As you go through this, pretend you have a financial advisor who is helping with this, and the questionnaire will be evaluated by the advisor.

SAMPLE INVESTMENT OBJECTIVE QUESTIONNAIRE

Please complete all of the following questions by circling your responses

1. In general, what is your attitude towards the U.S. economy over the next three to five years?

(A) Very negative
(B) Somewhat negative
(C) Neutral
(D) Somewhat positive
(E) Very positive

You need to understand what your risk tolerance is, so an understanding of your attitude about the economy will help.

2. In determining your needs and setting your investment objectives, please choose one primary and one secondary objective after reading the seven objectives listed below.

A. Liquidity — The ability to convert cash and/or to achieve or exceed on an ongoing basis a return on short-term money market instruments.

B. Current Income to Meet Financial Requirements — Generate sufficient income to meet ongoing withdrawal needs, such as monthly income for benefit payments.

C. Annual Return Sufficient to Meet Specific Requirements — Meet or exceed a specific return, for example an actuarial rate of return.

D. Preservation of Purchasing Power — Equal or exceed rate of inflation over the investment time horizon, i.e., being able to purchase the same amount of goods with your fund next year that you are able to purchase with it now.

E. Stability of Returns — Obtain a fairly consistent annual return, e.g., a bank passbook savings account consistently receives 5% each year.

F. Growth of Capital — Obtain above-average total return, i.e., forego receiving some income with the expectation that the assets will grow through appreciation.

G. Aggressive Growth of Capital — Achieve maximum total return even though it may entail taking substantial risk, i.e., take greater risk of losing your money with the expectation of being able to obtain greater rewards. (Bet on higher stakes for chance to receive bigger jackpot.)

2a. From the seven objectives listed above, which objective is your primary objective?

(Circle only one) A B C D E F G

2b. From the seven objectives listed above, which objective is your secondary objective?

(Circle only one) A B C D E F G

These 3 questions are the crucial questions to answer honestly. Notice that the questions are worded so as to have you focus on their tolerance for risk.

3. The time frame you establish to meet your goal(s) will affect your ability to do so. The longer the time frame, the better the chance that up and down market cycles will average out and the more likely you are to meet that goal. How long are you willing to wait to reach your goal?

( ) Less than three years ( ) Three to five years

( ) Five to ten years ( ) Ten or more years

Generally, if you answers "Less than three years", you would NOT be a good candidate for a managed account.

4. Often an advisor has complete discretion over the asset mix of a portfolio. In other instances, either trustees or individuals have a predisposition to the balance among stocks, bonds and cash. Which best describes your sentiments?

( ) I have no preference regarding the balance of stocks, bonds and cash and will leave the determination to my advisor.

( ) I have a preference for the mix of assets. However, these preferences need not be rigidly observed.

( ) I have preferences for the asset mix which must be rigidly observed.

5. What asset mix would you feel most comfortable with?

( ) 100% Fixed Income or Cash Equivalents and 0% Equity

( ) 75% Fixed Income or Cash Equivalents and 25% Equity

( ) 50% Fixed Income or Cash Equivalents and 50% Equity

( ) 0% Fixed Income or Cash Equivalents and 100% Equity

The above two questions are intended to help you focus on your preferences (If any) for an asset allocation mix.

6. Please indicate your opinion of the following asset class and individual security characteristics:

	Positive	Neutral	Negative
A. Young or emerging companies	( )	( )	( )
B. Stocks with high dividends	( )	( )	( )
C. Stocks with no or low dividends	( )	( )	( )
D. Stocks with high price earnings multiples	( )	( )	( )
E. Bonds with intermediate and maturities	( )	( )	( )
F. Unfamiliar Companies	( )	( )	( )
G. Foreign Stocks	( )	( )	( )
H. Foreign Bonds	( )	( )	( )
I. Real Estate	( )	( )	( )

This will allow you to obtain any preference or negative bias you may have toward any asset class, and will aid the investment style selection step in the process.

7. Given the funding status of your plan, how would you like your fund to be managed.

( ) Conservatively — take very little risk, so as to obtain stable returns.

( ) Moderately Conservative — take little risk in order to receive average returns.

( ) Moderately Aggressive — take chance of losing part of your money with expectations to receive better than average returns.

( ) Aggressively — assume chance of losing most of your money, but expect to be able to receive maximum returns.

This question becomes the basis for the statement of investment objectives.

8. Your investment loses 20% of its value in one month. Assuming that none of the fundamentals have changed, do you:

( ) Wait for it to go back up.

( ) Sell it.

( ) Buy more—it looks even more attractive.

9. Investment “risk” can be reflected in different ways. Please mark an (X) next to the single item that best describes how you tend to view risk.

