Investment Policy Statement

The ABC Co. 401(k) Retirement Savings Plan

# Plan Purpose and Objective

ABC Company, Inc. (the “Company”) sponsors one defined contribution plan named the ABC Company 401(k) Retirement Savings Plan (the “Plan”) to provide eligible employees, as defined in the Plan, with the opportunity to save for retirement on a tax-deferred basis and receive contributions from the Company. The Plan is qualified under section 401(a) of the Internal Revenue Code and is operated in compliance with the Employee Retirement Income Security Act (“ERISA”) of 1974, as amended.

The Plan is a participant directed individual account plan that is intended to constitute a plan described in section 404(c) of ERISA and Department of Labor Regulations section 2550.404c-1, which means that the Plan’s fiduciaries may be relieved of liability for any losses that are the direct and necessary result of investment instructions given by a participant or beneficiary. ABC Company, its directors, officers, employees, fiduciaries and subsidiaries (including any fiduciaries) do not underwrite, warrant, guarantee or in any way insure the performance of any investment option available through the Plan or any participants or beneficiaries against their individual or collective investment losses that may arise from their own decisions to invest in any or all of the Plan’s investment options.

Given the Plan’s intent to comply with section 404(c) of ERISA, the Plan will provide a broad range of investment choices to reflect the different risk tolerances common among participants in retirement savings plans. Additionally, participants will be given the flexibility to alter their investment choices and the direction of existing and future contributions while benefiting from daily valuation. The Plan will also provide participants with access to current investment information along with education materials and/or programs designed to compare investment options by risk and return characteristics in order to make informed investment decisions.

This Investment Policy Statement (“Policy”) defines the Plan’s investment objectives and establishes policies and procedures so that these objectives can be met in a prudent manner. This Policy is intended to:

* Provide a mechanism to establish and review the Plan’s investment objectives;
* Identify those individuals/functions within the Company with responsibility for selecting and reviewing the Plan’s investments;
* Designate the asset classes of investment options available to participants with a clear understanding of the role each asset class performs;
* Identify the criteria that may be considered when selecting funds within asset classes and evaluating the funds’ continued appropriateness; and
* Provide a single document designed to ensure that the fiduciary investment and monitoring responsibilities of the Plan are met.

The purpose of this Policy is to provide the Investment Committee (“Committee”), established and appointed by the Company, with guidance in discharging its fiduciary responsibilities of overseeing the investment guidelines described in this Policy. The assets of the Plan should at all times be managed in compliance with the provisions of ERISA and other applicable laws.

# Investment Committee

The Committee is charged with:

* Establishing, maintaining, and reviewing the Policy;
* Ensuring compliance with ERISA and any other relevant state and federal laws, regulations and rulings that impact the investment process;
* Identifying and selecting a blend of well-managed investment options for the Plan that offer an adequately diversified lineup;
* Monitoring the investment strategies, performance, and risk characteristics of investment options on a regular basis;
* Taking appropriate action if objectives are not being met or if the investment strategy employed by any of the funds is no longer appropriate for the investment option;
* Evaluating services available to assist participants in meeting their investing needs (e.g., managed accounts, advice, etc.);
* Determining that investment fees paid to service providers and other investment expenses of the Plan are reasonable; and
* Identifying and selecting service providers to assist in meeting and maintaining Plan investment objectives.

# Investment Policies and Objectives

***Investment Objectives:***

Considering the varied attitudes, goals, expectations, investment time horizons, and risk tolerance levels of the Plan’s participants, the Plan will offer a broad array of investment options across the capitalization and style spectrum that allow participants to build portfolios consistent with their needs and objectives. Thus, the well-diversified investment options the Plan will offer include choices among the three primary asset classes (cash, bonds, and stocks). Within stocks, there should be additional opportunities to diversify by style (growth and value), size (large capitalization and small capitalization) and region (U.S. and international).

In addition, it is intended that the Plan will offer a variety of investment options (funds) that allow employees to construct an investment portfolio across a broad risk/return spectrum to achieve their own investment goals based on the following:

* Each fund should be an appropriate building block to forming a reasoned and diversified portfolio;
1. Each fund should be relatively low-cost and broadly diversified within its area of focus;
2. Each fund should capture asset-class returns (i.e., be fully invested and diversified in its area of focus);
3. Each fund’s investment strategy should be easy to communicate and readily understood; and
4. The Company should not be the sole source of information for the investment options.

All funds will allow daily liquidity and valuation. Generally, transfers among funds may occur daily however, these transfers are subject to the specific fund rules and restrictions as outlined in the fund’s current prospectus or summary documents and the plan’s fund transfer policies.

