

# APPENDIX A

## SAMPLE

\_\_\_\_\_ (name of organization)

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### STATEMENT OF INVESTMENT POLICY, OBJECTIVES, AND GUIDELINES

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ADOPTED: \_\_\_\_\_ (date)

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#### THEOLOGICAL STATEMENT

The biblical imperative of the stewardship of all that God has entrusted to God's children is applicable in many contexts, including financial resources. That imperative does not end with a responsibility for the use and benefit of material blessings in the making of disciples of Jesus Christ, but extends to a responsibility for the careful and responsible growth of those blessings. Just as Jesus spoke of the servant who multiplied the talents of his master, so are Christians to protect and multiply God's blessings through stewardship that is both fiscally sound and socially responsible.

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#### SCOPE OF THIS INVESTMENT POLICY

This statement of investment policy reflects the investment policy, objectives, and constraints of the \_\_\_\_\_ (name of organization)

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#### PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This statement of investment policy is set forth by \_\_\_\_\_ (committee name) under the direction of the \_\_\_\_\_ (name of organization):

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 Fund assets.
3. Offer guidance and limitations to all Investment Managers regarding the investment of Fund assets.
4. Establish a basis for evaluating investment results.
5. Manage Fund assets according to prudent standards as established in common trust law.
6. Establish the relevant investment horizon for which the Fund assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude that 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.

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## ASSIGNMENT OF RESPONSIBILITIES

The \_\_\_\_\_ (committee name), under the direction of the \_\_\_\_\_ (name of organization), is a fiduciary and is responsible for directing and monitoring the investment management of Fund assets. As such, \_\_\_\_\_ (committee name) is authorized to assign certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. Investment Management Consultant (optional). The consultant may assist \_\_\_\_\_ (committee name) in: establishing investment policy, objectives, and guidelines; identifying investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
2. Investment Manager. The investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Fund's investment objectives.
3. Custodian. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Fund, 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 Fund accounts.

All expenses for such advisors must be customary and reasonable, and will be borne by the Fund.

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## DEFINITIONS

1. "Fund" shall mean the financial assets of the \_\_\_\_\_ (name of organization).
2. "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Fund assets.
3. "ORGANIZATION" shall mean \_\_\_\_\_ (name of organization).
4. "COMMITTEE" shall mean the \_\_\_\_\_ (committee name).
5. "Investment Manager" shall mean any individual or group of individuals, employed to manage the investments of all or part of the Fund assets.
6. "Investment Management Consultant" (optional) shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
7. "Securities" shall refer to the marketable investment securities which are defined as acceptable in this statement.

8. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Fund is \_\_\_\_\_ years (if investments are long term, 5 years would be the minimum).
9. "Fund" shall include gifts or deposits invested in perpetuity as well as gifts or deposits invested subject to liquidation as needs may develop.
10. "Grants" shall refer to distributions from the Fund/s to provide funding for programs and/or projects.

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## **ASSIGNMENT OF RESPONSIBILITY**

### **Responsibility of \_\_\_\_\_ (committee name)**

The COMMITTEE is charged with the responsibility for the management of the assets of the Fund. The COMMITTEE shall discharge its duties solely in the interest of the Fund, with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent investor, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The specific responsibilities of the COMMITTEE relating to the investment management of Fund assets include:

1. Projecting the Fund's financial needs, and communicating such needs to the Investment Managers on a timely basis.
2. Determining the Fund's risk tolerance and investment horizon, and communicating these to the appropriate parties.
3. Establishing reasonable and consistent investment objectives, policies, and guidelines which will direct the investment of the Fund's assets.
4. Prudently and diligently selecting qualified investment professionals, including Investment Manager(s), Investment Consultant(s), and Custodian(s).
5. Regularly evaluating the performance of the Investment Manager(s) to assure adherence to policy guidelines and monitor investment objective progress.
6. Developing and enacting proper control procedures: For example, replacing Investment Manager(s) due to fundamental change in investment management process, or failure to comply with established guidelines.
7. Report quarterly to the COMMITTEE on the investment performance and financial condition of the Fund.
8. Rebalance the allocation of assets to investment managers in various asset categories according to the strategic asset allocation guidelines. Rebalancing shall be achieved first through fund contributions and withdrawals and second through interfund transfers.

