Yukon Capital Management Investment Policy Statement

Purpose:

To devise appropriate, long-term investment strategies that will move clients closer to achieving their financial objectives with tolerable levels of volatility.

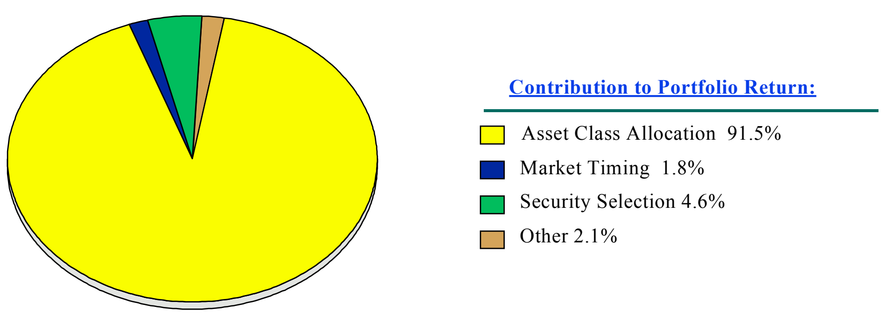
Philosophy:

As part of the financial planning process we make retirement projections to show you how much money you will need to retire with the lifestyle you desire. The projections involve a desired rate of return per year. In order to achieve that desired rate of return, we will recommend an optimal mix of assets that should provide you the best chance of achieving your desired rate of return. To aid in this process, YCMI incorporates the principles of **Asset Allocation and Modern Portfolio Theory**.

Statistical studies indicate that the key factor to long-term portfolio performance is asset allocation...i.e. the proper allocation of monies among cash equivalents, fixed income assets (bonds), and equities. Studies further indicate that individual security selection and "market timing" have relatively little impact on investment performance over time. It is for these reasons that we focus our energies principally in the design of the proper asset mix for each client. YCMI tailors a client's portfolio to meet his or her individual needs and personal goals.

Determinants of Portfolio Performance

Asset Allocation is the Primary Factor in Performance Variability Over Time



What is Asset Allocation?
The distribution of an asset pool among asset classes (stocks, bonds, and cash).

Yukon Capital Management, Inc.
A Registered Investment Advisory Firm

Macro Asset Allocation Modeling

We have done extensive research on the historical performance of stocks, bonds and cash over time to help us determine guidelines for our model portfolios. Each strategy was designed to achieve a specific rate of return over time. Since these returns are based on historical performance, they are only used as guidelines and not guarantees for future performance.

The Macro Asset Allocations in the matrix below were developed using the 30-day T-Bill as a benchmark for cash; the Lehman Brothers Long Term Government Bond Index as a benchmark for bonds; and the Standard & Poors 500 as a benchmark for stocks.

The potential strategy that makes sense for you is a function of your tolerance for risk and your time horizon. As you can see from the matrix below we have divided the 5 strategies across nine possible situations:

Retirement Goals Matrix

Your Risk	Your Time Horizon		
	0 - 5 years		11+ years
Higher	10%cash 30%bonds stocks	Strategy 4 20%bonds 80%stocks	Strategy 5 100%stocks
Moderate	Strategy 2 20%cash 40%bonds stocks	Strategy 3 10%cash 30%bonds 60%stocks	Strategy 4 20%bonds 80%stocks
Lower	Strategy 1 35%cash 40%bonds stocks	Strategy 2 20%cash 40%bonds 40%stocks	Strategy 3 10%cash 30%bonds 60%stocks

Determine Your Level of Risk Tolerance

Short-Term
(0 - 5 Years to Retirement Goal)

To set an investment course you'll be comfortable following—and won't abandon prematurely—you need to think about your willingness to accept declines in the value of your investment, even though they may be temporary.
While assessing your risk tolerance, keep in mind how much time you have to reach your investment goal. Longer-term goals allow you to consider more aggressive (and potentially more rewarding) strategies, while lower-risk options may be more appropriate choices for shorter-term goals.
Select the category below that most appropriately describes your risk tolerance for your goal.

- **Low Risk**

  As a retirement investor, I may allocate a small portion of my assets in stocks and bonds since this strategy may help my portfolio outpace inflation during retirement.

- **Moderate Risk**

  I should avoid taking substantial risk with money for financial goals within the next few years. Since retirement is my goal, I may add a small allocation to stocks but understand that the volatility of my portfolio will increase.

- **High Risk**

  I may invest part of my assets in stocks with the hope of increasing my return potential, but understand that the risk of losing principal will also be higher.

