

## INVESTMENT POLICY STATEMENT

### INTRODUCTION

The purpose of this Investment Policy Statement (IPS) is to establish a clear understanding as to the investment goals and objectives applicable to an HSA investment program. This Investment Policy Statement will:

Establish reasonable expectations, objectives and guidelines in the selection of investments.

Create the framework for a well-diversified asset mix that can be expected to generate acceptable long-term returns at a level of risk suitable to the program and understanding relative liquidity needs, including:

Describing an appropriate risk posture for the investment options.

Specifying the target asset class policy.

Establishing investment guidelines regarding the selection of investment managers, permissible securities and diversification of assets.

Specifying the criteria for evaluating the performance of the programs assets.

Define the responsibilities of the Custodian and Advisor. Encourage effective communication between the Custodian, sub-custodian and Advisor.

The principal reason for developing a long-term investment policy and for putting it in writing is to enable both parties to protect the investment selection from *ad-hoc* revisions of sound long-term policy. The written investment policy will help you maintain a long-term perspective when short-term market movements may be distressing and your investment strategy might otherwise be questioned.

This IPS is not a contract. Legal counsel has not reviewed this investment policy statement. The Advisor and the Custodian use it at their own discretion. The IPS is intended to be a summary of an investment philosophy and the procedures that provide guidance for the Custodian and the Advisor. The investment policies described in this IPS should be dynamic. These policies should reflect the Custodian's current status and philosophy regarding the investment of the HSA Portfolio. These policies will be reviewed and revised periodically to ensure they adequately reflect any changes related to the HSA Portfolio, to the Custodian or to the investment markets.

It is understood that there can be no guarantee about the attainment of the goals or investment objectives outlined herein.

### Plan Objectives:

The Custodian (First American Bank) is looking to provide an HSA Investment Platform with the following specific objectives:

Customizable, cost effective, best of breed mutual fund platform; and/or a self-directed investment option utilizing a nationally recognized sub-custodian.

### Risk Tolerance:

Investment theory and historical investment market return data suggest that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (e.g.) volatility of return) is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Portfolio is the determination of an appropriate risk tolerance. There are two primary factors that affect the Investor's risk tolerance:

Financial ability to accept risk within the investment program, and:

Willingness to accept return volatility

Taking these two factors, and the inherent the purpose of an HSA into account, the Custodian and Advisor determines the acceptable risk levels are as follows:

### Liquidity:

Custodian has expressed a need to maintain a minimum level of cash or cash equivalents in a participant's HSA at all times. Therefore, at least \$2,000 of the HSA Portfolio shall be maintained in savings in order to qualify for the investment options.

### Diversification:

HSA Portfolio investments shall include asset classes covering a range of investment categories to allow for diversification within the specified risk tolerance guidelines. HSA Portfolio funds shall be limited to individual marketable securities or packaged products (i.e., mutual funds or unit investment trusts) in the following categories:

#### Permitted Asset Classes

Cash or cash equivalents

Fixed Income – Domestic Bonds

Fixed Income – Non-U.S. Bonds

Equities – U.S.

Equities – Non-U.S.

Equities – Emerging Markets

Equities – REITs

Equity – Unit Investment Trusts

Mortgage-backed securities

#### Permitted Security Types

Mutual Funds – Stock, Bonds, Money Market Funds

### Investment Selection, Monitoring and Control Procedures:

Investment managers (including mutual funds, money managers) shall be chosen using the following criteria: (Not listed in any order of priority.)

Past performance, considered relative to other investments having the same investment objective. Consideration shall be given to both performance rankings over various time frames and consistency of performance.

Costs relative to other funds with like objectives and investment styles. Expense ratios and fees median to lower than average expense ratios as evaluated for specific peer group category. Advisor may consider whether a fund pays 12-b1 fees or revenue sharing to keep participant monthly plan fees to a minimum.

Size of the proposed mutual fund: Fund should have a minimum of \$75 million in assets under management.

Length of time the fund has been in existence and length of time it has been under the direction of the current manager(s), typically no less than 3 years in either case; and whether or not there have been material changes in the manager's organization and personnel.

Style consistency: Fund should have no more than 20% of portfolio invested in unrelated asset class securities.

The historical volatility and downside risk of each proposed investment. Median to lower average risk as compared to peer group. 1, 3, 5 and 10 year returns evaluated against peer group and correlating index. Typically fall within 5 year, top quartile of peer group.

How well each proposed investment complements other assets in the Portfolio.

The current economic environment.

The likelihood of future investment success, relative to other opportunities.

Underperforming or out of favor mutual funds will not be ejected from the portfolio, but rather, additional funds that meet the due diligence criteria will be added to the portfolio.