### **Responsibility of the Investment Consultant(s)**

The Investment Consultant's role (optional) is that of an advisor to the COMMITTEE. Investment advice concerning the investment management of Fund assets will be offered by the Investment Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the Investment Consultant include:

1. Assisting in the development and periodic review of investment policy.
2. Conducting investment manager searches when requested by the COMMITTEE.
3. Providing "due diligence", or research, on the Investment Manager(s).
4. Monitoring the performance of the Investment Manager(s) to provide the COMMITTEE with the ability to determine the progress toward the investment objectives.
5. Communicating matters of policy, manager research, and manager performance to the COMMITTEE.
6. Reviewing Fund investment history, historical capital markets performance and the contents of this investment policy statement to any newly appointed members of the COMMITTEE.

### **Responsibility of the Investment Manager(s)**

Each Investment Manager must acknowledge in writing its acceptance of responsibility as a fiduciary. Each Investment Manager 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 Investment Manager(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.
3. Communicating any major changes to economic outlook, investment strategy, or any other factors that affect implementation of investment process, or the investment objective progress of the Fund's investment management.
4. Informing the COMMITTEE regarding any qualitative change to investment management organization. Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
5. Voting proxies, if requested by the COMMITTEE, on behalf of the Fund, and communicating such voting records to the COMMITTEE on a timely basis.

### **Responsibility of the Custodian**

The Custodian shall:

1. Maintain possession of securities owned by the Fund.
2. Collect dividend and interest payments.
3. Redeem maturing securities.
4. Effect receipt and delivery following purchases and sales.
5. Perform regular accounting of all assets owned, purchased, or sold by the Fund.

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## GENERAL INVESTMENT PRINCIPLES

1. Investments shall be made solely in the interest of the beneficiaries of the Fund and in compliance with The United Methodist Social Principles.
2. The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
3. Investment of the Fund shall be so diversified as to minimize the risk of loss, unless under the circumstances it is clearly prudent not to do so.
4. The COMMITTEE may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives.
5. Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.
6. The Fund may hold assets and properties, including real estate, contributed to or held by the ORGANIZATION: (a) subject to an agreement or commitment (which will include social responsible guidelines) requiring them to be held; (b) pursuant to instructions by the donors; or (c) after an express determination by the COMMITTEE, which the Committee shall have authority to make in the exercise of its discretion, that in its judgment any such assets or properties are appropriate investments for the ORGANIZATION.

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## INVESTMENT MANAGEMENT POLICY

1. Preservation of Capital — Consistent with their respective investment styles and philosophies, investment managers 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 COMMITTEE recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Fund's objectives. However, the investment managers 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 — Investment managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

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## **GOAL OF FUND**

The ORGANIZATION and COMMITTEE feel that allocations to be funded in the future are as important as programs funded today. This is consistent with the philosophy that this Fund is to exist in perpetuity, and therefore, should provide for program funding in perpetuity. To attain this goal, the overriding objective of this fund is to maintain purchasing power. The Fund's specific investment objectives will be established later in this document.

*(Note: The goal of the Fund must be clearly identified, so that the funds can be invested to achieve the investment goal.)*

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## **POLICY TOWARDS USE OF UNRESTRICTED GIFTS**

*(NOTE: The ORGANIZATION and COMMITTEE must determine how it will handle incoming unrestricted gifts. Will they be spent or invested? This will assist in determining how total funds invested will grow from investment return and gifts. The restrictions placed on restricted and endowments gifts by the donor must be honored and could very well impact if and how the funds are invested.)*

