

Proposed

Town of Pendleton
DEFINED BENEFIT LENGTH OF SERVICE
AWARD PROGRAM

Investment Policy Statement

Retirement Plan – Directed by Board of Trustees

Approved on _____, 20____

This Investment Policy Statement should be reviewed by an attorney knowledgeable in this specific area of the law. Any change to this policy should be communicated in writing and on a timely basis to all interested parties. If any term or condition of this Investment Policy Statement conflicts with any trust and/or plan document, the document shall control, as long as such term or condition is consistent with the law.

Executive Summary

Type of Client:	Retirement Plan - Board Directed
Plan Name:	Town of Pendleton LOSAP Defined Benefit Plan
Client Sub-type:	ERISA Exempt
Fiduciary Standard of Care:	Other – Prudent Man Rule
Tax Id:	16-6002338
Current Assets:	\$1,850,000
Time Horizon:	Long - More than 20+ years
Modeled Return:	5.25%

Asset Allocation: Allocation Range Legend

LL: Lower Limit
SA: Strategic Allocation
UL: Upper Limit

Broad Asset Class	Peer Group	LL	SA	UL
Cash & Cash Equivalents	Cash Equivalents	1.0	3.0	20.0
Fixed Income		50.0	57.0	70.0
	U.S. Gov't Fixed Income	13.0	19.0	25.0
	U.S. Corp Investment Grade Fixed Income	16.0	22.0	30.0
	U.S. Corp High Yield Fixed Income	0.0	4.0	8.0
	International Fixed Income	3.0	8.0	13.0
	Emerging Markets Fixed Income	0.0	4.0	8.0
	Other	0.0	0.0	10.0
Equity		30.0	40.0	50.0
	U.S. Large Cap	14.0	18.0	22.0
	U.S. Mid Cap	3.0	6.0	9.0
	U.S. Small Cap	0.0	0.0	7.0
	International Equity	10.0	16.0	20.0
	Emerging Markets Equity	0.0	0.0	10.0
Other		0.0	0.0	20.0
Total			100.0	

Purpose

The purpose of this Investment Policy Statement (IPS) is to assist the Investment Board (Board) in effectively supervising, monitoring and evaluating the investment of the Company's Retirement Plan (Plan) assets. The Plan's investment program is defined in the various sections of this IPS by:

1. Stating in a written document the Board's attitudes, expectations, objectives and guidelines for the investment of all of the Plan's assets.
2. Encouraging effective communications between the Board and all parties involved with the investment management decisions.
3. Establishing formal criteria to select, monitor, evaluate and compare the performance results achieved by each investment option on a regular basis.
4. Setting forth an investment structure for managing the Plan's assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon.
5. Providing guidelines for each investment portfolio that control the level of overall risk and liquidity assumed in that portfolio, so all Plan assets are managed in accordance with stated objectives.

Statement of Objectives

Background

The Plan is a defined benefit plan established in 1995. The Plan currently has \$1,850,000 in assets with 104 participants.

This IPS has been arrived at upon consideration by the Board by a wide range of policies, and describes the prudent investment process the Board deems appropriate. This process includes offering various asset classes and investment management styles that, in total, are expected to offer the opportunity to diversify the portfolio in a manner consistent with the specified risk and return requirements of the portfolio.

The objectives of the Plan are:

1. Have the ability to pay all benefit and expense obligations when due.
2. Control costs of administering the plan and managing the investments.
3. Maximize return within reasonable and prudent levels of risk in order to minimize contributions.
4. Use prudent experts (registered investment adviser, bank, or insurance company) to make the investment decisions
5. Demonstrate that the prudent expert was selected by following a due diligence process.
6. Monitor the activities of the prudent expert to ensure that the expert is performing the agreed upon tasks.
7. Maintain a "funding cushion" for unexpected developments and for possible future increases in benefit structure and expense levels.
8. Maintain flexibility in determining the future level of contributions. Investment results are the critical element in achieving the investment objectives, while reliance on contributions is a secondary element.
9. Maintain a fully funded status with regard to current pension liabilities.

Time Horizon

The investment guidelines are based upon an investment horizon of greater than twenty years. The Plan's strategic asset allocation is also based on this long-term perspective. Short-term liquidity needs should be considered as part of the asset allocation process.

Risk Tolerances

The Board recognizes that some risk must be assumed in order to achieve the investment objectives of the plan. In establishing the risk tolerances of the IPS, the ability to withstand short and intermediate term variability were considered.