( ) The possibility of not achieving an established target rate of return.

( ) Erosion of purchasing power; not keeping pace with inflation.

( ) Long-term erosion of capital; gradual loss of original investment

( ) Total portfolio value bouncing up and down even if it is essentially in phase with general market fluctuations.

( ) Chance of significant loss of overall portfolio.

These two questions are risk tolerance level questions.

10. Please circle the letter of the portfolio whose five-year investment average is most in keeping with your own preference and expectations. 5-Year:

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
(A) Portfolio A:	+8%	+5%	+8%	+7%	+6%	+7%
(B) Portfolio B:	+27%	-4%	+22%	+18%	-5%	+11%
(C) Portfolio C:	+37%	-9%	+39%	+32%	-10%	+16%

Notice that this is the only question asked about expected return. Identifying your risk tolerance is the most important part of the questionnaire procedure.

2-3

11. If risk is measured on a scale of 1 to 10, 1 being most conservative and 10 being the most aggressive, where on this scale would you feel most comfortable? (Circle one number)

Less Risk More Risk

1 2 3 4 5 6 7 8 9 10

More Conservative More Aggressive

12. Where on the scale is the highest or maximum level of risk that you are willing to assume?

The answer indicated should be at least as high as your answer to question 11.

(Circle one number)

Less Risk	More Risk
1 2 3 4 5 6 7 8 9 10	
More Conservative	More Aggressive

The last three questions attempt to refine your risk tolerance level.

Please note the above questionnaire is not complete, as there is some obvious demographic profile information missing, such as name, address, net worth, annual salary and investment experience with different types of investments. Most financial service firms and all brokerage firms and banks have their own internal documents which cover this information. We then tried to focus on the investment objectives components of the questionnaire.

From your meetings with your advisor and information gathered on the questionnaire, you should be able to begin to draft a statement of investment policy. On the other hand, the financial advisor may draft it for you. It should begin with a summary of what you said on the questionnaire. Statements are phrased like this: "You told us that you were essentially risk adverse and were conservative, wishing to limit your losses," (it's in third person, so that it can be used by a third party). It should be noted that your investment policy statement differs from your investment objectives. The investment policy statement is a macro document which details the purpose of the assets, the parties and/or beneficiaries anticipated contributions and withdrawals schedule, tax status, and other components covered below:

- An overall investment strategy including asset allocation and investment restrictions.
- Specific investment objectives along with appropriate benchmarks is a component.
- A progress reporting schedule including meetings is a component.

Immediately below, and continuing on the following pages, we have a simplified sample of *some* of the components of an investment policy statement. A sophisticated investment policy statement does NOT have to be 15 pages long.

Parts of a Sample Statement of Investment Policy

The following asset allocation policy shall govern the overall equity commitment . [ASSET ALLOCATION]

Acceptable Ranges of Equity Commitment

Minimum	**Target**	**Maximum**
45%	55%	65%

Guidelines describing permissible types of equities and non-equities, or fixed income, are provided in the Diversification and Risk sections that follow.

OBJECTIVES [A SIMPLE STATEMENT OF INVESTMENT OBJECTIVES]

Based on extensive analyses of the capital markets and the emerging needs of the system, this policy has been adapted to achieve the following objectives:

1) Achieve a rate of return on investments that exceeds inflation by at least 5%.

2) Maintain or reduce the contribution rate of the system over time. The combined rate for 2010 is 15% of combined salary.

3) Maintain 120%, or higher, funding of the investor's expected retirement demands over time.

PHILOSOPHY [A STATEMENT OF THE INVESTMENT PHILOSOPHY OF THE CLIENT]

Since (a) assets are sufficient to pay current accrued obligations, (b) a net cash outflow is expected for the next decade, and (c) the investor hopes to enrich* the portfolio through investment returns rather than from future contributions, a moderately aggressive investment posture is warranted. Median equity allocations in the investing world were approximately 50% when this policy was adopted. A 55% allocation to equities is moderately aggressive in this context. All allocations are at market value. As discussed in the following section on diversification, equities include U.S. and international stocks, as well as U.S. equity real estate. This diversification should result in above average returns for the risks that are taken.

In addition to the guidelines and procedures set forth herein, rigorous compliance with all applicable statutes shall be maintained.

DIVERSIFICATION [A GENERAL STATEMENT OF DIVERSIFICATION REQUIREMENTS]

The assets will be well diversified to reduce the risks of large losses. To achieve this diversification, the following policies have been adopted: Each asset class, such as stocks and bonds, will be broadly diversified to be similar to the market for the asset class. The market for stocks shall be represented by the Wilshire 5000. The market for bonds shall be represented by the Lehman Corporate/Government Bond Index.

