

Dear Retirement Plan Sponsor,

As the Sponsor of your retirement plan, you hold the fiduciary responsibility to ensure the best interests of your employees are at the forefront of all decisions. Morgan Stanley is prepared to support this critical endeavor by providing fiduciary education, management tools, and ongoing investment performance monitoring as part of our suite of Plan Sponsor services.

Maintaining a clearly written Investment Policy Statement (IPS) is a best practice approach for establishing a prudent investment decision-making process for your company's retirement plan. Your organization may already have a detailed IPS, or for your convenience we are able to make available a template, which you can modify and update to represent your plan's specific goals. In either case, Morgan Stanley, as an Advisor to your retirement plan, will be offering a supplemental investment monitoring service. When evaluating Retirement investment strategies, we leverage a combination of the 1) Morgan Stanley Global Investment Manager Analysis ("GIMA") Analyst evaluation process, and 2) Morgan Stanley Defined Contribution (DC) Proprietary Screening Process. Retirement plan investments will be assessed annually, and reported as follows:

- 1) **GIMA Analyst Review:** GIMA performs quantitative, qualitative and operational due diligence conducted by dedicated analysts on more than 4,300 investment strategies. GIMA has multiple conviction levels when evaluating investment products in applicable programs. The team focuses on four fundamental areas of analysis, including personnel and firm, investment process and implementation, analytical capabilities, and business operations. Investments that are not covered by GIMA analysts are evaluated by the DC Proprietary Screening Process.
- 2) **Morgan Stanley DC Proprietary Screening Process:** Investment options not covered by GIMA are evaluated with a proprietary screening process. Investments that pass the criteria of the DC Proprietary Screening are deemed "Screened". Investments that do not meet the screening criteria are deemed "Not Approved".

In summary, the possible outcomes of the Morgan Stanley Smith Barney LLC (MSSB) Investment Evaluation process is as follows:

- **Focus List** – This status indicates GIMA's high conviction level in the overall quality of the investment option and its ability to outperform applicable benchmarks over a full market cycle.
- **Approved List** – This status indicates an acceptable due diligence standard based upon GIMA's evaluation and are approved for use in plans.
- **Watch** - GIMA has a "Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming "Not Approved".
- **Not Approved** – GIMA may determine that an investment product no longer meets the criteria of either Focus List or Approved List and will no longer be recommended in investment programs, in which case the investment product is given a "Not Approved" status.
- **Screened** – The investment is evaluated using the Proprietary Screening Process and meets our criteria. This investment is acceptable to keep in the plan at the time of the report being generated.
- **Not Screened** - There are certain asset categories of investments (e.g., stable value, world bond) that are not screened. These investments should be replaced/removed from the lineup.

Any review or recommendations do not extend to MSSB affiliated investments, company stock, self-directed brokerage accounts, forfeitures, and participant loans.

The team at Morgan Stanley is committed to extending the highest level of service to Plan Sponsors and their employees. If you have any questions about the above investment monitoring methodology, please do not hesitate to contact your Financial Advisor or the Morgan Stanley at Work Retirement Solutions Service Team at 866-888-0249.

Sincerely,

Morgan Stanley at Work Retirement Solutions

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**Global Investment Manager Analysis (GIMA) Focus List, Approved List and Watch Policy.**

GIMA uses two methods to evaluate investment products: **Focus** (and investment products meeting this standard are described as being on the Focus List) and **Approved** (and investment products meeting this standard are described as being on the Approved List). In general, Focus entails a more thorough evaluation of an investment product than Approved. Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. GIMA may also determine that an investment product no longer meets the criteria under either process and will no longer be recommended (in which case the investment product is given a "Not Approved" status).

GIMA has a **"Watch" policy** and may describe a Focus List or Approved List investment product as being on "Watch" if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming "Not Approved." The Watch period depends on the length of time needed for GIMA to conduct its evaluation and for the investment manager or fund to address any concerns.

When Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Financial Advisors and Private Wealth Advisors (collectively, "Morgan Stanley") provide "investment advice" regarding a retirement or welfare benefit plan account, an individual retirement account or a Coverdell education savings account ("Retirement Account"), Morgan Stanley is a "fiduciary" as those terms are defined under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and/or the Internal Revenue Code of 1986 (the "Code"), as applicable. When Morgan Stanley provides investment education, takes orders on an unsolicited basis or otherwise does not provide "investment advice", Morgan Stanley will not be considered a "fiduciary" under ERISA and/or the Code. For more information regarding Morgan Stanley's role with respect to a Retirement Account, please visit [www.morganstanley.com/disclosures/dol](http://www.morganstanley.com/disclosures/dol). Tax laws are complex and subject to change. Morgan Stanley does not provide tax or legal advice. Individuals are encouraged to consult their tax and legal advisors (a) before establishing a Retirement Account, and (b) regarding any potential tax, ERISA and related consequences of any investments or other transactions made with respect to a Retirement Account.

