

A framework to assist plan  
sponsors in drafting an  
investment policy statement

# Putnam 401(k)

## INVESTMENT POLICY STATEMENT CHECKLIST AND SAMPLE



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# INVESTMENT POLICY STATEMENT CHECKLIST

## Purpose of the investment policy statement checklist

This checklist is intended to provide a framework to assist fiduciaries of qualified retirement plans, in consultation with their counsel and/or investment advisor, in developing and drafting an investment policy statement for their plan. Though, the law does not require a plan to adopt an investment policy statement (IPS), if an IPS is adopted, it must be drafted in such a manner as to provide a clear road map for the plan fiduciary. Specifically, it must provide policy direction and procedural guidelines that will allow for the selection and ongoing monitoring of investment options and service providers under the plan, comply with the fiduciary responsibility standards imposed by ERISA, and meet the plan’s overall objectives. This checklist is provided by Putnam for informational and discussion purposes only. It is not intended to provide authoritative guidance or legal advice. Plan sponsors and others should consult their own counsel and designated advisor, if applicable, for specific guidance on their particular circumstances.

	✓ if met in IPS	Comments
<b>I. PURPOSE OF THE INVESTMENT POLICY STATEMENT</b>		
Identifies the objectives of the investment policy statement.		
States the intention to review the policy at least annually and establishes the ability of the investment committee to amend the investment policy statement, if necessary.		
<b>II. ROLES, RESPONSIBILITIES, AND PROCEDURES</b>		
Generally defines roles of parties involved in the management of plan assets and administration of the plan.		
Acknowledges applicability of ERISA fiduciary standards and rules (Prudent Expert Rule, Exclusive Benefit Rule, Investment Diversification Rule, etc.).		
States intention to maintain comprehensive written records of all decisions and decision-making processes, to establish and be able to demonstrate procedural prudence on the part of the investment committee.		
Describes procedures providing for formal requirements of investment committee meetings (e.g., frequency, quorums, voting rules, membership positions).		

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# INVESTMENT POLICY STATEMENT CHECKLIST

	✓ if met in IPS	Comments
<b>III. PLAN INVESTMENT PHILOSOPHY</b>		
Identifies specific investment asset classes to be offered in the plan.		
Discusses intent to select a diversified range of mutual funds and other investment vehicles.		
Establishes commitment to include a range of prediversified options in the plan's investment lineup, providing employees with an easy way to professionally diversify their savings across an array of investment styles.		
Sets minimum requirement that participants have available at least three investment options with differing risk and return characteristics, as required by ERISA Section 404(c).		
Mandates that the investment committee will periodically review and may at any time change investment options in the plan, as it deems necessary in accord with underlying philosophy of the investment policy statement.		
States minimum frequency with which investment committee will reevaluate performance of investments in each asset class.		
<b>IV. SELECT AND MONITOR INVESTMENT OPTIONS</b>		
Lists criteria for the selection of investment options and minimum performance requirements that each option must meet. Considers all relevant background information, including performance, compared to style-specific benchmarks, fees and expense ratios, and demonstrated adherence to stated investment objectives.		
States that investment options will be evaluated at least annually.		
Provides for process by which appropriate parties regularly review and evaluate current investment options to determine continuing appropriateness of each investment option (at least annually).		
Lists selected investment options in appendix to the investment policy statement.		

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	✓ if met in IPS	Comments
<b>V. COORDINATE WITH PLAN DOCUMENTS</b>		
Confirms that, if any term of the IPS should conflict with the plan document, the terms and conditions of the plan document will prevail.		
<b>VI. ADDITIONAL GUIDELINES [OPTIONAL]</b>		
Describes procedures to be followed for selection of a self-directed brokerage (SDB) service provider and maintaining SDB as an investment product.		
Establishes procedure to monitor suitability of company stock as acceptable investment option (including possible need for independent fiduciary, frequency of stock appraisals, minimum performance criteria, etc.).		
Describes procedures to be followed for selection of a service provider for participant investment advice and education and to maintain this service.		
<b>VII. CURRENT INVESTMENTS AND PERFORMANCE STANDARDS</b>		
Lists the name of each current investment option.		
Identifies asset class and risk and return characteristics of each investment option available to participants under the plan.		
States performance benchmark(s) to be used when selecting investment options and to be applied when periodically reviewing performance of current investment options.		