Intermediate-Term
(6 - 10 Years to Retirement Goal)

To set an investment course you'll be comfortable following—and won't abandon prematurely—you need to think about your willingness to accept declines in the value of your investment, even though they may be temporary.
While assessing your risk tolerance, keep in mind how much time you have to reach your investment goal. Longer-term goals allow you to consider more aggressive (and potentially more rewarding) strategies, while lower-risk options may be more appropriate choices for shorter-term goals.
Select the category below that most appropriately describes your risk tolerance for your goal.

- **Low Risk**

  I'm willing to accept fluctuations in the value of my investment in an attempt to earn returns that will outpace inflation.

- **Moderate Risk**

  I expect the value of my investments to fluctuate but not drastically. I could potentially suffer a loss from time to time, but I'm willing to assume this risk for the opportunity to earn higher returns.

- **High Risk**

  I have a reasonable amount of time to reach my investment goal and can withstand considerable fluctuation in the value of my portfolio. I may suffer a loss of up to 20% or more in a single year, but understand that I have the potential to gain higher returns over time.

Long Term
(11+ Years to Retirement Goal)

To set an investment course you'll be comfortable following—and won't abandon prematurely—you need to think about your willingness to accept declines in the value of your investment, even though they may be temporary.
While assessing your risk tolerance, keep in mind how much time you have to reach your investment goal. Longer-term goals allow you to consider more aggressive (and potentially more rewarding) strategies, while lower-risk options may be more appropriate choices for shorter-term goals.
Select the category below that most appropriately describes your risk tolerance for your goal.

- **Low Risk**

  It's important that my investment provide healthy returns over time to stay ahead of inflation. Therefore, I'm willing to accept moderate fluctuations in the value of my investment, which may allow me to achieve modest growth.

- **Moderate Risk**

  I'm investing for the long term and can withstand considerable fluctuation in the value of my investment. I may suffer a loss of up to 20% or more in a single year, but understand that I have the potential to gain higher returns over time.

- **High Risk**

  I have the conviction necessary to hold on to my investment during those years when it could drop in value by 25% or more. My goal is to earn superior returns, so I'm willing to assume a high degree of risk.

Strategies:

*All-Cash Strategy

You should avoid taking risk with money for nonretirement goals within the next three to five years. This is because the stock and bond markets could fluctuate considerably over this period and your assets may decline to a level where they may fall short of meeting your financial goal. During this short time horizon, you should invest for stability in investment vehicles such as money market securities, CDs, and bank accounts.

Average Annual Returns, 1955 – 2000		**5.6%**
Best Year		**14.7%**
Worst Year		**1.5%**
Number of Down Years		**0**
Average Loss in Down Years		**N/A**
Growth of $10,000	**Over 10 years**	**$15,855**
	Over 20 years	**$36,077**

*Strategy 1:
25% Stocks, 40% Bonds, 35% Cash

This strategy represents a lower-risk approach that emphasizes bond and money market investments. The 25% commitment to stocks attempts to earn returns that will outpace the effects of inflation. This combination of assets may be appropriate for investors with lower-risk profiles who are pursuing intermediate-term goals or retirement investors nearing retirement.

Average Annual Returns, 1955 – 2000		**7.9%**
Best Year		**20.7%**
Worst Year		**-1.5%**
Number of Down Years		**3**
Average Loss in Down Years		**-0.7%**
Growth of $10,000	**Over 10 years**	**$24,129**
	Over 20 years	**$72,561**

*Strategy 2:
40% Stocks, 40% Bonds, 20% Cash

This strategy represents a moderate approach with the bulk of the portfolio committed to stock and bond investments. This combination is intended to avoid excessive volatility but has the potential to earn returns that at least keep pace with—and, over time, should exceed—the rate of inflation.

Average Annual Returns, 1955 – 2000		**8.9%**
Best Year		**22.8%**
Worst Year		**-6.7%**
Number of Down Years		**8**
Average Loss in Down Years		**-2.3%**
Growth of $10,000	**Over 10 years**	**$28,782**
	Over 20 years	**$93,160**

*Strategy 3:
60% Stocks, 30% Bonds, 10% Cash

This strategy represents a balanced investment program, offering better return potential than Strategies 1 or 2, with a higher degree of risk. While this portfolio could test your nerves, it also has the potential to provide attractive long-term returns without the extreme volatility that might discourage you from staying the course. This approach can be appropriate for retirement as well as nonretirement investors with mid- to long-term goals.