A 1-yr loss limit of -5.5% has been calculated for the portfolio. Statistically speaking, there is a 5% chance (once in every twenty years) that the 1-year return will actually be lower than -5.5%.

In summary, The Plan's long-time horizon, current financial condition and several other factors suggest collectively some interim fluctuations in market value and rates of return may be tolerated in order to achieve the longer-term objectives.

Performance Expectations

The desired investment objective is a long-term rate of return on assets that is at least 5.25%. The target rate of return for the Plan has been based upon the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in the IPS.

The Board realizes market performance varies and a 5.25% rate of return may not be meaningful during some periods. Accordingly, relative performance benchmarks for the investment options are set forth in the "Monitoring" section.

Duties and Responsibilities

Investment Board

As fiduciaries under the Plan, the primary responsibilities of the Board are:

1. Prepare and maintain this investment policy statement.
2. Prudently diversify the Plan's assets to meet an agreed upon risk/return profile.
3. Prudently select investment options.
4. Control and account for all investment, record keeping and administrative expenses associated with the Plan.
5. Monitor and supervise all service vendors and investment options.
6. Avoid prohibited transactions and conflicts of interest.

Custodian

Custodians are responsible for the safekeeping of the Plan's assets. The specific duties and responsibilities of the custodian are:

1. Value the holdings.
2. Collect all income and dividends owed to the Plan.
3. Settle all transactions (buy-sell orders).
4. Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall Plan since the previous report.
5. Maintain separate accounts by legal registration.

Investment Advisor

The Investment Advisor serves as an objective, third-party professional retained to assist the Board in managing the overall investment process. The Advisor is responsible for guiding the Board through a disciplined and rigorous investment process to enable the Board to meet the fiduciary responsibilities outlined above.

Separate Account Managers

1. Manage the assets under their supervision in accordance with the guidelines and objectives outlined in their respective Service Agreements, Prospectus or Trust Agreement.
2. Exercise full investment discretion with regards to buying, managing, and selling assets held in the Plan.
3. Seek approval from the Board prior to purchasing and/or implementing the following securities and transactions:
 - a. Letter stock and other unregistered securities; commodities or other commodity contracts; and short sales or margin transactions.
 - b. Securities lending; pledging or hypothecating securities.
 - c. Investments in the equity securities of any company with a record of less than three years continuous operation, including the operation of any predecessor.
 - d. Investments for the purpose of exercising control of management.
4. Vote promptly all proxies and related actions in a manner consistent with the long-term interest and objectives of the Plan as described in this IPS. Each investment manager shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.
5. Communicate to the Board all significant changes pertaining to the fund it manages or the firm itself. Changes in ownership, organizational structure, financial condition, and professional staff are examples of changes to the firm in which the Plan is interested.
6. Effect all transactions for the Plan subject "to best price and execution." If a manager utilizes brokerage from the Plan assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Plan.
7. Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals, acting in a like capacity and fully familiar with such matters, would use in like activities for like Plans with like aims in accordance and compliance with all applicable laws, rules, and regulations.

Asset Class Guidelines

The Board believes long-term investment performance, in large part, is primarily a function of asset class mix. The Board has reviewed the long-term performance characteristics of the broad asset classes, focusing on balancing the risks and rewards.

Historically while interest-generating investments, such as bonds, have the advantage of relative stability of principal value, they provide little opportunity for real long-term capital growth due to their susceptibility to inflation. On the other hand, equity investments, such as common stocks, clearly have a significantly higher expected return but have the disadvantage of much greater year-by-year variability of return. From an investment decision-making point of view, this year-by-year variability may be worth accepting given the Plan's long-time horizon.

The following asset classes were selected and ranked in ascending order of "risk" (least to most) according to the most recent quarter's median 3-year Standard Deviation values.

1. Money Market Taxable
2. Short-Term Bond

3. Intermediate-Term Bond
4. Conservative Allocation
5. Multi-sector Bond
6. Inflation-Protected Bond
7. Moderate Allocation
8. World Bond
9. World Allocation
10. Large Blend
11. Foreign Large Blend
12. Mid-Cap Blend
13. Small Blend
14. Specialty-Real Estate
15. Specialty-Natural Res
16. Other

Rebalancing of Strategic Allocation

The percentage allocation to each asset class may vary depending upon market conditions. Please reference the allocation table in the Executive Summary for the lower and upper limits for each asset class. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation and allocation ranges of the Plan. If there are no cash flows, the allocation of the Plan will be reviewed quarterly.

