

# **INVESTMENT POLICY STATEMENT**

FOR

## **THE NATIONAL ASSOCIATION OF CRIMINAL DEFENSE LAWYERS (NACDL)**

Amended June 2010

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## I. Introduction

### ***Purpose of this Policy Statement***

This policy statement (“Policy”) outlines the investment objectives, guidelines and constraints of the National Association of Criminal Defense Lawyers (“NACDL”) investment portfolio. The purpose of the Policy is to establish a clear understanding of the investment policies and objectives of the Fund among the Executive Committee, the Investment Consultant, Investment Manager(s), and the NACDL professional staff.

The policy divides the investment portfolio into two pools; the Short-Term Fund (“Short-Term Fund”) and the Long-Term Fund (the “Fund”). The purpose of the Short-term Fund is to provide a source of funds to meet the required expenditures above the amount available in operating accounts, without requiring the sale of long-term investments.

The Policy outlines an overall philosophy that is specific enough for the Investment Managers to know what is expected, but sufficiently flexible to allow for changing economic conditions and securities markets. The Policy defines and assigns responsibilities of the involved parties. The Policy provides the long-term objectives of the Fund and serves as the standard for evaluating investment performance. The Policy also provides guidance concerning the risk tolerance of the Fund and communicates the investment restrictions to be placed on Investment Managers. In addition, the Policy outlines the procedures for policy and investment performance review.

### ***Financial Objective:***

It is the goal of NACDL to grow the Association’s reserves to equal or exceed 50% of its operating budget, plus its Life Membership obligations. Under generally accepted accounting principles (GAAP), “reserves” are the unrestricted total assets, less the unrestricted liabilities, of an association at any given date. On balance sheets, reserves are commonly referred to as “unrestricted net assets.”

### ***Spending Policy***

NACDL uses a market value model to determine how much of its investment funds will be available to support the annual budget. Three to four (3-4) percent of the five-year average of the value of the long-term portfolio (equity and bonds) at year end is the amount available for use. If the long term portfolio falls below \$2,500,000, as of March 31<sup>st</sup>, this spending policy is suspended.

### ***Investment Objectives***

The objectives of the Short-Term Fund are:

- Preservation of capital;
- Provide interest income.

To meet these objectives, the Short-Term Fund will be restricted in investing in the following fixed income instruments:

- Money Market Fund;
- Certificates of Deposit;

- Treasuries;
- Government Agencies.

The maximum maturity allowed is 2 years.

The overall financial objectives of the Fund are:

- to support Life Members throughout their professional lives;
- to provide reserves for emergencies and other projects as directed by the NACDL Board; and
- *to support other activities and expenditures that the NACDL Board authorizes.*

The primary investment objective of the Fund is to attain an average annual real total return<sup>1</sup> (net of investment management fees) of at least 5.0% over the long term (running five-year periods). It is recognized that the real return objective may be difficult to attain in every five-year period, but should be attainable over a series of five-year periods.

The investment objective of the Fund is income and growth. Accordingly, the Fund's investments shall be guided by the following underlying principles:

- A risk-averse balanced approach that emphasizes a total return approach (capital appreciation plus income) and substantial source of current income and some capital appreciation over the long-term;
- A willingness to risk some declines in value over

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<sup>1</sup> Real total return is the sum of capital appreciation (or loss) and current

the short-term, so long as the Fund is positioned to generate current income and exhibits some capital appreciation;

- The Fund may keep pace with the rate of inflation over most market cycles (net of spending and investment and administrative expenses), but may lag inflation in some environments;
- A Diversified portfolio in order to provide opportunities for long-term growth and to reduce the potential for large losses that could occur from holding concentrated positions.

*This investment policy is intended to be a summary of an investment philosophy that provides guidance for the National Association of Criminal Defense Lawyers and other parties interested in the management of the Fund. It is understood that there can be no guarantees about the attainment of the goals or investment objectives outlined here.*

## **II. Information About The National Association of Criminal Defense Lawyers**

*The National Association of Criminal Defense Lawyers*

1660 L Street, NW

income achieved in the form of dividend and interest adjusted for inflation as measured by the CPI index.

12<sup>th</sup> Floor  
Washington, DC 20036  
Tel. (202) 872-8600

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**Federal Tax Identification Number**.....74-1916260

**Fiscal Year End**.....Sept. 30<sup>th</sup>

The National Association of Criminal Defense Lawyers (NACDL) is the preeminent organization in the United States advancing the mission of the nation’s criminal defense lawyers to ensure justice and due process for persons accused of crime or wrongdoing. A professional bar association, NACDL’s 10,400 direct members – and 80+ state and local affiliates with another 28,000 members – include private criminal defense lawyers, public defenders, judges, active U.S. military defense counsel and law professors committed to preserving fairness within America’s criminal justice system.

