Sample Investment Policy Statement
XYZ Company Pension Plan

I. Statement of Purpose

The **XYZ Company Pension Plan** ("Plan") seeks to provide post-retirement benefits to the covered employees of **XYZ Company** ("Sponsor") who are entitled to receive benefits under the Plan. The Plan's overall goal is to pay benefits as promised by the Plan in such a way that the cost (defined as contributions) and risk (defined as Funded Status volatility) are manageable for the Sponsor.

The purpose of this Investment Policy Statement ("Statement") is to establish guidelines for the Plan's investment portfolio ("Portfolio") in the areas that most influence the investment returns and Funded Status of the Plan. The Statement also incorporates accountability standards that will be used to monitor the progress of the Portfolio's investment program and to evaluate the contributions of the manager(s) hired on behalf of the Plan and its beneficiaries.

The Sponsor currently expects to maintain the Plan in perpetuity, but the Sponsor reserves the right, at any time, to terminate or amend the Plan or any component thereof. **The Investment Committee of the Plan** ("Committee") is responsible for supervising the investment of all assets owned by, or held for, the Sponsor. The nature of this Investment Policy Statement is characterized by the following:

A. This Investment Policy Statement ("Policy") sets forth the investment objectives and guidelines that govern the activities of the Committee and other parties the Committee may retain to supervise and monitor the investment of Plan assets.

B. The investment policies for the Plan contained herein have been formulated consistent with the Sponsor's anticipated financial needs and in consideration of the Sponsor's tolerance for assuming investment and financial risk, as reflected in the majority opinion of the Committee.

C. Policies contained in this Statement are intended to provide boundaries, where necessary, for ensuring that the Plan's investments are managed consistent with the short- and long-term financial goals of the Plan. At the same time, the policies are intended to provide the Plan with sufficient flexibility to accommodate changes in capital market conditions and in the Sponsor's financial circumstances.

The Committee will review this Policy at least once per year. Changes to this Policy can be made only by affirmation of a majority of the members of the Committee, and written confirmation of the changes will be provided to all Committee members and to any other parties hired on behalf of the Plan as soon as is practical.

II. Plan Investment Policies

To ensure that the Plan meets its overall goal, the Plan will seek to achieve and maintain a fully funded position (100% Funded Status). The strategy for achieving and maintaining this status may vary with the current Funded Status and other parameters related to the overall goal. Therefore, the asset allocation process is dynamic, as described below:

A. Asset Allocation Policy

1. Plan assets must be used for the exclusive purpose of providing benefits to participants and beneficiaries and defraying reasonable costs of administering the Plan. For the Plan, this means plan assets must be used to pay the promised benefits. By measuring and understanding the liability (obligation) represented by the promised benefits, the asset allocation can be designed to best meet the overall goal. Therefore, asset allocation decisions will be based on the returns and risks relative to the liability—an approach commonly referred to as liability-driven investing (LDI). This approach does not preclude taking risk; rather it reframes risk, from absolute basis investing (total-return investing) to liability-driven investing.
2. The Committee accepts, in principle, the premise that the strategic allocation of the Fund across the four broadly-defined financial asset classes will be the most significant determinant of long-term investment returns and asset value stability. These asset classes are equity (domestic and international), fixed income (of various durations and corporate exposures), real estate, and cash.
3. The Committee expects that the equity asset class will be the highest returning asset class over the long-term investment horizon for which the Plan is anticipated to operate. The Committee therefore recognizes the need to commit a portion of assets to equity investments in pursuit of the Plan's return objectives. However, this exposure will decline as the Portfolio objective focuses on reducing risk. Plan changes that alter the investment horizon may change the appropriate investment strategy.
4. For a traditional pension plan, long-duration bonds are the primary way to reduce pension risk and mollify the Plan's Funded Status volatility. They also are expected to generate current income, diversify the Portfolio's sources of return, and provide some downside protection against the possibility of a prolonged decline in the value of the Portfolio's equity investments.
5. A position in real estate is expected to provide long-term capital appreciation, current income, and diversification to the Portfolio.
6. Cash investments will, under normal circumstances, be considered temporary holdings, and will be used principally for liquidity or to facilitate the distribution of monthly pension payments.
7. The investment vehicles used will be mutual funds or exchange-traded funds, depending on which is viewed as the best choice in terms of cost and flexibility.
8. Returns will be stated on an absolute basis, but risk will be defined relative to the liability. Depending on the nature of the liability, a mix of fixed income investments, that are chosen based on the interest rate characteristics of the liability and other investments as desired, to generate potentially higher returns,will be selected to achieve the Plan's overall goal.
9. Key pension risk parameters are the Portfolio's hedge ratio (the percentage of interest rate risk hedged by the Plan's fixed income holdings) and equity ratio (percentage of Plan assets invested in equities). An additional risk parameter is liability tracking error. Liability tracking error is measured as the annualized-standard deviation of portfolio return (%) minus liability return (%). This metric incorporates the primary-market-related risk factors that affect the variability between portfolio returns and liability returns, including equity and interest-rate risk.