Average Annual Returns, 1955 – 2000		**10.1%**
Best Year		**28.1%**
Worst Year		**-13.4%**
Number of Down Years		**9**
Average Loss in Down Years		**-5.0%**
Growth of $10,000	**Over 10 years**	**$35,198**
	Over 20 years	**$120,825**

*Strategy 4:
80% Stocks, 20% Bonds

This strategy may appeal to the more aggressive investor who is willing to assume relatively high risk for potentially greater returns. To succeed with this strategy, you should have a longer time frame for your goal and be able to resist overreacting to inevitable setbacks in the stock market.

Average Annual Returns, 1955 – 2000		**11.2%**
Best Year		**34.4%**
Worst Year		**-20.0%**
Number of Down Years		**10**
Average Loss in Down Years		**-7.6%**
Growth of $10,000	**Over 10 years**	**$42,634**
	Over 20 years	**$154,442**

*Strategy 5:
100% Stocks

This strategy is for very aggressive investors with long time horizons who are willing to accept a high level of risk. This strategy is likely to give the investor a bumpy ride, but it has the potential to produce the best return results. Although it invests entirely in stocks, you can still diversify by owning a variety of stock mutual funds such as those focusing on small, large, and foreign companies or those paying high dividends.

Average Annual Returns, 1955 – 2000		**12.0%**
Best Year		**43.4%**
Worst Year		**-26.5%**
Number of Down Years		**10**
Average Loss in Down Years		**-11.1%**
Growth of $10,000	**Over 10 years**	**$49,975**
	Over 20 years	**$184,059**

**Source: T. Rowe Price Associates; data supplied by © Ibbotson Associates, Inc. All rights reserved. (Certain portions of this work were derived from copyrighted works of Roger G. Ibbotson and Rex Sinquefield.) Used with permission. Based on actual performance for the 46 years ending December 31, 2000 (Stocks: S&P 500 Stock Index; Cash: 30-day Treasury bills; Bonds: intermediate-term U.S. Government bonds). Chart is for illustrative purposes only and is not intended to represent an investment in any T. Rowe Price fund. Past performance cannot guarantee future results. Figures include changes in principal value and reinvested dividends and assume the same asset mix is maintained each year.*

*Also keep in mind that the suggested strategy may perform much differently in the future than in the past. You should not view the information as a projection of results. We offer it only to illustrate the differences among the strategies in terms of their risk and return potential and to suggest how appropriate the strategies might be for different time horizons.

Once the initial asset allocation recommendation is made with respect to stocks, bonds and cash, we will add another layer of diversification by diversifying within these asset classes. This step will allow us to fine tune our model.

Diversification within asset classes allows us to maintain a "core" equity model with smaller "satellite" asset classes to further help us diversify. We recommend maintaining the "core" mix of your equity assets in the Large Cap Growth asset class and the Large Cap Value asset class.

The following asset classes will be used as benchmarks to measure performance and to build your asset allocation:

Asset Class	Benchmark
Large Cap Growth	Idx: Barra Large Cap Growth
Large Cap Blend	Idx: Standard & Poor's 500
Large Cap Value	Idx: Barra Large Cap Value
Mid Cap Growth	Idx: Barra MidCap Growth
Mid Cap Value	Idx: Barra MidCap Value
Small Cap Growth	Idx: Barra SmallCap Growth
Small Cap Value	Idx: Barra SmallCap Value
International	Idx: MSCI EAFE IL
Technology Sector	Cat: Specialty-Technology
Healthcare Sector	Cat: Specialty-Health

Money Manager Selection

Once we arrive at our desired asset allocation, we recommend utilizing the expertise of mutual fund managers or institutional money managers. Through the use of technology we are able to screen and evaluate the performance of over 13,000 money managers from our databases. We continually look for mutual fund managers that have demonstrated a propensity to not only outperform their benchmark over time but to consistently outperform their peer group as well.

Our goal is to recommend to you money managers that consistently perform in the top quartile relative to their peer groups over the last 3 and 5 year rolling periods and do so while taking lower statistical risk relative to their peers.

Money Manager Review

During the ongoing performance review process we are constantly on the look out for poor performance of our money managers. While monitoring our managers, we try to be objective and fair in our performance reviews. We try to achieve two things during this process:

1. To allow a reasonable time horizon for a fund to reverse its underperformance
2. To eliminate managers often enough to be proactive, but not too often to create confusion

Statistical evidence supporting this method was published by Roger G. Ibbotson and William N. Goetzmann in a study titled: “Do Winners Repeat?”. The study looks at mutual fund performance over four, three-year periods from 1976 to 1987. The study finds that inferior funds tend to remain inferior.