NACDL is the only national bar association devoted exclusively to the interests of criminal defense lawyers. NACDL’s mission, as defined in its Bylaws, is to:

*“Ensure justice and due process for persons, accused of crime. Foster the integrity, independence and expertise of the criminal defense profession. Promote the proper and fair administration of criminal justice.”*

A 501 (C)(6) tax-exempt professional organization under the laws of the District of Columbia, NACDL was founded in 1958 in Houston, Texas. In 1983, NACDL moved its offices to Washington, D.C., where it is currently headquartered. Its members come from every state in the United States, as well as Puerto Rico, the Virgin Islands, Guam and numerous foreign countries.

### **III. Responsibilities of the Portfolio Representatives**

*The **Executive Committee**, or through the **Investment Committee** (the “Committee), appointed by the Treasurer of the Association, is responsible for:*

- Defining and implementing the investment objectives and policies for the Fund’s assets.
- Reviewing on an annual basis the policy and objectives and make any necessary changes to the policy, guidelines or objectives.
- Selecting or terminating of Investment Consultants, administrators, and custodians for the portfolio’s assets.
- Defining the asset allocation strategy including selecting asset classes, targets in percent, and target ranges.

*The **Executive Director** is responsible for:*

- On a quarterly basis, reviewing the materials provided by the Investment Consultants regarding performance results.
- Hiring and firing of Investment Managers.

*The **Investment Consultant** – which is selected by the Executive Committee or the Investment Committee and approved by the Board of Directors – is required to report to, as directed, the Executive Director, the Executive Committee, or the Investment Committee. The Investment Consultant is responsible for:*

- On at least an annual basis, review investment policies and objectives, and suggest appropriate changes to be

approved by the appropriate responsible party.

- Provide proactive strategic asset allocation advice concerning the allocation of existing fund assets and new contributions as well as periodic rebalancing of the asset allocation. The proactive advice will include both asset allocation (stock, bond, cash mix) and style allocation (international versus domestic allocation, growth-style versus value-style equities, large-capitalization versus small-capitalization equities, and long versus short-term bonds).
- Research and recommend specific investment management firms, which satisfy our benchmark criteria, and are consistent with the Fund's investment policies, objectives, asset allocation and style allocation strategy.
- On a quarterly basis, measure, evaluate and report the Investment Manager's performance results.
- Be available for quarterly Executive Committee meetings and/or Budget Committee meetings.
- Maintain contact with and report on changes within the Investment Manager's organization.
- Provide ad hoc analyses related to the investment program, as requested.

The ***Investment Manager***:

- Has the full discretion to manage the assets of the Fund in accordance with the investment objectives and guidelines expressed in this investment statement.
- Shall communicate promptly with the NACDL's

Executive Director and the NACDL's Director of Finance, as well as with the Investment Consultant, regarding all significant matters such as:

- changes in the firm's ownership, organizational structure or professional staffing
  - other changes of a material or substantive nature
- Is authorized to proxy vote on equity securities.

The ***NACDL Director of Finance*** shall:

- Oversee the day-to-day operational investment activities of the Fund subject to policies established by the investment policy.
- Receive, review and distribute reports from outside professionals regarding the status of the Fund.
- Periodically issue status reports to the Executive Director, Executive Committee, the Budget Committee and the Board of Directors.

**IV. Responsibilities of the Investment Managers**

*It is the intention of the NACDL to utilize separately managed accounts to implement the investment strategy of the Fund, where practical. Mutual funds or other commingled investment vehicles may also be used from time-to-time to implement the investment strategy of the Fund. For mutual and other commingled funds, the prospectus or trust documents of the fund(s) will govern the investment policies of the fund*

*investments. Investment managers, however, shall be guided by the general principles and constraints outlined in this investment policy. The following guidelines apply to the separately managed accounts:*

### ***Fiduciary Responsibilities***

Each investment manager is expected to manage the Fund's assets in a manner consistent with the investment objectives, guidelines, and constraints outlined in this statement and any other applicable laws. This would include discharging their responsibilities with respect to the Fund consistent with "Prudent Investor"\* standards, and all other fiduciary responsibility provisions and regulations. Each investment manager shall at all times be registered as an investment advisor under the Investment Advisers Act (where applicable). The Fund's assets will be managed by experienced investment management firms.

\* Refers to a legal standard of care. In general, this standard of care governs the fiduciary responsibilities of the investment manager that traces back to Harvard College v. Amory which found that trustees should "...observe how men of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested."