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## **Investment Policy Statement**

**By making the decision to offer your employees a qualified retirement plan, you have taken a crucial step toward helping them prepare for a financially secure retirement. With this decision, however, come certain additional responsibilities. Management of the plan, whether the responsibility of an individual or a committee, must be performed up to the heightened fiduciary standards established by the Employee Retirement Income Security Act of 1974, as amended (“ERISA”).**

**As a fiduciary, you’re responsible for the monitoring of your retirement plan investments. An investment policy statement provides a recommendation that may help guide the decision-making process for your retirement plan.**

**Maintaining a carefully designed, clearly written Investment Policy Statement (“IPS”) may be the best approach for establishing a prudent investment decision-making process in order to provide quality investment options to your plan’s participants. To that end, we enclose for your convenience an IPS template, which you can modify and update.**

**Please note that the IPS template has been provided to you and your counsel as a sample. You (in conjunction with your attorneys or tax advisors) are responsible for preparing an IPS which is appropriate for your qualified retirement plan and circumstances. Morgan Stanley Smith Barney (“MSSB”), its affiliates and its Financial Advisors are not tax or legal advisors, and thus you should review the IPS with your tax and legal advisors in order to determine whether it is appropriate for your circumstances, and modify the document as you and your tax and/or legal advisors deem necessary and/or appropriate.**

**This IPS template is only intended for use by our broker of record clients. When presenting fund recommendations and performance information, MSSB utilizes data from Morningstar®.**

**If you choose to use monitoring criteria that is different than MSSB’s criteria and not included in the attached IPS, MSSB’s recommendations may not be able to assist you in determining whether the Plan’s investments meet the custom criteria you’ve defined.**

**If you choose to use a fund that is not approved by MSSB we may not be able to provide you with the same level of analysis as we can for those funds that are approved by MSSB.**

**Our review and recommendations do not extend to MSSB affiliated investments, forfeitures, company stock, self-directed brokerage accounts, and participant loans. If you choose to include monitoring and selection criteria in the IPS for those assets we will not be able to assist you with the monitoring, review or selection process.**

**The furnishing of this IPS is not an ERISA fiduciary service and is not intended to constitute investment advice.**

**Investors should carefully consider the fund's investment objectives, risks, charges and expenses before investing. The prospectus and, if available the summary prospectus, contains this and other information that should be read carefully before investing. Investors should review the information in the prospectus carefully. To obtain a prospectus, please contact your financial advisors or visit the funds' company website.**

# Investment Policy Statement (IPS)

## Template

# **Statement of Investment Policy, Objectives, and Guidelines**

This Investment Policy Statement (“IPS”) is intended to establish the investment policies and objectives for the Plan (as defined herein) and provides guidelines to assist the fiduciaries of the Plan. While the IPS describes specific acts and criteria, they are for purposes of guidance only. The Plan fiduciaries are not bound by the literal terms of the IPS, but should instead exercise discretion and judgment in making their decisions for the benefit of Plan participants and their beneficiaries.

## **I. GENERAL INFORMATION**

The Plan Sponsor sponsors the [Click here to enter text](#). The Plan, for the benefit of its employees and their beneficiaries. The Plan is intended to provide participants and their beneficiaries with options to invest on a regular and a long-term basis for retirement.

The Plan is a participant-directed plan and is intended to be a qualified plan in compliance with all applicable federal laws and regulations, including the Internal Revenue Code of 1986, as amended, and the Employee Retirement Income Security Act of 1974, as amended (“ERISA”).

Plan participants are ultimately responsible for their investment decisions, therefore the Plan fiduciaries intend to provide a broad spectrum of investment options to allow participants to construct diversified portfolios designed to meet their own time horizons and risk and return objectives ranging from conservative to aggressive.

## **II. PURPOSE OF THIS IPS**

The purpose of this IPS is to assist the Plan fiduciaries, responsible for the Plan’s investment options, in effectively supervising, monitoring and evaluating the Plan’s investments. Specifically, this IPS:

- Defines the Plan’s investment objectives and guidelines.
- Defines the roles and responsibilities of those responsible for the Plan’s investment options.
- Establishes criteria for selecting investment options.
- Establishes criteria for monitoring investment options.
- Establishes criteria for removing investment options.