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## **SPENDING POLICY**

### **Spending — Moving Average Determination**

The COMMITTEE will use the moving average method of determining year to year spending in order to smooth distributions from the aggregate portfolio. The "portfolio value" will be determined based on a 5-year moving average of quarterly portfolio market value, with a budgeting lead of one year. That is, the moving average will be determined one year before the fiscal year in which the funds are to be spent. This policy serves two purposes. First, it provides for more consistent and predictable spending for the programs supported by this Fund. Second, it allows the COMMITTEE to design an investment strategy that is more "aggressive" with a higher expected return than might be the case if spending were determined by annual investment performance. With the annual determination method, there is a tendency to pay out the "excess" earnings during periods of overperformance, while maintaining a certain absolute dollar floor of spending during periods of underperformance. Over the long-term, this may result in erosion of real principal. Therefore, by smoothing the spending, the COMMITTEE seeks to reduce the likelihood of real principal erosion due to portfolio volatility.

*See Addendum "A" for the "base" allocation for annual spending policy budget.*

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## SOCIAL RESPONSIBILITY

### Basic Philosophies

The ORGANIZATION, responding to the biblical challenge of responsible stewardship, calls for conscious investment decisions that further the principles of economic and social justice consistent with the goals outlined in the Social Principles of The United Methodist Church. Thus, the goals for the investment of the Fund are to influence corporate policy and public conscience in the promotion of peace, human rights, justice and the respect for and quality of life for all persons.

A basic tenet of the investment and capital formation and growth strategies undertaken by the Fund shall be to foster and advance business practices and activities which reflect the Social Principles of The United Methodist Church. All investment managers shall exercise their best efforts to place investments in ways that make a positive impact. Investment managers shall be guided by the following ethical norms according to the Social Principles of The United Methodist Church:

- An ecologically just world and a better quality of life for all creation;
- Social justice and the sacred worth of all persons;
- Sound fiscal policies that protect the economic life of all individuals;
- Political and governmental responsibility for protection of basic rights;
- The unity of the world community.

Any conflicts of values shall be resolved with discretion, fiduciary responsibility, and appropriate consultation.

With regard to socially responsible investing, the investment management of the Fund shall be a process of *avoidance*; that is, by avoiding investments in companies with policies or products that may harm society, either individually or corporately, in one or more ways. This investment process of avoidance primarily serves to reduce the universe of securities in which to invest by screening companies for socially undesirable characteristics. The COMMITTEE may, from time to time, direct the investment managers as to specific investments or types of investments considered to be inappropriate for the Fund.

Although the socially responsible investment process implemented for the Fund is not anticipated to present a trade-off of risk or return as compared to the market, the ORGANIZATION and the COMMITTEE remain committed to the imperative of the avoidance of investments that appear likely, directly or indirectly, to support any of the social ills listed herein. Every opportunity shall be taken to further shareholder advocacy to further the goals outlined in the Social Principles of The United Methodist Church, including advocacy of disinvestment.

## Social Responsibility Guidelines

As an agency of The United Methodist Church we are committed to implementation of The United Methodist *Book of Discipline* ¶ 716.

*"Socially Responsible Investments*-It shall be the policy of The United Methodist Church that all general boards and agencies, including the General Board of Pension and Health Benefits, and all administrative agencies and institutions, including hospitals, homes, educational institutions, annual conferences, foundations, and local churches, shall, in the investment of money, make a conscious effort to invest in institutions, companies, corporations, or funds whose practices are consistent with the goals outlined in the Social Principles; and shall endeavor to avoid investments that appear likely, directly or indirectly, to support racial discrimination, violation of human rights, sweatshop or forced labor, gambling, or the production of nuclear armaments, alcoholic beverages or tobacco, or companies dealing in pornography. The boards and agencies are to give careful consideration to shareholder advocacy, including advocacy of corporate disinvestment."