### ***Security Selection / Asset Allocation***

- Except as noted below, each investment manager shall have the discretion to determine their portfolio's individual securities selection;
- The Fund is expected to operate within an overall asset allocation strategy defining the Fund's mix of asset classes. This strategy, described below, sets a long-term percentage target for the amount of the Fund's market

value that is to be invested in any one asset class. The allocation strategy also defines the allowable investment shifts between the asset classes, above and below the target allocations;

- The asset allocation strategy for each investment manager's portfolio can deviate from the overall Fund's asset allocation, however, the Executive Committee is responsible for monitoring the aggregate asset allocation, and shall re-balance to the target allocation on a periodic basis.

### ***Proxy Voting***

Each investment manager is responsible and empowered to exercise all rights, including voting rights, as are acquired through the purchase of securities, where practical. Each investment manager shall vote proxies according to their established Proxy Voting Guidelines.

### **V. Risk Tolerance**

Investment theory and historical capital market return data suggests 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 (i.e., 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 Fund is the determination of an appropriate risk tolerance or volatility. Asset allocation is the primary determinant of total portfolio volatility. In establishing the asset allocation target for the Fund, balance must be achieved between two important factors that would affect their risk tolerance:

1. *Financial ability* to accept risk within the investment

program and,

2. *Willingness* to accept return volatility.

Positive factors that contribute to a higher risk tolerance are:

- The financial strength of NACDL. Annual revenues have historically closely matched or exceeded annual disbursements, thus providing some cushion in the event of lower than expected returns earned by the invested assets; and
- The NACDL's willingness to accept some fluctuations in the market value of the Fund, so long as the primary objective is maintaining the rate of inflation over most market cycles (net of spending and investment and administrative expenses).

Offsetting these factors is:

- There is a low probability of replenishing assets in the event of large losses; and
- On-going cash flow requirements require maintaining a portion of the investments in liquid assets that can be drawn upon at any point of time without significant risk of loss of either principal or interest. These assets are held in the Short-Term Fund.

## **VI. Asset Allocation Strategy**

In line with the return objectives and risk parameters of the long-term Fund, the mix of assets for the long-term Fund should be generally maintained as follows (percentages are the market value of the Fund):

The maximum percentage designated for the “Cash and Cash Equivalents” category is intended to apply after the initial start-up of any one portfolio in the Fund. NACDL recognizes that this initial start-up period to become fully invested could be as long as three months after the initiation of a portfolio.

2. Benchmarks will be determined in consultation with the Investment Consultant and may change over time.

<b>Asset Class/ Investment Style</b>	<b>Minimum</b>	<b>Target Avg.</b>	<b>Maximum</b>	<b>Index Benchmark<sup>2</sup></b>
<b>Domestic Large / Mid Cap Stocks</b>				
<b>Equity</b>	25%	40%	55%	<u>S &amp; P 500 Index</u>
<b>Real Estate Securities</b>	7%	10%	13%	<u>MS REIT Index</u>
<b>International Equity</b>	1%	7%	12%	<u>International (MSCI-EAFE)</u>
<b>Emerging Market</b>	1%	3%	8%	<u>MSCI Emerging Mkt Free Index</u>
<b>Total Equity</b>		60%		
<b>Investment Grade Fixed Income</b>	30%	40%	50%	<u>US Aggregate Bond Index</u>
<b>Cash and Cash Equivalents</b>	0%	-	20%	

## **Rebalancing Procedures / Tactical Asset Allocation**

### ***Rebalancing***

The allocation to each asset class and to investment styles within asset classes (if applicable) is expected to remain stable over most market cycles.

Since capital appreciation (depreciation) and trading activity in each individually managed portfolio can result in a deviation from the overall asset allocation, the aggregate asset allocation will be monitored and the Investment Consultant will review the asset allocation and manager structure on an ongoing basis. Should an allowable range for an asset class be violated, the Investment Consultant will advise the Executive Director. The Executive Director will authorize the rebalancing of the existing assets to within the allowable asset allocation range within one month of when the deviation was discovered. In addition, the NACDL's Executive Director shall review the actual asset allocation at each meeting in order to ensure conformity with the adopted strategic allocation, and provide this information to the Executive Committee.

To achieve the rebalancing of the Fund, the Director of Finance may redirect contributions and disbursements from individual investment managers as appropriate, in addition to shifting assets from one investment manager to another. The Director of Finance shall coordinate all rebalancing actions with the Investment Consultant who will then coordinate with the Investment Managers.