If the Board judges cash flows to be insufficient to bring the Plan within the target allocation ranges, the Board shall decide whether to effect transactions to bring the allocation of Plan assets within the threshold ranges.

Implementation

The Board will apply the following due diligence criteria in selecting each money manager or mutual fund.

1. Regulatory oversight: Each investment option should be managed by: (i) a bank; (ii) an insurance company; (iii) a registered investment company (mutual fund); or (iiii) a registered investment adviser.
2. Correlation to style or peer group: The investment option should be highly correlated to the asset class being implemented. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the investment option to the appropriate peer group.
3. Performance relative to a peer group: The investment option's performance should be evaluated against the peer group's median manager return, for 1-, 3- and 5-year cumulative periods.
4. Performance relative to assumed risk: The investment option's risk-adjusted performance (Alpha and/or Sharpe Ratio) should be evaluated against the peer group's median manager's risk-adjusted performance.
5. Minimum track record: The investment option should have sufficient history so that performance statistics can be properly calculated.
6. Assets in the product: The investment option should have sufficient assets so that the portfolio manager can properly trade the account.
7. Holdings consistent with style: The underlying securities of the investment option should be consistent with the associated broad asset class.
8. Expense ratios/fees: The investment option's fees should be fair and reasonable.
9. Stability of the organization: There should be no perceived organizational problems.

Monitoring

Performance Objectives

The Board acknowledges fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Recognizing that short-term fluctuations may cause variations in performance, the Board intends to evaluate investment performance from a long-term perspective.

The Board is aware the ongoing review and analysis of the investment options is just as important as the due diligence process. The performance of the investment options will be monitored on an ongoing basis, and it is at the Board's discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

On a timely basis, but not less than quarterly, the Board will meet to review whether each investment option continues to conform to the search criteria outlined in the Implementation section; specifically:

1. The investment option's adherence to the due diligence criteria;
2. Material changes in the investment option's organization, investment philosophy and/or personnel; and,
3. Any legal, SEC and/or other regulatory agency proceedings affecting the investment option's organization.

Benchmarks

The Board has determined it is in the best interest of the Plan's participants that performance objectives be established for each investment option. Manager performance will be evaluated in terms of an appropriate market index (e.g. the S&P 500 stock index for large-cap domestic equity manager) and the relevant peer group (e.g. the large-cap growth mutual fund universe for a large-cap growth mutual fund).

Peer Group

Conservative Allocation
Foreign Large Blend
Inflation-Protected Bond
Intermediate-Term Bond
Large Blend
Mid-Cap Blend
Moderate Allocation
Money Market Taxable
Multisector Bond
Other
Short-Term Bond
Small Blend
Specialty-Natural Res
Specialty-Real Estate
World Allocation
World Bond

Index

Dow Jones U.S. Moderately Conservative
MSCI EAFE ex USD
Barclays U.S. Treasury TIPS
Barclays 5-10 Yr Govt/Credit Bond
Russell 1000
Standard & Poors Midcap 400 PR
Dow Jones U.S. Moderate Portfolio
B of AML 3 Month T-Bill
Barclays US Agg Bond
3 Month T-Bill
Barclays 1-5 Yr Govt/Credit Bond
Russell 2000
S&P Global Natural Resources
DJ US REIT
MSCI World
Barclays Global Agg x-USD

Watch List Criteria

An investment option may be placed on a Watch List and a thorough review and analysis of the investment option may be conducted, when:

1. An investment option performs below median for their peer group over a 1-, 3- and/or 5-year cumulative period.
2. An investment option's 3-year risk adjusted return (Alpha and/or Sharpe) falls below the peer group's median risk adjusted return.
3. There is a change in the professionals managing the investment option.
4. There is a significant decrease or increase in the investment option's assets.
5. There is an indication the investment option is deviating from the stated style and/or strategy.
6. There is an increase in the investment option's fees and expenses.
7. Any extraordinary event occurs that may interfere with the investment option's ability to prudently manage investment assets.

The decision to retain or terminate an investment option cannot be made by a formula. It is the Board's confidence in the investment option's ability to perform in the future that ultimately determines the retention of an investment option.

Measuring Costs

The Board will review at least annually all costs associated with the management of the Plan, including:

1. Expense ratios of each mutual fund against the appropriate peer group.
2. Administrative Fees; costs to administer the Plan, including record keeping, custody and trust services.
3. The proper identification and accounting of all parties receiving soft dollars and/or 12b-1 fees generated by the Portfolio.

Investment Policy Review

The Board will review this IPS at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

Approved by:

[insert name]

[insert title]

[insert name]

[insert title]