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## INVESTMENT OBJECTIVES

In order to meet its needs, the investment strategy of the COMMITTEE 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 aggregated Fund assets shall be:

*Growth and Income — To achieve a balanced return of current income and modest growth of principal consistent with the preservation of the purchasing power of the Fund.*

*(Note: The investment objective must be clearly stated. It is possible to have a growth portfolio, if you do not have any planned distributions and just want to grow the Fund. This could significantly add to the risk of the portfolio. When plans are made to spend the Funds, you may wish to move towards a growth and income fund.)*

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## SPECIFIC INVESTMENT GOALS

Over the \_\_\_\_\_ year investment horizon established in this statement, it is the goal of the aggregate Fund assets to meet or exceed:

- Absolute annual rate of return of \_\_\_\_\_% (suggested ranges from 9% - 12%).
- The rate of inflation (as measured by the Consumer Price Index) by \_\_\_\_\_% (suggested ranges from 5% - 8%).
- The return required to fund the strategic programs as defined in the vision statement and strategic plan is \_\_\_\_\_% (suggested ranges from 4% -7%).

The investment goals above are the objectives of the aggregate Fund, and are not meant to be imposed on each investment account. The goal of each investment manager, over the investment horizon, shall be to:

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

Specific investment goals and constraints for each investment manager, if any, shall be incorporated as part of this statement of investment policy (See Addendum "B"). Each manager shall receive a written statement outlining their specific goals and constraints as they differ from those objectives of the entire Fund.

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## **VOLATILITY OF RETURNS**

The ORGANIZATION understands that in order to achieve its objectives for Fund assets, the Fund will experience volatility of returns and fluctuations of market value. It states that the Fund could tolerate a maximum loss of approximately \_\_\_\_% (suggested ranges from 5% - 15%) over any one year period, and no loss over the \_\_\_\_year (see definition section where investment horizon was determined) investment horizon. Therefore, the ORGANIZATION supports an investment strategy that minimizes the probability of losses greater than stated above. However, it realizes that the Fund's return objective is its primary concern. There is, of course, no guarantee that the Fund will not sustain losses greater than those stated herein.

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## **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 ORGANIZATION will periodically provide an estimate of expected net cash flow. The ORGANIZATION will notify the COMMITTEE and the investment consultant in a timely manner, to allow sufficient time to build up necessary liquid reserves.

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## **MARKETABILITY OF ASSETS**

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

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**INVESTMENT GUIDELINES** (Place a check mark by those assets which are allowable.)

**Allowable Assets**

1. Cash Equivalents

- Treasury Bills
- Money Market Funds
- Short Term Investment Funds
- Commercial Paper
- Banker's Acceptances
- Repurchase Agreements
- Certificates of Deposit
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

2. Fixed Income Securities

- U.S. Government and Agency Securities
- Corporate Notes and Bonds
- Conventional Mortgage Backed Bonds
- Preferred Stock
- Fixed Income Securities of Foreign Governments and Corporations
- Conservative Collateralized Mortgage Obligations
- Mutual Funds
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

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)
- Mutual Funds
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

## Stock Exchanges

To ensure marketability and liquidity, investment managers will execute equity transactions through the following exchanges: New York Stock Exchange; American Stock Exchange; and NASDAQ over-the-counter market. In the event that an investment manager determines that there is a benefit or a need to execute transactions in exchanges other than those listed in this statement, written approval is required from the COMMITTEE.

## Investments Requiring Board Approval Upon Recommendation by the COMMITTEE

Commodities and Futures Contracts

Private Placements

Options

Limited Partnerships

Venture-Capital Investments

Initiating Direct Real Estate Investments (except REITs)

GIC's

Derivative Securities other than those listed above.

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## Prohibited Transactions

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

\_\_\_\_\_ Short Selling

\_\_\_\_\_ Margin Transactions

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## Asset Allocation Guidelines

Investment management of the assets of the Fund shall be in accordance with the strategic asset allocation parameters set forth in attached asset allocation addendum "B".

The COMMITTEE may employ investment managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Fund, such disciplines must fit within the overall asset allocation guidelines established in this statement. Such investment managers will receive written direction from the COMMITTEE regarding specific objectives and guidelines.