### ***Tactical Asset Allocation***

Consistent with the investment objective established for the Fund, and recognizing the inherent risks involved in the event of any tactical asset allocation shifts, the Fund shall maintain a stable asset allocation strategy for the Fund. The asset allocation range outlined above is intended to accommodate the market movement in asset classes of the Fund and the time it takes to rebalance. The ranges are not intended to imply the Executive Director or the Director of Finance have discretion to shift the asset mix based on a tactical asset allocation strategy.

## **VII. Performance Objectives**

The NACDL's Executive Director, with the assistance of the Investment Consultant, will monitor the performance of the Fund on a quarterly basis. The NACDL Executive Director will evaluate each investment manager's contribution toward meeting the investment objectives outlined below over a three to five-year time period and a full market cycle, unless otherwise noted.

### ***Style index:***

It is desired that this portion of the total Fund earn returns higher than the "market," as represented by a benchmark index or mix of indexes reflective of this portion of the Fund's return objectives and risk tolerance. This benchmark or "*style index*" is to be constructed as follows:

**34% Standard & Poor's 500 Stock Index/7% Russell 2500 Stock Index/10% Wilshire Real Estate Securities/9% Morgan Stanley Capital International Europe, Australia, and Far East (MSCI EAFE) International Stock Index (Net) \* /40% Merrill Lynch Corp & Gov 1-10yrs.** The Fund is expected to exceed the average annual return of this benchmark on a risk-adjusted basis over a three-to five-year rolling time period and a full market cycle.

***Secondary Performance Targets:***

1. The real return goal (return after adjusting for inflation, investment) for the Fund's assets is 5% on an annual basis. Inflation shall be measured by the U.S. All Urban Consumers Price Index ("CPI");
2. The Fund is expected to outpace the style index return and total return target, each measured on a compound average annual return basis after the deduction of investment management fees and annualized over a three-to five-year rolling time period and a full market cycle.

**VIII. Investment Strategy**

***Selection Criteria for Investment Managers***

Investment managers/funds retained by NACDL shall be chosen using the following criteria:

- Past performance, considered relative to other investments having similar investment objectives. Consideration shall be given to both consistency of

performance and the level of risk taken to achieve results;

- The investment style and discipline of the investment manager;
- How well the manager's investment style or approach complements other assets in the Fund;
- Ability and willingness to manage the portfolio in a customized fashion, as outlined in this investment policy.
- Level of experience, personnel turnover, financial resources, and staffing levels of the investment management firm;
- An assessment of the likelihood of future investment success, relative to other opportunities.

The Fund will utilize a multi-manager structure of complementary investment styles and asset classes to invest the Fund's assets. A description of the investment managers retained is described in Section XIII. Any changes to the investment manager structure shall be attached to this investment policy.

Should additional contributions and/or market value growth permit, NACDL's Executive Director may retain additional investment managers to invest the assets of the Fund. Additional managers would be expected to diversify the Fund by investment style, asset class, and management structure and thereby enhance the probability of the Fund achieving its long-term investment objectives.

**IX. Investment Guidelines**

***For commingled fund investments:***

The investment guidelines for any commingled or mutual funds are detailed in the prospectus or the Declaration of Trust for the individual funds. NACDL's Executive Director, with the assistance of the Investment Consultant has the responsibility to review these guidelines to ensure they are generally consistent with this investment policy. Where there are differences between the investment guidelines of the fund and this investment policy, the Declaration of Trust (or prospectus) shall govern.

***Separately Managed Accounts Only:***

For separately managed accounts, investment activity must be consistent within the requirements of the investment policy.

In addition, the following guidelines will apply:

**1. Asset Allocation**

Each investment manager has been delegated responsibility for establishing and maintaining the asset allocation strategy for their individual portfolio.

**2. Permitted Securities**

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<sup>3</sup> Preference Equity Redemption Cumulative Stock. A limited term, limited participation, convertible preferred stock with an enhanced dividend.

<sup>4</sup> Common-linked Higher Income Participation Security – Modeled on PERCs, but unlike a PERC, which is issued by the corporation which issued

***Domestic Securities:***

The securities purchased shall be registered with the Securities and Exchange Commission, and traded on a recognized U.S. stock exchange or over-the-counter-market.

***Equity securities include:***

Common stocks, real estate securities (see below), and securities convertible into common stock of U.S.-based companies.

***Convertible securities include:***

Securities that are convertible into the common stock of U.S. based companies. This would include convertible bonds, convertible preferred stock, and mandatory convertible securities (e.g. PERCs<sup>3</sup>, CHIPs<sup>4</sup>, ELKs<sup>5</sup>). Private placement convertible issues, also known as “144A” convertible securities, may not be purchased. All convertible securities purchased must be U.S. dollar denominated securities. Individual convertible securities should be rated “BBB” (or its equivalent) or higher at the time of purchase by a nationally recognized statistical rating agency. For the purposes of asset allocation, convertible securities shall be considered

the underlying, CHIPs are issued by a third party, frequently a financial intermediary.