## **III. INVESTMENT OBJECTIVES AND GUIDELINES**

In structuring the investment options for the Plan, the fiduciaries of the Plan shall carry out their duties with the care, skill, prudence, and diligence under the prevailing circumstances that a prudent man acting in like capacity and familiar with such matters would use. The Plan’s investment options should align with the following objectives:

- Offer a broad range of investment options.

- Include at least 3 core investment options with materially different return and risk characteristics, allowing participants to create a diversified portfolio.
- Provide the participant the opportunity to materially affect risk and return characteristics to diversify their portfolio.
- Monitor the investment options to ensure that they meet the above criteria.

#### **IV. ROLES AND RESPONSIBILITIES UNDER THIS IPS**

Under ERISA, a “named fiduciary” means a fiduciary that is named in the plan instrument (“Named Fiduciary”). The Named Fiduciaries are primarily responsible for:

- Preparation, maintenance, and regular review of this IPS.
- Establishing criteria for selecting, monitoring and removing investment options.
- Selecting and monitoring investment options to ensure that they meet the objectives and guidelines contained in this IPS.

The Named Fiduciary may establish an investment committee or assign other employees of the Plan Sponsor to carry out the responsibilities outlined above (collectively referred to as the “Plan fiduciaries” throughout this IPS).

Plan fiduciaries have important responsibilities and are subject to fiduciary standards under ERISA. These responsibilities include:

- Acting solely in the interest of plan participants and their beneficiaries and with the exclusive purpose of providing benefits to them;
- Carrying out their duties prudently;
- Following plan documents;
- Diversifying plan investments; and
- Paying only reasonable total plan expenses.

The Plan fiduciaries may hire a financial advisor to provide them with investment advice as a fiduciary under Section 3(21) of ERISA and to assist them in carrying out certain of their duties.

## V. INVESTMENT SELECTION CRITERIA<sup>1</sup>

The Plan's investment options may consist of investment vehicles such as:

- ☐ Mutual Funds
  - ☐ Exchange Traded Funds
  - ☐ Stable Value / GIC
  - ☐ Collective Trust Funds
  - ☐ Company Stock
  - ☐ Self-Directed Brokerage Accounts
  - ☐ Group annuity separate account
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- ☐ The Plan intends to comply with ERISA Section 404(c) and this IPS is designed to help ensure that the Plan is in compliance therewith. ERISA Section 404(c) generally relieves Plan fiduciaries of various liabilities for the results of a Plan participant's exercise of control. As such, the plan must provide participants with the ability to choose from a broad range of investment options which allow participants to diversify their investment portfolio. Additionally, participants will receive detailed and timely investment information and resources to help them assume greater responsibility for making and executing their own investment decisions.

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<sup>1</sup> Morgan Stanley's investment reports for broker of record clients do not include any forfeitures, self-directed brokerage, company stock, and participant loans. Morgan Stanley is unable to make alternative recommendations for Group Annuity separate accounts and therefore is not considered an investment advice fiduciary with respect to such products in your plan. Due to the complexities of retirement plan investment options, we ask that you consult your recordkeeping partner for more information about potential offerings.



**A. Default Investment Option (if applicable)**

The Plan fiduciaries may establish a default investment option to allocate contributions when a participant fails to make an investment selection for elective contributions or employer contributions, including when a participant is automatically enrolled in the Plan.

- ☐ The Plan fiduciaries intend for the default investment option to adhere to the Qualified Default Investment Alternative (“QDIA”) guidelines established by the Department of Labor (“DOL”).

The Plan fiduciaries have selected the following investment vehicle as the current default option for the Plan:

- ☐ Balanced fund – a fund that invests in both bonds and stocks.
- ☐ Lifestyle/risk based funds – a fund with a mix of investments that takes into account the individuals risk tolerance.
- ☐ Lifestyle/risk based model portfolios – allocates contributions among existing plan investment options based on various risk tolerances.
- ☐ Target date funds – a fund with a mix of investments that takes into account the individual’s age or retirement date.
- ☐ Target date model portfolios – allocate contribution among existing plan investment options based on various retirement dates.
- ☐ Managed accounts - An investment service, provided by a 3<sup>rd</sup> party selected by the Plan Fiduciaries, that allocates contributions among existing plan options to provide an asset mix that takes into account the individual’s age or retirement date.