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# SAMPLE INVESTMENT POLICY STATEMENT

NOTE: The following is only one example of an investment policy statement that might be suitable for use by a retirement plan's fiduciaries. There is no legal requirement of an investment policy statement, nor any prescribed content or form of the statement, and examples vary widely. Note that this sample contains some optional terms, for illustrative purposes.

## I. PURPOSE OF THE INVESTMENT POLICY STATEMENT

This investment policy statement sets forth the process that [Company Name] has adopted to make investment-related decisions with respect to assets of the plan in compliance with the standards of fiduciary conduct prescribed in the Employee Retirement Income Security Act of 1974 (ERISA). The policy identifies the investment goals and objectives of the plan, sets out decision-making processes for selecting investments, and specifies the procedures and relevant measurement indexes to be used in assessing ongoing investment performance, in accordance with the stated investment objectives. The investment policy statement will be used as the basis for measuring and evaluating future investment performance and will itself be reviewed, at least annually, by the investment committee.

## II. ROLES, RESPONSIBILITIES, AND PROCEDURES

**Defined roles.** The parties involved in the management of plan assets include, but are not limited to:

- A) **Investment committee.** *The investment committee shall supervise the investment of the assets of the plan and make all decisions concerning selection and retention of the investment options available under the plan. Accordingly, the investment committee shall have authority both to select and monitor funds, and to appoint investment managers. Decisions of the investment committee on investment policy, the selection of investments and/or investment managers, performance analysis and investment monitoring, etc., may but need not be based on the recommendations of an investment advisor engaged to advise the investment committee on such matters.*
- B) **Investment advisor(s).** *An investment advisor may be appointed to assist the investment committee in the overall supervision of the plan's investments. In this role, the investment advisor will offer resources for additional due diligence as well as independent third-party analysis. More specifically, the investment advisor may offer guidance and recommendations to the investment committee in the selection and retention of investment options available under the plan, the selection and retention of investment managers, where applicable, and assistance in the periodic monitoring of fund performance.*
- C) **Investment manager(s).** *An investment manager, as defined in ERISA, is a person qualified under ERISA, to whom the fiduciaries delegate responsibility for investing and managing plan assets in accordance with this investment policy statement and applicable law.*
- D) **Participants.** *Participants in the plan are authorized to direct the investment of assets in their accounts, selecting from the investment funds offered under the plan as they deem appropriate to meet their own retirement savings objectives. Participants may exchange and transfer amounts in their accounts among the various investment options, on a daily basis (subject to restrictions applicable to the fund or investment vehicle, if any). It is intended that the plan qualify as an ERISA Section 404(c) plan, and that fiduciaries of the plan not be liable for any losses resulting from participant-directed investments.*

**ERISA fiduciary standards.** Parties involved in the administration of the plan and the management of plan assets who are defined as fiduciaries under ERISA shall discharge their respective responsibilities “solely in the interests of the plan participants and beneficiaries”; “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 conduct of an enterprise of a like character and of like aims”; and otherwise in compliance with all applicable fiduciary standards set forth in ERISA.

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**Written records.** The investment committee shall create and maintain written records of all decisions relating to the choice and ongoing monitoring of investment funds under the plan. Minutes shall be taken of all meetings, noting time and place, attendees, matters discussed, and decisions reached. The minutes shall document investigation, facts, and the reasoning that went into the making of such decisions. Relevant documents or materials used by the investment committee in its decision-making process may be included in or annexed to such minutes.

**Committee procedures.** The investment committee shall promptly adopt written procedures for the conduct of meetings and for decision-making, which shall include but not be limited to: the frequency of meetings; quorum rules; the method of calling regular and special meetings; the voting requirements (e.g., majority or “super majority”); and special positions and duties of committee members (chair, secretary, etc.). The secretary of the committee shall keep the minutes and written records, as described above.

### III. PLAN INVESTMENT PHILOSOPHY

**General philosophy.** Investment options offered under the plan shall be selected in order to (1) provide a wide range of investment opportunities in various asset classes, so as to allow for diversification and cover a wide risk/return spectrum; (2) maximize returns within reasonable and prudent levels of risk; (3) provide returns comparable to returns for similar investment options; and (4) control administrative and management costs to the plan and participants.