B. Funding-Led Allocation Guide (FLAG)

1. The Plan's Funded Status impacts Plan objectives. When the Funded Status is low, the primary Plan objective is to achieve full funding. A portfolio focused on generating return is appropriate, within the constraints of the overall goal and the Sponsor's tolerance for risk. As the Funded Status rises, the Plan objective moves toward maintaining that level. This objective change will lead to less focus on generating return and more focus on managing Funded Status volatility. If the Funded Status rises above 100% (overfunded), the Portfolio's primary objective will shift yet further toward managing and mitigating Funded Status volatility. The Portfolio will require adjustment as the objectives change.

   The Portfolio will start with an allocation across four broad asset classes.

Asset class	Sub-asset class	Target allocation
Equity	Domestic (U.S.) International (Non-U.S.)	XX% XX%
Fixed Income Investment Grade	Intermediate Bonds Long Bonds Extended Duration Bonds	XX% XX% XX%
Real Estate	Real Estate Investment Trusts	XX%
Cash	Available money market funds	XX%

   Because of recent changes to the defined benefit regulatory environment, the Plan's Funded Status can change more quickly. As a result, it is important to measure the Funded Status frequently as a means to identify opportunities to derisk the Portfolio as a result of a funding improvement. Therefore, the Plan's Funded Status (Assets/Liabilities) will be tracked on an ongoing basis by Vanguard Institutional Advisory Services® (VIAS). Several components of the Funded Status calculated by VIAS require definition:

   Assets: Current market value of assets (without any smoothing).

   Liabilities: Vanguard's Funded Status Monitor calculation methodology uses the Plan's accrued annual benefit payments, which the Plan's actuary provides annually, as the key data input. It then uses a mark-to-market approach by applying spot discount rates to value the Plan's accrued liability on a quarterly basis. The calculation includes a liability roll-forward method that takes into account applicable normal cost, interest cost, and benefits paid.

   The Sponsor should be aware of the assumptions and limitations associated with Vanguard's calculation methodology:

   - Any interest rate averaging is ignored for assessing changes in liabilities in order to provide a true market assessment of the Funded Status.
   - The methodology does not adjust for unexpected changes in demographics during the plan year.

   Discount rate method: Citigroup Pension Discount Curve (a widely accepted corporate bond yield curve used to estimate current discount rates for liability cash flows).

   If there are changes to the Plan, such as plan closure, large contributions, or changes in plan objectives, the FLAG schedule may be adjusted.

Given the degree of uncertainty of these estimates, the time required to execute trades, and volatile market conditions, asset adjustments between phases should be in 5% increments at minimum. These phasing thresholds are defined as follows:

	Funded Status				
Asset Category	80%	90%	100%	110%	120%
U.S. Equity	XX%	XX%	XX%	XX%	XX%
Non-U.S. Equity	XX%	XX%	XX%	XX%	XX%
Intermediate Bonds	XX%	XX%	XX%	XX%	XX%
Long Bonds	XX%	XX%	XX%	XX%	XX%
Extended Duration Bonds	XX%	XX%	XX%	XX%	XX%
Real Estate	XX%	XX%	XX%	XX%	XX%
Cash	XX%	XX%	XX%	XX%	XX%

Once the Portfolio's risk exposure is reduced, the allocation will remain the same until a greater Funded Status threshold is met. It can be anticipated that the Funded Status may drop back below a phase threshold as a result of changing values of assets or liabilities. This event alone will not change the investment strategy, but the Committee may consider revisiting the Plan objectives because the funding decline may alter the balance between return and risk preference and call for an adjustment in the Portfolio.

2. When any subsequent phase threshold is reached, the advisor will notify the Committee of the event and the action called for by the Investment Policy Statement within ten business days of the end of the measurement period. The Committee must approve the Portfolio changes before any reallocations will be made.
3. An implementation schedule will be provided to the Committee for review. The default reallocation implementation will be in increments of 5% per quarter until the new allocation is reached.
4. If the next phase threshold is reached before ongoing reallocation is completed, the Committee will be notified and an action plan will be recommended to move toward the next phase Portfolio. The default reallocation implementation will be in increments of 10% per quarter until the allocation for the next phase threshold is complete.
5. The Committee has authority to override an allocation change and/or adjust the implementation schedule. This Policy, Plan objectives, and the FLAG should be reviewed prior to making any schedule alterations.

Optional: Plan termination is the final phase. When funding reaches 1xx%, a termination study will be conducted and the Portfolio will be invested in a minimum risk portfolio. The move to this Portfolio requires corporate approval as it calls for a decision process beyond the scope of the Investment Committee.

