

INVESTMENT POLICY STATEMENT
MONTANA CHAMBER OF COMMERCE
INVESTMENT OBJECTIVES AND POLICY GUIDELINES
Effective January 1, 2006

I. Statement of Purpose

The Board of Directors of the Chamber has adopted this Investment Policy statement in recognition of its responsibility to supervise the investment of the Chamber's assets in accordance with the Chamber's goal of improving the Montana Chamber's impact statewide. The purpose of this Policy Statement is to set forth in writing: (1) an appropriate set of objectives and goals to be attained through the investment of the Fund's assets; (2) the position of the Investment Committee with respect to the Chamber's risk/return posture, including allocation of assets, and establishment of investment guidelines; and (3) an overall system of investment policies and practices whereby the continuing financial obligation of the Chamber will be satisfied.

II. Statement of Responsibilities

It is expected that the following parties associated with the Chamber will discharge their respective responsibilities in accordance with normal fiduciary standards; (1) with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and of like aims, and (2) by diversifying the investments so as to minimize the risk of large losses.

- A. Investment Manager(s): The Investment Manager(s) are charged with the responsibility to conduct day-to-day investment management of the Chamber assets in accordance with this Investment Policy Statement and all laws that supersede it. All Investment Manager(s) must either be (1) registered under the Investment Company Act of 1940, (2) a bank, as defined in that Act, (3) an insurance company qualified under the laws of Montana to perform the services of managing, acquiring or disposing of Chamber assets, or (4) such other person or organization authorized by applicable law or regulation to function as an Investment Manager(s). Each investment manager managing a separate account for the Chamber must sign an investment management agreement with the Chamber.
- B. Custodian: The custodian has been retained by the Investment Committee and is charged with the responsibility for safekeeping securities, collections and disbursement, and periodic accounting statements.

- C. Investment Consultant: The Investment Consultant has been retained and is charged with the responsibility to assist the Investment Committee in developing ongoing investment policy, assisting in investment manager selection and monitoring services, and as directed by the Investment Committee, assisting the Chamber in conducting investment activities associated with the Chamber in accordance with commonly accepted standards.
- D. Investment Committee: The Board of Directors hereby designates the Executive Committee as the Investment Committee and expressly delegates responsibility for investment matters to the Committee. Said delegation shall remain in effect until modified by the Board. The Investment Committee shall report to the Board on at least a quarterly basis at which time the Investment Committee actions as reported shall be ratified or modified as the case may be. The Investment Committee shall act in a manner that is consistent with said by laws.

III. **Statement of Spending Policy**

The Chamber is expected to disburse 5% annually, of endowment principal market value. These calculations are made on a monthly basis. If the market value of the Endowment Principal of any kind, at the end of each month, is less than the initial value of all the contributions made to Endowment. Principal, then distributions will be limited to interest and dividends received. In accordance with this disbursement policy, the Investment Committee is committed to: (1) protecting the corpus of the Foundation; (2) preserving the spending power of the income from the fund (3) maintaining a diversified portfolio of assets in order to meet investment return objectives while keeping the level of risk commensurate with that of the median fund in a representative foundation and endowment universe; (4) complying with applicable law.

IV. **Investment Objectives**

The investment objectives for the Chamber will be for the asset value, exclusive of contributions or withdrawals, to grow over the long run and earn, through a combination of investment income, capital appreciation, and a rate of return (time-weighted total return) in excess of the benchmarks established for the medium term (3 years) and long term (5 years).

Medium Term Performance Objectives

- A. The Total Fund return shall exceed (net of fees) a custom index made up of the following indices: the Russell 1000 Growth, the Russell 1000 Value, the Russell 2000 Growth, the Russell 2000 Value, the S&P 500

Index, the MSCI EAFE Index, the FIFR Fund-of-Fund Index, CPI+5%, the Lehman Brothers Aggregate Bond Index.

- B. The Total Fund return is to outperform the median fund in a representative foundation and endowment universe.
- C. The large cap equity segment of the Fund shall exceed (net of fees) the S&P 500 index, as well as the median large cap return in a large cap performance universe.
- D. The small cap equity segment of the Fund shall exceed (net of fees) the Russell 2000 Index plus 100 basis points, as well as the median small cap return in a small cap performance universe.
- E. The international equity segment of the Fund shall exceed (net of fees) the EAFE Index as well as the median international return in an international performance universe.
- F. The objective of the alternative assets segment is to earn a real return of 5% regardless of market direction and exceed the rate of return of the HFR Fund-of-Funds Index.
- G. The core fixed income segment of the Fund shall exceed (net of fees) the Lehman Brothers Aggregate Index as well as the median fixed income return in a representative performance universe.