<sup>5</sup> Equity-Linked security – Similar to CHIPs.

equities.

***Real estate securities include:***

Equity REITs, mortgage REITs, CMO or mortgage-related securities REITs, Health Care REITs, and equities of real estate operating companies. Equity REITs are those securities that meet the National Association of Real Estate Investment Trusts' (NAREIT) asset mix definition of an equity REIT (currently, equity REITs are those where 75% of assets are equity financed properties). REITs may be perpetual life REITs or finite life REITs.

***Fixed income securities include:***

Domestic fixed and variable rate bonds and notes issued by the U.S. Government and its Agencies, U.S. corporations, Yankee bonds and notes (bonds or notes issued by non-U.S. based corporations and governments but traded in the U.S.), securitized mortgages (e.g. GNMA's, FNMA's, FHLMC's), collateralized mortgage obligations, asset-backed securities, taxable municipal bonds, and preferred stock. Private placement "144A" issues are not permitted.

***International Securities:***

***Allowable international securities are:***

Sponsored and un-sponsored American Depositary Receipts (ADR's) or American Depositary Shares

(ADS's) or other depositary securities of non-U.S. based companies traded in the U.S. and closed-end country funds. Equities of foreign domiciled companies that are traded in the U.S. may also be purchased so long as the securities are registered (or filed) with the Securities and Exchange Commission and traded on a recognized national exchange or over-the counter market.

***Currency Hedging:***

***Separately managed accounts:***

Investment managers for separately managed accounts are not permitted to engage in currency hedging transactions.

***For commingled funds only:***

The fund manager may engage in various portfolio strategies to hedge the fund against movements in exchange rates between currencies. The fund manager may deal in forward foreign exchange among currencies of the different countries in which the fund may invest. The fund manager is limited to hedging involving either specific transactions or portfolio positions. Transaction hedging is the purchase or sale of forward foreign currency with respect to specific receivables or payables of the portfolio accruing in connection with the purchase and sale of its portfolio securities, or the payment of interest on portfolio securities. Position hedging is the sale of forward foreign currency with respect to portfolio security positions denominated or quoted

in a foreign currency.

The fund manager will not speculate in foreign forward exchange. Accordingly, the Investment Manager will not hedge a currency substantially in excess of the market value of securities which it has committed or anticipates to purchase which are denominated in the currency being hedged, and in the case of securities which have been sold by the Investment Manager, but not yet delivered.

### **3. Diversification Requirements**

To minimize the risk of large losses, each Investment Manager shall maintain adequate diversification in their portfolio. Subject to the constraints outlined in this investment policy, each Investment Manager shall have the discretion to determine their portfolio's individual security selections.

#### ***Large/Medium Capitalization U.S. Stock Portfolio(s):***

- Investments in any one individual equity security should not exceed 8% of the market value of the Investment Manager's portfolio;
- Holdings of any single issue in each Investment Manager's portfolio shall not exceed more than 5% of the market value of the total outstanding common stock of any one company;
- The maximum allocation to any single economic sector in a portfolio shall not exceed the greater of 15% of the market value of the Investment Manager's portfolio or 200% of the economic

sector's weighting in the S&P 500 Stock Index, or the Investment Manager's primary equity policy index, if different. Economic sector definitions shall be according to the Investment Manager's own classifications, which should be provided to NACDL's Executive Director upon request;

- Equities are limited to large and medium capitalization stocks. The minimum market capitalization at the time of purchase should be greater than \$1 billion.

#### ***International Equity Portfolio:***

Subject to the usual standards of fiduciary prudence, the Investment Manager shall have the discretion to determine their portfolio's country allocations. However, the country allocations and portfolio structure should conform to these guidelines:

- Investments in any one individual equity security shall not exceed 8% of the market value of the Investment Manager's portfolio;
- Currency hedging is not permitted;
- No fewer than three countries represented in the portfolio;
- No more than 25% of the market value of the portfolio may be invested in countries not represented in the MSCI EAFE Index plus Canada;
- Non-U.S. dollar denominated equity securities are not permitted;
- No investments in securities of US based companies or convertible into the securities of

- US based companies;
- There are no constraints on the economic sector allocations of the portfolio. The Investment Manager may concentrate portfolio holdings in a limited number of economic sectors.