## **Diversification for Investment Managers**

The COMMITTEE does not believe it is necessary or desirable that securities held in the Fund represent a cross section of the economy. In order to achieve a prudent level of diversification, at no time shall the cost basis of the securities of any one company exceed \_\_\_\_\_ (typically 5%), nor the market value of such securities exceed \_\_\_\_\_ (typically 10%), of any investment manager's portfolio. Further, at no time shall the investments of any investment manager's portfolio in any one sector of the market exceed \_\_\_\_\_ (typically 150% ) of the sector's weighting in the relevant market index.

## **Guidelines for Fixed Income Investments and Cash Equivalents**

1. Fund assets may be invested only in investment grade bonds rated \_\_\_\_\_ (typically A or better).
2. Fund assets may be invested only in commercial paper rated \_\_\_\_\_ (typically A1/P1 or better).
3. Fixed income portfolio duration shall not exceed the duration of \_\_\_\_\_ (typically the Lehman Brothers Intermediate Government /Corporate Bond Index) by more than \_\_\_\_\_ year(s) (typically one year).
4. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poors, and/or Moody's.
5. Repurchase Agreements shall be fully collateralized.

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## **SELECTION OF INVESTMENT MANAGERS**

The COMMITTEE'S selection of Investment Manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. The COMMITTEE requires that each investment manager provide, in writing, acknowledgment of fiduciary responsibility to the Fund and participation in and commitment to the principles of Project Equality (Project Equality is recommended for the entities of The United Methodist Church).

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## **INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION**

Performance reports shall be compiled at least quarterly and communicated to the COMMITTEE 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. The COMMITTEE intends to evaluate the portfolio(s) over at least a three-year period, but reserves the right to terminate a manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.

3. Significant qualitative changes to the investment management organization.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

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**INVESTMENT POLICY REVIEW**

To ensure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the COMMITTEE plans to review the investment policy at least \_\_\_\_\_(typically annually).

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The \_\_\_\_\_(name of committee) whose signatures appear below adopts this statement of investment policy on \_\_\_\_\_, 20\_\_:

_____	_____
_____	_____
_____	_____
_____	_____

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Approved \_\_\_\_\_, 20\_\_, by \_\_\_\_\_(name of organization):

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**Disclaimer:**

**GCFA does not provide legal, accounting or investment advice, nor do we make recommendations on specific investments.**

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

**ADDENDUM "A"**

**Spending Policy Budget for Period**

The Spending Policy establishes a reasonable and prudent spending level for the Fund. The primary objective is to determine how much can be spent currently, and how much to invest to preserve future spending.

The *expectations* for fiscal \_\_\_\_\_ (year) budget based on \_\_\_\_\_ (month), 20\_\_ market value are as follows:

<b>Income/Spending</b>	<b>Target Long-Term Annual Rate %</b>	<b>Total Amount to be Invested</b>	<b>Annual Allocation</b>
<b>Total Return</b>	_____ %	<b>X</b> _____ =	\$ _____
<b>Ministry Distribution</b>	_____ %	<b>X</b> _____ =	\$ _____
<b>- Inflation (CPI)</b>	_____ %	<b>X</b> _____ =	\$ _____
<b>- Fees and Expenses</b>	_____ %	<b>X</b> _____ =	\$ _____
<b>- Growth for Future</b>	_____ %	<b>X</b> _____ +	\$ _____ *

\* Increases the assets of the Fund.

## Statement of Investment Policy, Objectives, and Guidelines

### ADDENDUM "B"

#### Strategic Asset Allocation Parameters and Summary of Portfolio Structure and Manager Objectives

##### Asset Allocation Analysis

###### Analysis Inputs

###### Analysis Inputs

Assets	Forecast		Constraint	
	Return	Risk	Min	Max
U.S. Large Stocks	12.1%	13.4%	0%	100%
U.S. Small Stocks	13.3%	19.8%	0%	20%
U.S. Long Bonds	5.7%	7.3%	0%	100%
U.S. Interm Bonds	6.0%	3.1%	0%	100%
Intl Stocks	12.1%	16.5%	15%	100%

