

MICHIGAN MUNICIPAL LEAGUE FOUNDATION

ENDOWMENT

INVESTMENT AND SPENDING POLICY STATEMENT

I. DEFINITIONS

II. OBJECTIVES

III. IMPLEMENTATION

IV. ACKNOWLEDGEMENT

I. DEFINITIONS

PURPOSE

This Investment Policy is adopted by the Michigan Municipal League Foundation to establish a clear understanding of the Foundation's philosophy and investment objectives.

The purpose of the Foundation's Endowment is to accumulate a pool of assets sufficient to build capital for future use with the corresponding obligation to support current and future Foundation needs. While shorter-term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term spending needs with preservation of the real (inflation-adjusted) value of assets, is crucial to the long-term success of the Foundation.

SCOPE

This Policy applies to all assets that are included in the Foundation's investment portfolio for which the Board of Directors has been given discretionary investment authority.

FIDUCIARY DUTY

In seeking to attain the investment objectives set forth in the policy, the Board of Directors shall exercise prudence and appropriate care. All investment actions and decisions must be based solely in the interest of the Foundation. Fiduciaries must provide full and fair disclosure to the Board of Directors of all material facts regarding any potential conflicts of interests.

DEFINITION OF DUTIES

Board of Directors

The Board of Directors has the ultimate fiduciary responsibility for the Foundation's investment portfolio. The Board must ensure that appropriate policies governing the management of the Foundation are in place and that these policies are being effectively implemented. This responsibility includes identifying and recommending for approval for the Board the investment manager and the asset allocation. It is also responsible for approving investment strategy, hiring and firing of investment managers, custodians, and monitoring performance of the investment portfolio on a regular basis (at least quarterly). The Board will also be responsible for maintaining sufficient knowledge about the portfolio and its managers so as to be reasonably assured of their compliance with the Investment Policy.

MML Finance Staff

A MML Finance staff person has daily responsibility for administration of the Foundation's investment portfolio and will consult with the Board of Directors on all matters relating to the investment of the Foundation's portfolio. The MML Finance staff person will serve as primary contact for the Foundation's investment manager and custodian.

Investment Manager

The Investment Manager is responsible for assisting the Board of Directors in all aspects of managing and overseeing the Foundation's investment portfolio. The Manager is the primary source of investment education and information. On an ongoing basis the Manager will:

1. Recommend investment options for the Board's review and consideration;
2. Recommend the appropriate asset allocation policy and target ranges and monitor for changes;
3. Provide the Board of Directors with quarterly performance reports within 45 days following the end of the quarter;
4. Meet with the Board of Directors at least quarterly, and more frequently as needed;
5. Monitor the activities of the investment fund;
6. Supply the Board of Directors with other reports or information as reasonably requested.

II. OBJECTIVES

The overall, long-term investment goal of the Foundation is to achieve an annualized total return (net of fees and expenses), through appreciation and income, greater than the rate of inflation (as measured by the broad, domestic Consumer Price Index) plus 5%, thus protecting the assets against inflation.

The assets are to be managed in a manner that will maximize the benefits intended by the donors.

STRATEGY

The Board of Directors agree that investing in securities with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities. Fixed income securities will be used to lower the short-term volatility of the portfolio and to provide income stability, especially during periods of weak or negative equity markets. Cash is not a strategic asset of the portfolio, but is a residual to the investment process and used to meet short-term liquidity needs.

Asset Allocation

Deliberate management of the asset mix among classes of investments is both a necessary and desirable responsibility. In the allocation of assets, diversification of investments among asset classes that are not similarly affected by economic, political, or social developments is a highly desirable objective. The Board of Director's general policy

shall be to diversify investments within both equity and fixed income securities so as to provide a balance that will enhance total return, while avoiding undue risk concentration in any single asset class or investment category. The diversification does not necessarily depend upon the number of industries or companies in a portfolio or their particular location, but rather upon the broad nature of such investments and of the factors that may influence them.

In making asset allocation judgments, the Board of Directors is not expected to seek to "time" subtle changes in financial markets, or to make frequent or minor adjustments. Instead, the Board of Directors is expected to develop and adopt expressed guidelines for broad allocations on a long-term basis, in light of current and projected investment environments.

To ensure broad diversification in the long-term investment portfolios among the major categories of investments, asset allocation, as a percent of the total market value of the total long-term portfolio, will be set with the following target percentage and within the following ranges:

	<u>Target</u>	<u>Range</u>
Equity	70.0%	65-75%
Large cap index	15.0%	
Large Cap	27.5%	
Small Cap	17.5%	
International	10.0%	
Fixed Income	30%	25-35%

Rebalancing

The investment manager will monitor the asset allocation structure of the investment pool and will attempt to stay within the ranges allowed for each asset class. If the portfolio becomes over-weighted or exceeds the range of percentage for that asset class, the investment manager will develop a plan of action, either for immediate rebalancing of the portfolio or a rebalancing that will occur over the subsequent few months.

Spending Policy

Spending is determined by a total return system. The amount to be spent in the coming year is calculated each March 31st and is reviewed and approved by the Board of Directors annually. The spending budget for the upcoming calendar year will be determined each year at the rate of up to 5% of the fair market value (computed with a 16 quarter rolling average of the market value) of the assets of each fund managed as an endowment. It is intended that the nature of the Fund will be maintained over time. The spending and investment policy are governed by a total return philosophy recognizing that funds under the guidelines of these policies are managed as endowments. The distribution that may be spent, as determined in this paragraph, may be drawn from ordinary income earned (dividend, interest, etc) and original appreciation, both earned and unearned. The principal is to remain intact.

III. IMPLEMENTATION

TIME HORIZON

The Board of Directors seeks to achieve or outperform the targeted expected returns, as defined by the asset allocation decision, over a full market cycle. The Board of Directors does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, investment managers may produce significant over or under performance relative to the broad markets. For this reason, long-term investment returns will be measured over a 5-year moving period. The Board of Directors reserves the right to evaluate and make any necessary changes regarding investment managers over a shorter-term using the criteria established under "Manager Evaluation" below.

MANAGER EVALUATION

All investment returns will be measured net of fees. The investment manager will be reviewed by the Board of Directors on an ongoing basis and evaluated upon the following criteria:

- a) Avoidance of regulatory actions against the firm, its principals or employees;
- b) Adherence to the guidelines and objectives of this Investment Policy;
- c) Avoidance of significant deviation from the style and capitalization characteristics defined as "normal" for the manager.
- d) Ability to exceed the return of the appropriate benchmark index.
- e) Ability to meet or exceed the median performance of a peer group of managers with similar styles of investing.

IV. ACKNOWLEDGEMENT

We recognize the importance of adhering to the mission and strategy detailed in this policy and agree to work to fulfill the objective stated herein, within the guidelines and restrictions, to the best of our ability. We acknowledge that open communications are essential to fulfilling this mission and if at any time we wish to discuss improvements to this document they are welcome and should be referred through the Foundation or its Investment Manager.

Chairman of the Board, MML Foundation

(date)