as actively traded leveraged ETFs. The portfolio may also utilize positions that take advantage of interest rate and U.S. dollar movements. The benchmark is 80% Lehman Brothers Aggregate Bond Index and 20% S&P 500®.



The **Capital Appreciation (A) Composite** includes all portfolios invested in a long-short and leveraged equity market strategy with the primary objective of providing a positive annual return while controlling downside risk. The portfolio invests in passive and actively traded ETFs as well as actively traded long-short leveraged ETFs. Equities may represent up to 160% and -30% of the portfolio and is the primary asset in the account. The portfolio is extremely flexible, with no mandates on holdings within the composite. The composite may employ leverage to provide

greater than market returns in positive markets while assuming risk in underperforming markets. Hedging strategies may be utilized as a risk control measure. The benchmark is the S&P 500®.



The **Capital Appreciation (B) Composite** includes all portfolios invested in a long-neutral equity market strategy with the primary objective of providing a positive annual return while controlling downside risk. The portfolio invests in passive and actively traded ETFs as well as no-load/no-transaction fee mutual funds. The Bond and Cash holdings are allocated between 10% to 50% and equities between 50% to 90%. The composite may employ a market neutral/hedging strategy utilizing inverse ETFs to provide protection and risk control in underperforming markets. The benchmark is 80% of the S&P 500® and 20% of the Lehman Brothers Aggregate Bond Index.



The **Conservative Composite** includes all portfolios invested in the mutual fund allocation model in which the Bond and Cash holdings are allocated between 40% to 75% and equities between 25% to 60%. The primary objective of the composite is income and wealth preservation. The portfolio invests primarily in bond mutual funds and /or ETFs of varying durations/maturities. The equities portion of the portfolio will be invested primarily in large cap growth funds and various sector funds. The benchmark is 50% of the S&P 500® and 50% of the Lehman Brothers Aggregate Bond Index.



The **Moderate Composite** includes all portfolios invested in the mutual fund and Exchange Traded Fund allocation model in which the Bond and Cash holdings are allocated between 35% to 65% and equities between 35% to 65%. The primary objective of the composite is to capital appreciation with income and wealth preservation secondary objectives. The portfolio invests primarily in large and mid cap growth funds and various sector funds. The Bond portion of the portfolio will be invested primarily in bond mutual funds and/or ETFs of varying durations/maturities. The benchmark is 60% of the S&P 500® and 40% of the Lehman Brothers Aggregate Bond Index.



The **Aggressive Growth Composite** includes all portfolios invested in the mutual fund and Exchange Traded Fund allocation model in which the Bond and Cash holdings are allocated between 10% to 50% and equities between 50% to 90%. The primary objective of the composite is to capital appreciation. The portfolio invests primarily in large-mid-small cap growth funds and various sector funds. The Bond portion of the portfolio will be invested primarily in bond mutual funds and/or ETFs of varying durations/maturities. The benchmark is the 80% of the S&P 500® and 20% of the Lehman Brothers Aggregate Bond Index.



The **Aggressive Value Composite** includes all portfolios invested in the mutual fund and Exchange Traded Fund allocation model in which the Bond and Cash holdings are allocated between 10% to 50% and equities between 50% to 90%. The primary objective of the composite is to capital appreciation. The portfolio invests primarily in large-mid-small cap value funds and

various sector funds. The Bond portion of the portfolio will be invested in bond mutual funds and/or ETFs of varying durations/maturities. The benchmark is 80% of the S&P 500® and 20% of the Lehman Brothers Aggregate Bond Index.

### **Terminated Composites**

The **Global Growth Composite** consists of those equity-only portfolios invested in both US equities and international equity ADRs and/or ordinaries. The equity investment philosophy focuses on identifying the securities of large capitalization companies with improving growth potential. The portfolios are concentrated in the healthcare, financial, technology, and energy sectors. The portfolios are typically invested in 30-40 equities. The benchmark is the MSCI World ® Index. The composite was terminated in November 2007.

## **PERFORMANCE REVIEW AND EVALUATION**

Performance reports generated by the Advisor shall be compiled at least quarterly and communicated to the Portfolio Manager for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement.

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Advisor plans to review your investment policy at least annually.

### **MONITORING & REPORTING**

Each asset class in which the portfolio (viewed in the aggregate) is invested shall be reviewed on a quarterly basis, or more often, by the Advisor and may be rebalanced back to the recommended weighting when appropriate. If the target percentage in stocks is exceeded by market appreciation or because of withdrawals or other reasons, it will typically be brought back in line with the initial target if it exceeds that target by 6% or more (assuming your risk tolerance and financial situation have not changed). In addition, for equities or real estate investment trusts, the Portfolio Manager may exit positions at any given time and reduce exposure below the initial target allocation as set in this IPS, or to zero exposure, if deemed appropriate. When necessary and/or available, cash flows will be deployed or withdrawals will be made in a manner consistent with rebalancing the asset allocation.

The Client will receive monthly statements from the custodian and will receive notification either by e-mail or standard mail, of all transactions that occur. In addition, the Custodian will provide 1099s to the client each year. The Advisor will send quarterly reports to the Client at the

end of each quarter. Our asset management fee will also be included in the quarterly report at the end of each quarter. The fees will typically be automatically deducted from accounts at the end of each quarter, as specified in the Investment Management Agreement. To assure continued relevance of the guidelines and objectives established in this IPS, the Client plans to review the investment policy statement at least annually and will notify the Advisor if anything has changed in his/her investment objectives or financial situation, or if there should be any restrictions placed on the portfolio.

By committing our agreed upon thoughts to a written document, we minimize the potential for conflict and general misunderstandings. For this reason I ask you to please sign this IPS to confirm that you concur with its contents. In signing this agreement you acknowledge that you are comfortable with the risk-profile indicated and the suggested allocations to stocks, bonds, real estate investment trusts and cash equivalents, and that you understand the risks associated with each asset class.

I/we have reviewed and agree with the Investment Policy Statement as outlined in this document. I/we agree that this document shall provide guidelines under which my/our investment portfolio will be managed.

\_\_\_\_\_  
Client Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Client Name

\_\_\_\_\_  
Client Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Client Name

\_\_\_\_\_  
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