Long Term Performance Objectives

- A. The Total Fund shall exceed (net of fees) a custom index made up of the following indices: the Russell 1000 Growth, the Russell 1000 Value, the Russell 2000 Growth, the Russell 2000 Value, the S&P 500, the MSCI EAFE Index, the HFR Fund-of-Funds Index, CPI+5%, and the Lehman Brothers Aggregate Bond Index.
- B. The Total Fund is to outperform the median fund in a representative foundation an endowment universe.
- C. The Total Fund is to produce, after investment expenses, a minimum annual compound total rate of return of 5% in excess of the rate of inflation.

Asset Allocation

The following allocations of Chamber assets shall serve as the general guidelines for Chamber investments.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Minimum</u>	<u>Maximum</u>
Large Cap Value	15%	5%	30%
Large Cap Growth	15%	5%	30%
Mid Cap Value	5%	5%	15%
Mid Cap Growth	5%	5%	15%
Small Cap Value	5%	5%	15%
Small Cap Growth	5%	5%	15%
Alternative Investments (inc. RE)	5%	0%	10%
International Stocks	10%	0%	20%
Fixed Income	<u>35%</u>	25%	80%
Total	100%		

The asset mix policy and acceptable minimum and maximum ranges established by the Investment Committee represent a long-term view. As such rapid the significant market movements may cause the fund's actual asset mix to fall outside the policy range. Any such divergence should be of a short-term structure.

VI. Investment Guidelines

It is the intention of the Investment Committee to allow each investment manager full investment discretion within the scope of these mutually agreed upon investment guidelines. Each investment manager must adhere to the following investment guidelines as well as the specific guidelines in the appendix unless explicitly advised in writing by the Investment Committee.

- A. Types of Securities: The equity securities shall be domestic or foreign common stocks, preferred stocks, convertible preferred stocks, real estate, and bonds, depending on the manager's assignment. The fixed income securities shall be comprised of US Treasuries, agencies of the United States Government, domestic and international corporations, domestic banks, and other US financial institutions.
- B. Diversification: The equity and fixed income Portfolio should be well diversified to avoid undue exposure to any single economic sector, industry, or individual security. No more than 5% of the equity or fixed income portfolio based on market value shall be invested in the securities of any one issuer other than fixed income pools of investments such as US Governments or US Government Agencies. Except US Treasuries, no more than 10% of the fixed income portfolio based on market value shall be invested in securities of any one issuing corporation at the time of purchase.

C. Prohibited Investments: Categories of investment that are not eligible for investment without prior approval of the Board of Directors include:

1. Short Sales.
2. Margin purchase or other use of lending or borrowing.
3. Private placements.
4. Commodities.
5. Security loans.
6. Leveraged derivatives (e.g. floaters; inverse floaters, etc.)
7. Warrants.

The alternative asset portfolio may utilize the above categories so long as such investments are consistent with the portfolio's goal of stable returns with low volatility.

D. Trading and Execution: The Investment Manager(s) shall use their best efforts to obtain best execution of orders through responsible brokerage firms at the most favorable prices and competitive commission rates.

If turnover of equity investments exceeds 50% of the equity market value in any calendar quarter, the Investment Manager(s) will promptly submit to the Investment Committee as well as the Investment Consultant a detailed explanation of the trading activity (For this purpose, turnover shall be defined as the ratio of the lesser of sales proceeds and the purchase costs to the average market value of equities for the quarter). Similar notice will be sent to the Investment Committee as well as the Investment Consultant if any Investment Manager purchases a specific holding within 30 days after it has been sold from the Chamber.

E. Liquidity: The Investment Committee delegates to staff to monitor the cash flow on a regular basis, and sufficient liquidity shall be maintained to fund payment outflows. When withdrawals become necessary, the Investment Committee will notify the Investment Manager(s) as far in advance as possible to allow them sufficient time to build up necessary liquid reserves. The Investment Manager(s) will be expected to review the cash flow requirements with the Investment Committee and staff at least annually.