***Investment Categories and Options:***

In selecting the investments, the Committee intends to offer an investment line-up that is understandable to participants as well as adequately diversified across assets classes, covering a broad range of risk and return characteristics. The Committee will consider investment options within the following investment categories to enable participants to meet their individual savings goals:

|  |  |
| --- | --- |
| Short-Term Reserves | Mid-Cap Equity |
| Fixed Income | Small-Cap Equity |
| Balanced | International / Global |
| Target Date | Specialty |
| Large-Cap Equity | All-Asset |

Within these investment categories, the Committee chose the investments listed on Appendix A to be made available to participants, as of the date listed on Appendix A. The Committee may update Appendix A, which shall be considered a separate document from this Investment Policy Statement, from time to time to reflect the Plan’s investment options. Each fund’s investment objective, risks, stated benchmark, and peer group can be found in the fund’s most recent prospectus or similar summary document.

***Selecting and Monitoring Diversified Investment Options:***

Plan investment options will be selected and monitored in a manner consistent with generally accepted standards of fiduciary responsibility, with the skill, care and diligence of a prudent person in such capacity and in accordance with ERISA and other applicable laws. All Plan determinations will be for the sole benefit of the participants and beneficiaries in the Plan.

The Committee will monitor Plan investment options and will add, remove or change investment managers or options as may be appropriate. The Committee considers a number of qualitative and quantitative factors when selecting and monitoring any investment option. The Committee will focus its evaluation on long-term issues related to the management of the fund, both qualitative and quantitative. Qualitative factors may include fundamental changes in a fund manager’s investment philosophy, organizational structure (e.g., manager tenure), and financial condition (including any significant changes in total assets under management). Quantitative factors may include adherence to fund objectives, performance, and expenses as detailed below. With regard to performance evaluation, the Committee will continually monitor the funds’ benchmarks to ensure that they are the most appropriate for comparison purposes. No single factor will determine whether an investment option should be added, retained, or eliminated; however, certain factors may carry more weight in the Committee’s final analysis.

The Committee will evaluate investments based on two sets of criteria: criteria applicable to all Plan investment options, and additional criteria that are specific to certain types of investments. Outlined below are examples of factors the Committee may use to select and monitor the Plan’s investment options.

**Criteria for evaluating an investment line-up:**

* The ability to construct a diversified portfolio with the Plan’s investment offerings
* Reasonableness of investment costs for the services provided which may include expense ratios, revenue sharing agreements, and portfolio turnover
* Performance:
	+ Three-, five-, and ten-year returns

**Target retirement funds:**

* The underlying composition or glide path of funds
* Changes in the demographics of the plan to consider whether glide path is reasonable for participants
* Relative performance to stated benchmark and peer group

**Passively managed funds:**

* The fund’s ability to successfully track its stated benchmark (tracking error)

**Actively managed funds:**

* The investment manager’s tenure, philosophy, and process
* Relative performance to stated benchmark and peer group

**Exchange traded funds (ETFs):**

* Reasonableness of the all-in investment costs incorporating trading commissions and expenses relative to comparable mutual funds
* The ETF’s ability to successfully track its stated benchmark (tracking error)

# Establishing a Default Fund

The Committee will establish a default fund to allocate contributions to the Plan when a participant fails to make an investment selection for elective contributions or employer contributions, or for when a participant is automatically enrolled in the Plan and does not make an affirmative investment election. In selecting a default fund, the Committee intends that such selection will comply with section 404(c)(5) of ERISA and the regulations thereunder as a qualified default investment alternative (“QDIA”).

The Committee will select a default fund and invest Plan assets for which participants have not provided investment instructions in accordance with Section 404(c)(5) of ERISA and Department of Labor Regulation section 2550.404c-5. Accordingly, the Committee is not required to invest in “safe” assets that protect principal, and the law permits fiduciaries to invest in assets that may experience short-term losses in pursuit of long-term returns.

In order to determine the appropriate default fund, the Committee will:

* Evaluate the objectives of the Plan;
* Determine the type of QDIA to offer in the plan;
* Select a fund or funds that meets the regulatory requirements for a QDIA, and based on evaluation of the applicable investment criteria listed above;
* Document the decision-making process and conclusions; and
* Monitor the fund or funds periodically to ensure that they continue to satisfy the requirements to be treated as qualified default investment alternative.

The Committee will select an investment fund(s) that is diversified so as to minimize the risk of large losses. Such a fund(s) will provide varying degrees of long-term appreciation and capital preservation through exposure to a mix of equity and fixed income investments that vary based on the participant’s age, target retirement date, or life expectancy. Such a fund(s) is expected to change its asset allocations over time with the objective of becoming more conservative over time.