Equity portfolio holdings may include diversifying alternative investments, such as international stocks and equity real estate. Short-term fixed income investments, defined as fixed income issues maturing in less than one year, will be managed to add value. Credit risk will be avoided in these investments since the intent is to dampen overall volatility. Multiple managers will be employed. Allocations among the managers will be controlled by the Trustees to maintain both diversification and policy guidelines.

Permissible allocations may be summarized as follows:

Acceptable Ranges of Commitment [INVESTMENT STYLE ALLOCATION RANGES]

	Minimum	**Target**	**Maximum**
U.S. Stocks	40%	50%	60%
Equity Real Estate	0	5	15
International Stocks	0	0	10
Total Equities	45	55	65
Short-Term Bonds	0	5	35
Long-Term Bonds	20	40	55
Total Fixed Income	35	45	55

BOND AND STOCK RISK [QUALITY STANDARDS FOR THE SECURITIES]

The average quality of the total bond portfolio will be maintained at A or better. No more than 10% of the portfolio may be in issues rated Baa by Moody's, or BBB by Standard & Poor's, or below. Total average duration should not exceed 120% of the bond market's duration, where the bond market is represented by the Lehman Corporate/Government Bond Index. Equity investments should emphasize high quality, income-producing companies with good marketability. No individual issue shall constitute more than 10% (at cost) of the total equity portfolio.

LIQUIDITY [CASH AVAILABILITY REQUIREMENTS]

Modest withdrawals may begin as early as 2013. Accordingly, the core investment manager should be prepared to provide assets to meet these liquidity requirements as they arise.

POLICY REVIEW [WHEN THIS STATEMENT WILL BE REVIEWED OR REVISED]

The various policies and objectives of the system will be reviewed periodically. These reviews will focus on the continued feasibility of the objectives and the continued appropriateness of the investment policies for achieving the objectives. It is not anticipated that objectives and policies will be altered frequently.

PERFORMANCE REVIEW [THE REQUIREMENTS FOR MONITORING THE PORTFOLIO]

It is desired that the total portfolio will perform in the top one-third of accounts with similar risk over a complete market cycle. Progress toward achieving performance objectives will be reviewed quarterly. These reviews will focus on adherence to policy and the opportunities available in the investment markets. Particular attention will be directed to reviewing performance relative to the risks; this will be achieved by comparing performance with that of plans with similar risk. It is believed that the performance expectation set forth in the statement of investment policy is reasonable and consistent over the long-term. Adherence to policy means conforming to the asset allocation, diversification, and risk guidelines set forth in the policy statement; this will also be reviewed quarterly. In regard to the individual managers, their performance and adherence to policy will also be reviewed quarterly. Each manager will have separate policies and objectives, as established by the investor. Manager reviews will focus on adherence to policy, progress toward achievement of objectives, and performance relative to opportunities. Each manager is expected to perform in the top one-third of managers with a similar style over a market cycle.

Statement of Investment Objectives

First, a simple statement of investment objectives will give a general overriding investment goal such as one of the following.

"To provide a stable income for life of the principal of at least $35,000 per year, while retaining as much principal as possible."

or

"Preservation of Capital to the extent that a loss of more than 10% of the portfolio in any given year is unacceptable."

or

"To pursue an aggressive plan for growth of the assets such as to maximize their potential to increase over a [long period of time]."

A statement of investment objectives will have a target for the assets to reach. It can be as precise as: "Generate total return including dividends and interest, net of fees of 5% per year." It can designate an index or blended index benchmark such as: "To outperform a mix of 80% S & P 500 and 20% 10-year treasury bills over a specific time period." It is crucial to measuring success that the appropriate benchmark be selected. Not every money manager should be compared to the S & P 500, nor should every bond manager be compared to 10-year treasuries.

The statement of investment objectives will also contain a time period. Generally investment goals with a time horizon shorter than three years are not considered candidates for investment accounts.

Preferably five years is generally a more acceptable time horizon to begin to evaluate success in a portfolio meeting its goals.

Lastly, a statement of investment objectives will contain a benchmark against which success or failure of meeting the goals can be measured. It can be expressed various ways as we indicated above. Below are some other examples from our IPS above.

OBJECTIVES [A SIMPLE STATEMENT OF INVESTMENT OBJECTIVES]

Based on extensive analyses of the capital markets and the emerging needs of the system, this policy has been adapted to achieve the following objectives:

1) Achieve a rate of return on investments that exceeds inflation by at least 5%.

2) Maintain or reduce the combined (employer plus employee) contribution rate of the system over time. The combined rate for 2000 is 16% of payroll.

3) Maintain 120%, or higher, funding of the investor's retirement withdrawals over time.