***Small/Medium Capitalization U.S. Stock Portfolio:***

- Investments in any one individual equity security shall not exceed 8% of the market value of the Investment Manager’s portfolio;
- Equities are limited to small and medium capitalization stocks. The market capitalization of any one equity security shall be between \$100 million and \$10 billion at the time of purchase;
- Holdings of any single issue in this Investment Manager’s portfolio shall not exceed more than 10% of the market value of the total outstanding common stock of any one company<sup>6</sup>;
- There are no constraints on the economic sector allocations of the portfolio. The Investment Manager may concentrate portfolio holdings in a limited number of economic sectors.

***Fixed income portfolio:***

- Fixed income securities (except for those listed below) shall be rated “BBB-”<sup>7</sup> (or its equivalent) or higher at the time of purchase by a nationally

<sup>6</sup> It is recognized, however, that an investment manager’s holdings of a single issue in all portfolios firm-wide may exceed this limit. This constraint applies only to the Fund’s holdings.

<sup>7</sup> All rating categories, include qualifiers “+” and “-“ for S&P and “1”, “2”

recognized statistical rating agency. The minimum dollar-weighted average credit quality rating of the fixed income portfolio is “AA”. Asset backed securities, mortgage backed securities, and CMOs shall be rated “AAA” (or its equivalent) at the time of purchase by a nationally recognized statistical rating agency;

- Fixed income securities of a single issuer or issue, with the exceptions of U.S. Government and Agency securities, are limited to no more than 10% of the market value of the fixed income portfolio;
- The maximum effective maturity of any single security should not exceed 30 years. The dollar weighted average duration of the fixed income portfolio should be within ±25% of the dollar weighted average duration of the fixed income style index;
- No more than 30% of the market value of an Investment Manager’s portfolio may be invested in a single sector of the corporate fixed income market. Sector definitions shall be according to the Investment Manager’s own classifications, which should be provided to the NACDL’s Executive Director upon request;
- Mortgage backed securities may be purchased on a “when issued” or “TBA” basis (a forward contract transaction for mortgage backed issues that are to be issued in the near term). A short-term investment can back a “when issued” commitment as long as its

and “3” for Moody’s. In the event of a “split rated” security, that is a security with non-equivalent rating classifications from different rating agencies, the higher of the quality ratings shall apply.

effective duration does not exceed 180 days. These short-term investments should be considered within the fixed income allocation of the portfolio;

- Collateralized mortgage obligations are limited to securities that are currently paying interest, receiving principal pay-downs and do not contain leverage. CMO's are limited to no more than 10% of the market value of the portfolio;
- No more than 20% of the market value of the fixed income portfolio may be invested in zero coupon bonds;
- Purchases of mortgage securities whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security and pays no principal (e.g. interest only securities) are prohibited;
- Mortgage securities whose payment represents the principal payments on the outstanding principal balance of the underlying mortgage-backed security and pays no interest (e.g. principal only securities) are prohibited;
- Purchases of mortgage securities whose payment of interest is determined by an index opposite to the changes in a market index (e.g. inverse floaters) are prohibited.

#### ***Cash and Equivalents:***

It is generally expected that each Investment Manager

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<sup>8</sup> Investments in money market funds other than the custodian's money market fund must be approved by the Finance Committee prior to purchase. For investments in mutual or commingled funds, the prospectus or trust

will remain fully invested in equity and/or fixed income securities; however, it is recognized that cash reserves may be utilized from time to time to provide liquidity or to implement some types of investment strategies. Cash reserves shall be held in the custodian's money market fund<sup>8</sup>, short-term maturity Treasury securities, or high quality money market instruments.

*Transactions or unanticipated market actions that cause a deviation from these policy guidelines shall be brought to the attention of the Executive Director or the Director of Finance by the Investment Manager prior to executing transactions, when practical. Such deviations may be authorized in writing by the Executive Director or the Director of Finance, who can determine if the deviation constitutes a material departure from the spirit of this policy.*

#### **4. Exclusions:**

The Fund's assets in separately managed accounts may not be used for the following purposes:

- Short sales;
- Purchases of letter stock, private placements (including "144A" securities), or direct payments;
- Leveraged transactions;
- Commodities transactions;

documents of the fund(s) will govern the investment policies of the fund investments. Accordingly, it is understood that the Investment Manager for the separately managed account shall not be responsible for the investments in the fund.

- Puts, calls, straddles, or other option strategies;
- Purchases of real estate, oil and gas properties, or other natural resources related properties with the exception of Real Estate Investment Trusts or marketable real estate securities;
- Investments in limited partnerships except for publicly traded Master Limited Partnerships and debt issued by real estate investment trusts;
- Investments in futures, use of margin, or investments in any derivatives not explicitly permitted in this policy statement;
- Investments by the Investment Managers in their own securities, their affiliates, or subsidiaries (excluding money market or other commingled funds as authorized by the Executive Director).