**The Committee has selected the fund(s) identified on Appendix A as the Plan’s default fund(s).**

# Review and Amendment of the Policy

The Committee shall review this Policy periodically to help ensure that it continues to reflect the Plan’s objectives and meet the needs of the Plan’s participants. Changes to this Policy are expected to be infrequent, as they will reflect long-term considerations, rather than short-term changes in the financial markets. The criteria used to evaluate this Policy shall include consideration of: (1) demographics of the workforce; (2) growth of the Plan; and (3) performance of existing investment options

**Appendix A**

**Investment line-up as of xx/xx/xxxx**

|  |  |  |  |
| --- | --- | --- | --- |
| **Fund**  | **Ticker** | **Category** | **Investment Type** |
|  |  |  |  |
| **Target Date\*** |  |  |  |
| Vanguard Target Retirement 2060 Inv | VTTSX | Target Date 2050+ | Target Date |
| Vanguard Target Retirement 2055 Inv | VFFVX | Target Date 2050+ | Target Date |
| Vanguard Target Retirement 2050 Inv | VFIFX | Target Date 2050+ | Target Date |
| Vanguard Target Retirement 2045 Inv | VTIVX | Target Date 2041-2045 | Target Date |
| Vanguard Target Retirement 2040 Inv | VFORX | Target Date 2036-2040 | Target Date |
| Vanguard Target Retirement 2035 Inv | VTTHX | Target Date 2031-2035 | Target Date |
| Vanguard Target Retirement 2030 Inv | VTHRX | Target Date 2026-2030 | Target Date |
| Vanguard Target Retirement 2025 Inv | VTTVX | Target Date 2021-2025 | Target Date |
| Vanguard Target Retirement 2020 Inv | VTWNX | Target Date 2016-2020 | Target Date |
| Vanguard Target Retirement 2015 Inv | VTXVX | Target Date 2011-2015 | Target Date |
| Vanguard Target Retirement 2010 Inv | VTENX | Target Date 2000-2010 | Target Date |
| Vanguard Target Retirement Income Inv | VTINX | Retirement Income | Target Date |
| **Short-Term Reserves** |  |  |  |
| Vanguard Prime Money Market Inv | VMMXX | Stable Value / Cash Equivalent | Short-Term Reserves |
| **Fixed Income** |  |  |  |
| Vanguard Short-Term Bond Index Inv | VBISX | Short-Term Bond | Passive |
| Vanguard Total Bond Market Index Inv | VBMFX | Intermediate-Term Bond | Passive |
| Vanguard Interm-Term Bond Index Inv | VBIIX | Intermediate-Term Bond | Passive |
| Vanguard Long-Term Bond Index Inv | VBLTX | Long-Term Bond | Passive |
| Vanguard Inflation-Protected Secs Inv | VIPSX | Inflation-Protected Bond | Active |
| **Balanced** |  |  |  |
| Vanguard Wellington Inv | VWELX | Moderate Allocation | Active |
| **Domestic Equity** |  |  |  |
| Vanguard Total Stock Mkt Idx Inv | VTSMX | Large Blend | Passive |
| Vanguard 500 Index Investor | VFINX | Large Blend | Passive |
| Vanguard Growth Index Inv | VIGRX | Large Growth | Passive |
| Vanguard Value Index Inv | VIVAX | Large Value | Passive |
| Vanguard Mid Cap Index Inv | VIMSX | Mid-Cap Blend | Passive |
| Vanguard Small Cap Index Inv | NAESX | Small Blend | Passive |
| **International/Global** |  |  |  |
| Vanguard Total Intl Stock Index Inv | VGTSX | Foreign Large Blend | Passive |
| Vanguard MSCI Emerging Markets ETF | VWO | Diversified Emerging Mkts | Passive |
| **Specialty** |  |  |  |
| Vanguard REIT Index Inv | VGSIX | Real Estate | Passive |

*\* Denotes the Plan’s default fund(s)*

Vanguard ETF Shares are not redeemable with the issuing Fund other than in very large aggregations worth millions of dollars. Instead, investors must buy and sell Vanguard ETF Shares in the secondary market and hold those shares in a brokerage account. In doing so, the investor may incur brokerage commissions and may pay more than net asset value when buying and receive less than net asset value when selling.

*An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in such a fund.*

All investing is subject to risk, including the possible loss of money you invest. Diversification does not ensure a profit or protect against a loss.

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