The investment committee shall select a diverse range of investment vehicles — consisting of a combination of mutual funds and collective trusts — that will enable participants to meet their individual retirement savings needs and other financial goals. The investment committee shall also include a range of professionally diversified investment options to provide employees with one-step investment diversification based on their goals, risk tolerance, and/or target retirement year. In any case, participants shall be able at all times to diversify the investment of their accounts among at least three investment vehicles with disparate risk/return characteristics, and with a frequency appropriate in light of the volatility of the investments.

The investment committee shall select such investment vehicles based upon their stated investment objectives or investment type and historical performance. The investment committee also intends to base its selection on the options’ historical adherence to their stated investment objectives.

The investment committee shall reevaluate each asset class and investment vehicle based upon the foregoing criteria, no less frequently than annually, in order to determine the continuing suitability of each such option under the plan.

**Asset classes currently offered include the following:**

<i>Capital preservation</i>	<i>Large value</i>	<i>Large blend</i>	<i>Large growth</i>
<i>Government fixed income</i>	<i>Mid value</i>	<i>Large blend – passive</i>	<i>Mid growth</i>
<i>Diversified core income</i>	<i>Small value</i>	<i>Large blend – international</i>	<i>Small growth</i>
<i>Balanced – value equity</i>			

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# SAMPLE INVESTMENT POLICY STATEMENT

## IV. SELECT AND MONITOR INVESTMENT OPTIONS

**Selection of investment options.** The investment committee shall select the plan's investment options (with the assistance of the plan's investment advisor, if applicable), and shall set forth and describe each selected investment option in Appendix A to this investment policy statement. Selection criteria shall include but not be limited to the following:

- *The investment option's volatility and performance relative to benchmarks*
- *The investment option's demonstrated adherence to stated investment objectives*
- *Competitiveness of fees and expense ratios, compared to similar investments*
- *The organization's size, structure, and history; management profile and investment philosophy; staff experience and depth; and technological commitment to research*

**Monitoring of investment options.** The investment committee shall evaluate the results of the existing investment funds at least annually. Performance comparisons will be made against the representative performance universe and market indexes for each investment.

**Watch list.** The investment committee shall maintain a watch list for investment funds that are not meeting prescribed objectives. The investment committee, with assistance from plan advisor (if applicable), will select appropriate measures to determine watch list status. An example of such watch list action may be, but not limited to: when, for five consecutive quarters, the investment fund underperforms the stated benchmark or peer group on a rolling 1-year, 3-year, and 5-year annualized performance figure. Once a fund is placed on the watch list, it is not necessarily eliminated from the investment menu, but additional measurement analysis is advised. The investment committee (and the plan's investment advisor, if any) shall seek additional analysis, focusing on factors including, but not limited to: personnel turnover, ownership changes, changes in investment approach, style drift, and universe ranking.

A fund can also be placed on a watch list if the investment committee determines that the fund has not stayed true to its investment objective. The factors that could determine this include, but are not limited to: changes in investment approach, style drift, and portfolio characteristics relative to benchmark.

## V. COORDINATE WITH PLAN DOCUMENTS

Notwithstanding any of the foregoing, if any term or condition of this investment policy statement conflicts with any term or condition of the plan documents, the terms and conditions of the plan documents shall control, as long as such terms are consistent with ERISA.

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## VI. ADDITIONAL GUIDELINES [IF APPLICABLE]

**Self-directed brokerage.** In an effort to provide participants with maximum investment flexibility, a self-directed brokerage option is offered in the plan, allowing participants to invest in most publicly traded securities, including stocks, bonds, and mutual funds, but excluding short sales, options, futures, limited partnerships, currency trading, and trading on margin. In developing and maintaining the plan's self-directed brokerage option, the investment committee shall reevaluate the self-directed brokerage service provider's performance on the basis of appropriate factors, including reasonable cost, competitive service capabilities, and satisfaction of plan participants. The investment committee shall conduct such a review of the self-directed brokerage service provider's performance, no less often than annually.

**Company stock.** The plan sponsor has decided, as a business matter, to promote employee ownership of the company by offering company stock as an investment option pursuant to the terms of the plan. Fiduciaries of the plan will be responsible for overseeing the investment of plan assets in company stock according to the plan documents, and for determining whether company stock has become an imprudent investment for the plan. The investment committee shall monitor the performance of company stock.