###### Projection Inputs

Target Return:	11.0%
Time Horizon:	10 Years
Initial Value:	\$100,000

###### Correlations

1. U.S. Large Stocks	1.00	0.00	0.00	0.00	0.00
2. U.S. Small Stocks	0.00	1.00	0.00	0.00	0.00
3. U.S. Long Bonds	0.00	0.11	1.00	0.00	0.00
4. U.S. Interm Bonds	0.00	0.04	0.91	1.00	0.00
5. Intl Stocks	0.00	0.38	0.14	0.15	1.00

##### Asset Allocation Analysis

###### Portfolio Statistics

Target Return: 10.50% - 10 Year Time Horizon - 95% of Projected Return Distribution

###### Portfolio Allocations

Asset Allocations	9% Target	10% Target	10.5% Target	11% Target	12% Target
U.S. Large Stocks	20.7%	32.9%	37.8%	42.8%	52.7%
U.S. Small Stocks	10.9%	14.0%	15.4%	16.7%	19.3%
U.S. Long Bonds	0.0%	0.0%	0.0%	0.0%	0.0%
U.S. Interm Bonds	53.3%	37.5%	29.6%	21.7%	5.8%
Intl Stocks	15.0%	15.5%	17.2%	18.9%	22.2%

###### Portfolio Statistics

<b>Expected Return (Annualized)</b>					
One Year	9.0%	10.0%	10.5%	11.0%	12.0%
Time Horizon	8.8%	9.7%	10.1%	10.6%	11.4%
<b>Expected Risk</b>					
One Year	6.6%	8.4%	9.3%	10.2%	12.1%
Time Horizon	2.1%	2.6%	2.9%	3.2%	3.8%
<b>Best Case Return (Annualized)</b>					
One Year	22.5%	27.3%	29.8%	32.4%	37.5%
Time Horizon	13.0%	15.0%	16.0%	17.0%	19.0%
<b>Worst Case Return (Annualized)</b>					
One Year	-3.4%	-5.5%	-6.6%	-7.7%	-9.9%
Time Horizon	4.8%	4.6%	4.5%	4.4%	4.2%
<b>Probability of Target Return</b>					
One Year	39.9%	46.1%	48.3%	50.1%	52.8%
Time Horizon	21.0%	37.9%	44.7%	50.4%	58.9%
<b>Probability of Negative Return</b>					
One Year	8.2%	11.3%	12.6%	13.8%	15.9%
Time Horizon	0.0%	0.0%	0.0%	0.0%	0.1%

**(Note: This sample is a Sample Asset Allocation Analysis, which is to be completed by an Investment Consultant with input from the Investment Committee).**

Statement of Investment Policy, Objectives, and Guidelines

ADDENDUM "B" (Cont'd)

Strategic Asset Allocation Parameters and Summary of Portfolio Structure and Manager Objectives

Investment Management Structure:

Table with 5 columns: Strategic Asset/Style Allocation, Manager Names, Assets \$, Style, Index/Benchmark. Includes rows for various equity and bond allocations and a TOTAL row.

where:

- R1000V is the Russell 1000 Large Cap Value Index.
• R1000G is the Russell 1000 Large Cap Growth Index.
• R2000V is the Russell 2000 Small Cap Value Index.
• R2000G is the Russell 2000 Small Cap Growth Index.
• MS-AWF is the Morgan Stanley All World Free Equity Index (not including U.S.).
• LB G/C Int. is the Lehman Brothers Intermediate Government/Corporate Bond Index.

Total Fund Asset Allocation Guidelines

Table with 4 columns: Asset Class, Minimum, Maximum, Preferred. Rows include Total Equities and Fixed Income.

Asset Allocation And Re-Balance Policy

The investment portfolio will be reviewed quarterly and re-balanced when any asset class is outside the minimum or maximum policy allocation. Re-balancing the portfolio will distribute funds back to the target asset allocation. All re-balancing activity will be executed first through contributions / distributions and second through interfund transfer.

(Note: There are various methods you can re-balance your portfolio. Please discuss this with your consultant, who can explain the various options.)