

INVESTMENT POLICY STATEMENT

The Purpose of this Investment Policy Statement. This investment policy statement is designed to set forth a prudent investment strategy for managing the assets of this trust. This statement will serve as a guide to the trustee. It outlines procedures that should help the trustee systematically review and evaluate the performance of the trust's assets. It increases the likelihood that the trust will accomplish its stated goals.

Purpose of the Trust. The John Smith Life Insurance Trust (as stated in Article II of the trust document) has one primary objective. The first objective is to invest prudently in life insurance policies on the life of the grantor. The income tax free death benefits from these policies are intended to supplement the inheritances the trust beneficiaries receive from the grantor's estate at his death.

Time Horizon. John Smith (the grantor) created this trust in 1993. It was designed to purchase and own one or more life insurance policies on the grantor's life. The trustee is to use the death benefits from those policies to provide financial support to the beneficiaries under the distribution provisions of the trust. The insured's life expectancy was 25 years when the trust began.

Contributions to the Trust. Since the trust's inception, each year the grantor has transferred funds to the trust as annual exclusion gifts to the trust beneficiaries. Pursuant to the trust's terms, the trustee receives the transfers and sends notices to the beneficiaries of their temporary right to withdraw their respective pro rata shares of these gifts. To the extent these withdrawal rights lapse, the trustee may use the funds remaining to pay the annual life insurance premiums. These transfers from the grantor are voluntary and are not required under the trust or under any contract between the grantor and the trustee. There is no guarantee that the grantor or anyone else will contribute additional funds to the trust in future years.

Trust Distribution Provisions and Beneficiaries. The trust names the grantor's four children as equal beneficiaries. All are to receive equal distributions from the trust after the grantor's death. Distributions before the grantor's death are subject to the trustee's discretion pursuant to an ascertainable standard of health, education, maintenance and support.

Active vs. Passive Policy Management. When originally drafted, the grantor anticipated that the trustee would hold the initial life insurance policy until the insured's death and would not engage in ongoing purchases or exchanges of life insurance policies inside the trust. However, it is possible that advances in life insurance policy design or improvements in the grantor's health could result in more suitable policies coming available in the years after the trust was executed. The trustee shall monitor the performance of any policies currently owned by the trust and from time to time compare them with other life insurance policies available in the marketplace. The trustee will use his/her best judgment in determining whether to add new life insurance policies to the trust or to replace/exchange or surrender any policy currently owned by the trust.

Diversification. Although diversification is a commonly used investment strategy, it can be ineffective when the trust investment is life insurance. A large policy from a highly ranked insurer often produces more death benefits per dollar of premium than several smaller policies from the same insurer or other insurers with the same total death benefit. The economies of scale that are built into large life insurance policies can make them a better value for the trust than multiple policies from several insurers. Unless the contributions to the trust will be substantially more than currently expected, it is likely that a single life insurance policy will produce more value for the trust beneficiaries than several smaller policies diversified among several insurers.

Liquidity Concerns. It is unlikely that the life insurance policies in the trust will have to be converted into cash to pay current benefits to beneficiaries or to pay for the costs of administering the trusts. As long as the grantor continues to make contributions to the trust, then the trustee may use all or any part of those contributions to pay premiums.

The trustee has the discretion to invest funds contributed to the trust in financial vehicles other than life insurance. To the extent the trustee decides not to immediately use trust assets to pay life insurance premiums, the trustee should hold those funds in investments that are liquid and have little relative risk of loss. Appropriate alternatives include (but are not limited to) an FDIC-insured checking account, a money market fund, or a short term certificate of deposit.

Type of Suitable Life Insurance Policies. There are many different kinds of life insurance policies available to the trustee. Policies selected for the trust generally should be cash value policies that have level premiums with the ability to skip premiums in years in which the grantor is unable or unwilling to make contributions to the trust. The objective of the trust is to pass along life insurance death benefits to the beneficiaries or to use those death benefits for their benefit. Policy cash values

are not intended to be a primary source for paying benefits to the beneficiaries. Policy cash values and cash value growth are not of primary importance except to the extent necessary to support the life insurance death benefit. To the extent a policy can provide guarantees of reasonable death benefits based on the premiums paid, the likelihood that the trust will receive sufficient death benefits to distribute to the beneficiaries is increased. Currently, universal life insurance policies appear to offer the greatest combination of stability, guarantees and flexibility to allow the trustee to prudently manage the policies. Variable life insurance policies may be less suitable (unless the policy has substantial death benefit guarantees) because of the potential year-to-year volatility of cash values.

Any life insurance policy the trustee purchases should come from an insurance company that has strong financial ratings. Well-known rating companies include: A.M.Best Co. (www.ambest.com); Moody's Investors Service Co. (www.moody.com); and Duff & Phelps, LLC (www.duffllc.com)

At a minimum, an insurer should have ratings as follows:

Rating Company:	A.M.Best Co.	Rating:	A
Rating Company:	Moody's Investors Service Co.	Rating:	Aaa

Tax Planning. It is important that the trust, the grantor and the beneficiaries pay as little in income, estate and gift taxes as possible. The trust and its assets should be managed to maintain the income tax free nature of both the policy's death benefits and cash values. To the extent possible under the terms of the trust, the policies should also be administered so as to avoid both federal estate and generation skipping transfer taxes.

Securing Expert Advice. Life insurance is a complex investment. The trustee may desire expert advice before making any decisions about the performance or suitability of any life insurance policy currently in the trust or to be potentially acquired in the future. If this is the case, the trustee may hire one or more experts experienced in evaluating life insurance policies. After analyzing the life insurance policies, the expert may make recommendations for the trustee to consider in deciding how best to manage the life insurance policies owned by the trust.

Policy Review Procedure. The trustee shall review the status of all life insurance policies owned by the trust at least once every three years. This review will include these steps for each policy:

1. Obtain at least two in force policy illustrations for the current year; one should use the current crediting rate for the policy and the other should use a crediting rate of at least 1% less than the current crediting rate.
2. Compare these in force illustrations with the in force illustrations in previous years to identify any trends in policy performance.
3. Compare the current year's in force illustrations with the original illustration given at the time the policy was purchased.
4. Make a determination of the policy's performance to date and make an estimate of its likely performance in the future.
5. Review the current financial ratings of the life insurance company by ratings service companies listed in the section on Suitable Life Insurance Policies and note any changes in those ratings since the last review.
6. Receive at least one proposal for a new policy from a life insurance company with ratings equal to or better than the current insurer; the proposal should use the cash value in the current policy and expected future contributions to the trust from the grantor as the premiums.
7. Compare the projected death benefit and premiums of the proposed policy with the projected death benefit and premiums of the current policy.
8. Compare the other features of the current policy with those of the potential new policy. Meet with any life insurance expert hired to consult concerning the policies and consider his/her recommendations.
9. Document any and all actions taken; if no action is taken and the current policy is retained, document why it was retained.

Review of This Investment Policy Statement. Each time the life insurance policies or other trust assets are reviewed for performance and suitability, the trustee may also review this Investment Policy Statement. If changes are needed, the trustee should revise the Statement and communicate these changes to the trust beneficiaries.

Date

Trustee(s)