*Also excluded are any other security transaction not specifically authorized in this policy statement, unless approved, in writing, by the NACDL's Executive Director. Requests by investment managers to execute transactions that are not currently authorized in this policy should be made prior to executing such transactions.*

## **X. Meetings and Communications**

### ***For separately managed accounts:***

- As a matter of course, each Investment Manager shall keep the NACDL's Executive Director or their Investment Consultant apprised of any material

changes in the Investment Manager's outlook, investment policy, and tactics;

- A representative of each Investment Manager shall meet with their Investment Consultant on an annual basis, at a mutually convenient time and place, to review and explain their portfolio's investment results;
- A representative of each Investment Manager shall be available on a reasonable basis for telephone communication when needed;
- Any material event that affects the ownership or capital structure of the investment management firm, changes in senior investment personnel or any other material event that affects the management of this account must be reported promptly to NACDL or the Investment Consultant. This requirement does not include routine employee stock ownership transactions or partnership announcements;
- The Director of Finance will provide to each investment manager and the Investment Consultant any relevant amendments or interpretations to applicable State regulations governing the Fund;
- The Investment Consultant will provide written performance reports for each separately managed account portfolio and for the composite portfolio;
- The custodian shall provide monthly statements of assets and transactions.

## **XI. Performance Evaluation**

As noted above, the NACDL's Executive Director, with the assistance of the Investment Consultant, will monitor the performance of each Investment Manager and of the composite of these portfolios on a quarterly basis. Information will be provided on a quarterly basis to the NACDL Executive Committee.

The NACDL's Executive Director will evaluate each investment manager's success in achieving the investment objectives outlined in this document over at least a three-to-five-year time horizon. The NACDL's Executive Director realizes that most investments go through cycles. Therefore, there will be periods of time in which the investment objectives are not met or when some investment managers fail to meet their expected performance targets.

The Fund's (and Investment Manager's) performance should be reported in terms of rate of return and changes in dollar value. The returns should be compared to appropriate market indexes and peer group universes, for the most recent quarter and for annual and cumulative prior time periods.

Performance of each investment manager will be evaluated after the deduction of management fees.

The Fund's asset allocation in separately managed accounts and the composite shall be reported on a quarterly basis.

Risk as measured by volatility, or standard deviation of quarterly returns, shall be evaluated after twelve quarters of performance history have accumulated. An attribution analysis shall also be performed for the separately managed accounts, to evaluate how much of the Fund's investment results are due to the investment managers' investment decisions, as compared to the effect of the financial markets. It is expected that this analysis will use the

"style index" as the performance benchmark for evaluating both the returns achieved and the level of risk taken.

The investment managers' performance will also be evaluated in similar fashion according to the performance standards summarized in the attached "Performance Standards".

***Guidelines for Corrective Action:***

The NACDL Executive Committee recognizes the importance of a long-term focus when evaluating the performance of investment managers. The NACDL Executive Committee understands the potential for short-term periods when the performance of individual managers may deviate significantly from the performance of representative market indexes. The NACDL Executive Director, however, may require an extra level of scrutiny, which may include termination, of an investment manager based on the following conditions:

- Any material event that affects the ownership or capital structure of the investment management firm, or the management of this account (such as described in section X). Failure on the part of the investment manager to notify the NACDL Executive Director or the Investment Consultant may be grounds for termination;
- Any material client servicing deficiencies, including a failure to communicate in a timely fashion significant changes as outlined in Section X of this investment policy.

- Violation of terms of contract without prior written approval of the NACDL's Executive Director constitutes grounds for termination;
- Diversification strategy – as part of its overall asset allocation strategy, the fund will utilize a multi-manager structure of complementary investment styles and asset classes to invest the Fund's assets. Therefore, it is very important that Investment Managers remain consistent with the intended investment style at that time the manager was engaged;
- The NACDL's Executive Director will not as a rule terminate an investment manager on the basis of short-term performance. If the organization is sound and the firm is adhering to its investment style and approach, the NACDL's Executive Director will allow a sufficient interval of time over which to evaluate performance. The NACDL's Executive Director expects the Investment Consultant will provide guidance to

the NACDL's Executive Director to determine an appropriate length of time. The investment manager's performance will be viewed in light of the firm's particular investment style and approach, keeping in mind at all times the Fund's diversification strategy as well as the overall quality of the relationship;

- An Investment Manager may be replaced at any time and for any reason.
- The Investment Consultant may be replaced at any time and for any reason.