C. Diversification Policy

1. Diversification across asset classes is the primary means by which the Committee expects the Fund to avoid undue risk of large losses over long time periods. To protect the Fund against unfavorable outcomes within an asset class because of the assumption of large risks, the Committee will take reasonable precautions to avoid excessive investment concentrations. Specifically, the following guidelines will be in place:

    a) With the exception of fixed income investments explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of total Portfolio assets.

    b) With respect to fixed income investments, no more than 4% of the Portfolio may be invested in securities with ratings below investment grade, and none may be rated below investment grade at the time of purchase.

    c) With respect to fixed income investments, the minimum average credit quality of these investments shall be investment grade (Standard & Poor's BBB; Moody's Baa) or higher.

In addition, all investments within each asset class and sub-asset class shall meet such other standards of prudent diversification and risk management as the Committee shall from time to time adopt and attach to this Investment Policy Statement in the form of Exhibits.

D. Rebalancing Policy

It is expected that the Plan's actual asset allocation will vary from its target asset allocation given the varying returns earned on its investments in different asset and sub-asset classes over a given period of time. The Plan will be rebalanced to its target normal asset allocation under the following circumstances:

1. Utilize cash flow to realign the Portfolio closer to its target asset allocation on an ongoing basis.

2. To determine the deviation from target weightings, the investment manager will review the Portfolio quarterly (March 31, June 30, September 30, and December 31). The following parameters will be applied:

    a) If any asset class (equity or fixed income) within the Portfolio is +/–5 percentage points or more from its target weighting, the Portfolio will be rebalanced.

    b) If any fund within the Portfolio has increased or decreased by greater than 20% of its target weighting, the fund may be rebalanced.

3. The investment manager may provide a rebalancing recommendation at any time.

4. The investment manager shall act within a reasonable period of time to evaluate deviation from these ranges.

E. Other Investment Policies

Unless expressly authorized by the Committee, the Plan and its investment managers are prohibited from:

1. Purchasing securities on margin, or executing short sales.

2. Pledging or otherwise hypothecating securities, except for loans of securities that are fully collateralized.

3. Purchasing or selling derivative securities for speculation or leverage.

4. Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected given the objectives of that part of the Portfolio which they manage.

III. Monitoring Plan Investments and Performance

The Committee will monitor the Portfolio's results on an ongoing basis to evaluate how successful it has been at meeting its stated investment objectives. At a frequency to be decided by the Committee, it will formally assess the Plan and the performance of its underlying investments as follows:

A. The Plan's Funded Status is the key measure of success and the primary driver of the FLAG process. Both the level and the stability of the Funded Status are important. Therefore, on a quarterly basis, an estimate of the Funded Status will be reviewed and evaluated by the Committee.

B. The Plan's composite investment performance (net of fees) will be judged against the following standards:

1. A composite benchmark consisting of, but not limited to, the following unmanaged market indexes weighted according to the expected target asset allocations stipulated by the Plan's investment guidelines:

    a) **U.S. Equity:** MSCI US Broad Market Index or a similar broad domestic index.

    b) **Non-U.S. Equity:** MSCI All Country World ex US Investable Market Index or a similar broad domestic index.

    c) **Investment Grade Fixed Income:** Barclays Capital U.S. Aggregate Float Adjusted Index, Barclays Capital U.S. Long Credit A or Better Bond Index, Barclays Capital U.S. Long Government/Credit Index and Barclays Capital U.S. Treasury STRIPS 20-30 Year Equal Par Bond Index. As the fixed income allocation changes over time, the index will be adjusted to reflect the duration and credit characteristics similar to that of the fixed income portfolio.

    d) **Real Estate:** MSCI US REIT Index and S&P Global ex-U.S. Property Index.

    e) **Cash:** Citigroup 3-Month T-Bill Index.

C. The performance of individual investments and pooled investments (net of fees) managed by professional investment managers hired on behalf of the Plan will be judged against the following standards:

1. A market-based index appropriately tailored to the agreed-upon investment objective and normal investment characteristics of the manager's portfolio.

2. The performance of other investment managers with similar investment objectives and policies.

D. In keeping with the Plan's overall long-term financial objective, the Committee will evaluate Plan and manager performance over a suitably long-term investment horizon, generally across full market cycles or, at a minimum, on a rolling five-year basis.

E. The investment managers should provide valuation and activity statements that show on a monthly, quarterly, and annual basis, assets at cost, including trading fees, and a summary of all fees paid to the manager. Additionally, these statements should provide measures of total return, as well as yield, based on the above costing method.

IV. Account Reviews

The investment manager is expected to be available to meet with the Committee once per year to review the Portfolio's structure, strategy, and investment performance. Investment reports shall be provided on a (calendar) quarterly basis or as requested by the Committee.

These guidelines are approved by the Committee and are provided to the investment manager. It is the intention of the Committee to review these guidelines formally with the investment manager at least annually to confirm their continuing relevance or revise them as appropriate.

Either the Committee or the investment manager may suggest revisions at any time if it is felt to be in the best interests of the Sponsor. In addition, it shall be the responsibility of the investment manager to request a review by the Committee if at any time these guidelines would restrict the organization's ability to use its full resources, or limit the application of the investment approach felt to be appropriate, given the economic outlook or capital markets.

Approved this ________ day of ____________, 20___.

Signature ___________________________________

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