**B. Asset Class Selection**

The Plan fiduciaries intend to offer a range of investment options that will span various asset classes in order to allow Plan participants to diversify their investments based on their unique individual needs, circumstances, goals, time horizons and risk tolerance.

- ☐ The Plan fiduciaries have elected NOT to offer the following asset classes (list each asset class that should not be offered):

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### **C. Investment Selection**

In selecting the investment options for the Plan, the Plan fiduciaries may consider a variety of quantitative and qualitative factors. These factors may include but are not limited to the investment option's investment objectives, performance relative to its index and peer group, risk characteristics, investment style, fees, manager tenure.

### **D. Target date investments (if applicable)**

In addition to the criteria listed above, the Plan fiduciaries may also consider the following DOL guidelines when selecting a target date investments:

- Alignment of Glidepath objectives with participant demographics including whether they correspond with eligible employees' ages and likely retirement dates. They should also take into accounts other characteristics of the participant population, such as participation in a traditional defined benefit pension plan offered by the employer, salary levels, turnover rates, contribution rates and withdrawal patterns.
- Underlying asset class allocation prior to the target date.
- Underlying asset class allocation after the target date.
- Use of a recordkeepers proprietary vs. non-proprietary options.
- Use of custom models.

### **E. Stable value options (if applicable)**

In selecting a stable value option, the Plan fiduciaries may consider the following criteria:

- Product structure
- Fees
- Investment philosophy
- Book value of assets
- Market-to-book ratio
- Crediting rate/stated rate
- Asset allocation
- Redemption mechanisms/restrictions/market value adjustments
- Competing fund restrictions
- Investment contract issuers
- Size of fund

### **F. Money market funds (if applicable)**

In selecting a money market fund, the Plan fiduciaries may consider the following criteria:

- Product type
- Pricing
- Liquidity
- Redemption gates

### **G. Share class selection**

In determining which share class of a specific fund is most appropriate for the Plan, the Plan fiduciaries will select share classes that have:

- ☐ No revenue to offset plan expenses.\*
- ☐ Revenue to offset some or all of the plan expenses.

\*There may be situations where funds with revenue sharing will result in lower overall plan expenses. In those situations, a fund with revenue sharing may be offered.

## **VI. INVESTMENT MONITORING CRITERIA**

The ongoing monitoring of investment options should be a regular process. It is the mechanism for revisiting the investment options selected and verifying that the criteria originally satisfied continues to be satisfied within an acceptable range.

The Plan fiduciaries retain full responsibility for the offering and monitoring of any self-directed brokerage account(s) and/or company stock offered as an investment option, which will be reviewed periodically as determined by the Plan fiduciaries. Special considerations should be contemplated and discussed before allowing either as an investment option.

The Plan fiduciaries shall periodically review the results of all other Plan investment options based on the MSSB Investment Evaluation process.

### **A. Stable value options (if applicable)**

The Plan fiduciaries will also periodically review the following with respect to their stable value option:

- Book value of assets
- Market-to-book ratio
- Crediting rate/stated rate
- Asset allocation
- Investment contract issuer(s)/guarantor(s)

The foregoing investment monitoring criteria shall not, under any circumstances, be taken as definitive, conclusive, or controlling for removal, termination, or continuation of an investment option. All determinations should be made by the Plan fiduciaries, taking into consideration all relevant facts and circumstances.

## **VII. INVESTMENT OPTION REMOVAL**

The Plan fiduciaries may remove an investment option if they determine that such removal is in the best interests of the Plan and its participants and beneficiaries, taking into account the relevant factors including the fund's current and potential future performance as well as market conditions.

In removing an investment option from the Plan, the Plan fiduciaries will determine whether to replace the fund with a similar investment option or to map participant balances to an existing investment option.

## **VIII. COORDINATION WITH THE PLAN DOCUMENT**

Notwithstanding the foregoing, if any term or condition of this IPS conflicts with any term or condition in the Plan, the terms and conditions of the Plan shall control.

## **IX. IPS REVIEW**

This IPS will be reviewed periodically, and should be amended in writing from time to time to reflect changes in the capital markets, Plan participant objectives or other factors relevant to the Plan.

## **ADOPTION**

This IPS is adopted on \_\_xxxxx\_\_, \_\_xx\_\_ 20\_\_xx\_\_ by the (investment committee, Named Fiduciary, etc.) of the Plan.

Signature(s):

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\_\_\_\_\_  
\_\_\_\_\_

**SAMPLE**