## **XII. Approval**

*It is understood that this investment policy is to be reviewed annually by the NACDL Executive Committee to determine if any revisions are warranted by changing circumstances including, but not limited to, changes in financial status, risk tolerance, or changes involving the Investment Managers. If so, changes will be submitted to the Board of Directors for approval.*

*(signed)*  
**President**

**Date**

**XIII. Performance Standards**

*See following pages.*

**Performance Standards:** It is desired that the investment manager and the Fund seek to earn a level of return higher than the “market,” as represented by the policy index standards shown in the table below. Each investment manager is expected to exceed the average return of the benchmark on a risk-adjusted basis over three-to five-year time periods. In addition, the investment managers are expected to exceed the policy index benchmark measured on a compound annual return basis and annualized over three- to five-year holding periods.

<b>Investment Manager</b>	<b>Investment Objective / Investment Style</b>	<b>Style Index Standard</b>
<b>Total Fund</b>	Income and growth. This is a risk-averse balanced approach expected to earn long run returns comprised of a stable and substantial source of current income and some capital appreciation.	34% S&P 500/7% Russell 2500/ 10% Wilshire Real Estate Securities/9% MSCI EAFE (Net)/ 40% ML Corp & Gov 1-10 yrs
	Domestic and international equity, investment grade bonds and cash equivalents.	Rates of return should provide a premium of 5% over inflation.
		Volatility is expected to be similar to the style index.
<b>Marsico</b>	Domestic, large and medium capitalization equities and cash equivalents. Investment manager invests in stocks with growth characteristics.	100% Russell 1000 Growth Stock Index
(Domestic Large/ Mid Cap Equity – Growth)		Rates of return should provide a premium of 7% over inflation. Secondary performance comparisons to 100% S&P 500 and a peer group comprised of other professionally managed large cap growth equity portfolios.
		Volatility is expected to be higher than the style index.
<b>MFS</b>	Domestic, large and medium capitalization equities and cash equivalents. Investment manager invests in stocks with value characteristics.	100% Russell 1000 Value Stock Index
(Domestic Large- Mid Cap Equity – Value)		Rates of return should provide a premium of 7% over inflation. Secondary performance comparisons to 100% S&P 500 and a peer group comprised of other professionally managed large cap value equity portfolios.
		Volatility is expected to be similar to, but may be higher than the style index.

Investment Manager	Investment Objective / Investment Style	Style Index Standard
<b>NWQ</b> (Domestic Small/Mid Cap Equity – Growth)	Domestic, small and medium capitalization equities and cash equivalents. Investment manager invests in stocks with growth characteristics.	100% Russell 2500 Growth Stock Index
		Rates of return should provide a premium of 9% over inflation. Secondary performance comparisons to 100% Russell 2000 and a peer group comprised of other professionally managed small cap growth equity portfolios.
		Volatility is expected to be similar to, but may be higher than the style index.
<b>Heitman</b> (International Equity- U.S. dollar denominated)	Invests in REITs whose principal business is ownership and management of commercial property. Objective is to generate superior, risk-adjusted returns through investing in publicly traded real estate securities.	100% Real Estate Securities
	Bottom-up security selection identifies real estate companies that can offer predictable cash flows and strong growth potential. Internal and external research is used to identify macro and micro factors that help determine productivity of the underlying real estate, company level performance, and ability to grow cash flow per share.	Rates of return should provide a premium of 5% over inflation.
		Volatility is expected to be similar to the style index.

Investment Manager	Investment Objective / Investment Style	Style Index Standard
<b>NWQ Intl.</b> (International Equity- U.S. dollar denominated)	U.S. dollar denominated equity securities of non-US based companies and cash equivalents. The investment manager does not hedge against fluctuations in exchange rates.	100% MSCI EAFE Stock Index (net)
	<p>Uses a bottom-up, value-oriented investment style. Additional research subjects each company to an intense accounting validation process with particular importance placed on an analysis of cash flows and discretionary items on the balance sheet.</p> <p>Analysts further determine the sustainability of expected returns through fundamental analysis. Research efforts are enhanced through on-site visits by analysts who focus on specific industries worldwide. Country and sector allocations are an outgrowth of security selections.</p>	Rates of return should provide a premium of 8% over inflation. Secondary performance comparisons to a peer group comprised of other professionally managed international equity portfolios.
		Volatility is expected to be similar to the style index.
<b>Neuberger</b> (Domestic Investment Grade Fixed Income)	Broad investment grade fixed income securities and cash equivalents.	100% ML Corp & Gov 1-10 yrs
		Rates of return should provide a premium of 3% over inflation. Secondary performance comparisons to a peer group comprised of other professionally managed fixed income portfolios.
		Volatility is expected to be similar to the style index.