**Advice.** Because effective education of participants regarding investment fundamentals can help to achieve the goal, stated in this investment policy statement, of enabling participants to meet their individual retirement savings needs and other financial goals, the plan sponsor has decided to make available professional investment advice services to plan participants. The investment committee shall determine that the investment advice provided by such a selected provider is unbiased, based on sound asset allocation theory and in-depth fund analysis, and tailored to each participant's individual circumstances. Investment committee monitoring of such firm(s) or individual(s) providing advice to participants and beneficiaries shall be performed no less frequently than annually, on the basis of the same criteria that were the basis for the selection of the investment advisor.

## VII. REVIEW AND REVISE THE INVESTMENT POLICY STATEMENT

The investment committee reserves the right to amend this investment policy statement at any time and from time to time, as it deems necessary or appropriate. The investment committee shall amend this investment policy statement as necessary to comply with any amendment to the plan documents or with any change in federal or other applicable law that may affect the investment of the plan's assets. As changes occur in the investment options selected for the plan, the investment committee shall amend Appendix A, in order to maintain the accuracy of the document.

IN WITNESS WHEREOF, this investment policy statement, as approved by the investment committee, has been adopted as of this \_\_\_\_\_ day of \_\_\_\_\_, 200\_\_.

For the investment committee: \_\_\_\_\_

Print name: \_\_\_\_\_

Title: Secretary of the investment committee

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# SAMPLE INVESTMENT POLICY STATEMENT

## APPENDIX A. CURRENT INVESTMENTS AND PERFORMANCE STANDARDS

### Sample fund description

**Fund Name: The George Putnam Fund of Boston**

**Category: Balanced – value equity**

#### CHARACTERISTICS AND OBJECTIVES:

This fund seeks to provide capital growth and current income from stocks and bonds. The value-oriented stock portion emphasizes attractively priced stocks of large companies undergoing positive changes that may enhance shareholder value. The bond portion consists of a diverse array of government, corporate, and mortgage-backed securities. Equity securities are targeted between 50%–70% of portfolio. Fixed-income securities are targeted between 30%–50% of portfolio. Cash levels are targeted between 0%–5%. Valuation ratios and earnings growth figures tend to be lower than the overall large-cap market. Dividend yields tend to be greater than the overall large-cap market.

#### BENCHMARK:

60% S&P 500/Barra Value Index /40% Lehman Aggregate Bond Index

*S&P 500/Barra Value Index is an unmanaged index of capitalization-weighted stocks chosen for their value orientation.*

*Lehman Aggregate Bond Index is an unmanaged index of U.S. fixed-income securities.*

#### UNIVERSE:

Lipper Balanced Category (This category includes balanced funds with value, blend, and growth equity styles. Depending on the equity style in/out of favor due to performance, categories can be positively/negatively impacted.)

*Lipper Inc. ranks funds (without sales charges) with similar current investment styles or objectives as determined by Lipper.*

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## A relationship that can make all the difference

In a world of rapidly changing markets and complicated legislative issues, choosing to work with an investment consultant is one of the wisest decisions you can make. Your consultant can help you determine the right investments for your plan and, depending on your situation, identify educational opportunities. Even experienced investors may benefit from the counsel of a consultant who can bring timely information and expertise.

This information should not be considered tax or investment advice. Please consult your tax or financial advisor regarding your particular circumstances and before making any investment decisions.

*Investors should carefully consider the investment objectives, risks, charges, and expenses of a fund before investing. For a prospectus or an offering statement containing this and other information about any fund, please call your plan's toll-free number. Read the prospectus or offering statement carefully before making any investment decisions.*

## What makes Putnam different?

### A time-honored tradition in money management

Since 1937, our values have been rooted in a profound sense of responsibility for the money entrusted to us.

### A prudent approach to investing

We use a research-driven team approach to seek consistent, dependable, superior investment results over time, although there is no guarantee a fund will meet its objectives.

### Funds for every investment goal

We offer a broad range of mutual funds and other financial products so investors and their advisors can build diversified portfolios.

### A commitment to doing what's right for investors

We have below-average expenses and stringent investor protections, and provide a wealth of information about the Putnam funds.

### Industry-leading service

We help investors, along with their financial advisors, make informed investment decisions with confidence.

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