	Fund Rank 3 Years			
Fund rank for initial 3 years	1st quartile	2nd quartile	3rd quartile	4th quartile
1st quartile	41%	31%	19%	10%
2nd quartile	18%	33%	34%	15%
3rd quartile	10%	23%	39%	29%
4th quartile	5%	8%	**2**	**6**

During the 12 year study, 87% (21% + 66%) of all funds that were in the 4th quartile for the initial three-year period ***remained*** in the bottom half of the performance rankings during the following three years. This is compelling evidence to terminate managers failing to meet our criteria.

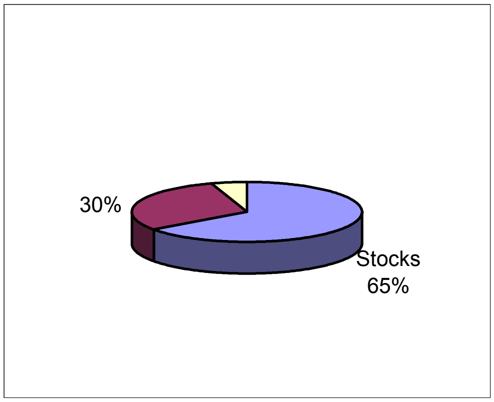
Once we determine a fund manager is under performing we take the following steps:

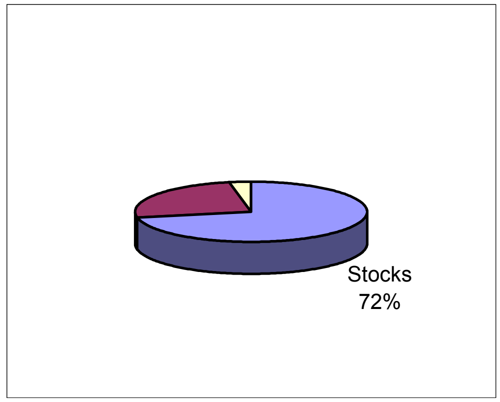
1. **Determine below benchmark performers**. We determine this by comparing the fund manager’s percentile ranking relative to its peer group as well as its performance relative to its appropriate benchmark.
2. **Determine evaluation period**. Once a fund manager goes on our watch list, we calculate the potential date of termination. This period usually lasts at least 2-3 quarters.
3. **Evaluate ongoing performance**. Each under performer is given a grace period to reverse its performance. Funds must reverse their downward trend and improve their performance before the potential termination date.
4. **Interview with the fund manager or fund representative**. During the evaluation period we will be in close contact with the fund manager or fund representative to try and determine the cause of underperformance. It is something short term or something fundamental that could affect our reason to stay with the manager?
5. **Terminate the fund manager**. After meeting with the fund manager or fund representative and listening to their plan to correct underperformance, fund managers still not attaining the above criteria will be terminated.

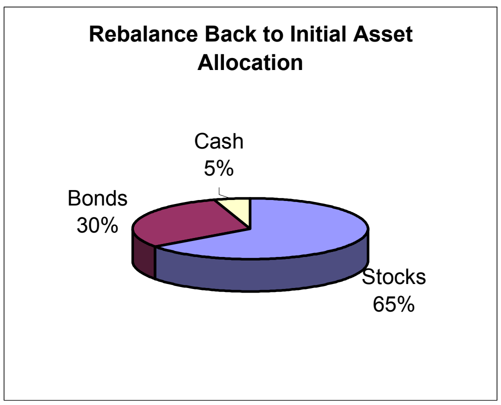
Periodic Rebalancing

Once the appropriate asset allocation for you is implemented, we will implement an ongoing re-balancing program to make sure you maintain your target asset allocation over time. This process, in conjunction with the continuous monitoring of your money managers, will ensure that you maintain the proper asset allocation over time. It will also allow us to maintain the proper risk level over time. By re-balancing your portfolio periodically over time, we are actually implementing a “buy low, sell high” discipline by taking money out of overweight asset classes and re-investing those proceeds in your underweight asset classes. Again, this discipline will force you to “buy low and sell high” and should allow for more consistent, less volatile returns.

Example:







Maintaining the proper asset allocation over time will allow you to control the potential risk of your portfolio while still maximizing the chances for success.

Yukon Capital Management, Inc.
A Registered Investment Advisory Firm