

Department of Minnesota American Legion Auxiliary (ALA) Investment Policy Statement November 2015

PURPOSE

The purpose of this Investment Policy Statement (IPS) is to assist the Department of Minnesota of the American Legion Auxiliary (ALA) and the current investment company (Advisor) in effectively supervising, monitoring and evaluating the investment of the ALA's Portfolio (Portfolio). The ALA's investment program is defined in the various sections of the IPS by:

- Providing a written document with ALA's objectives, expectations, policies, procedures and guidelines for the investment of assets.
- Setting forth an investment structure for managing ALA's Portfolio. This structure includes various asset classes, asset allocation and acceptable ranges that in total are expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon.
- Encouraging effective communications between ALA and the Advisor.
- Establishing a method to measure performance.
- Complying with all applicable fiduciary, prudence and due diligence requirements experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal, and international political entities that may impact the Client's assets.

STATEMENT OF OBJECTIVES

This IPS describes the investment process the Advisor deems appropriate, given the completed investor profile and other needs and objectives that have been communicated to the advisor by the investment committee for ALA's situation. ALA desires to maximize returns within prudent and pre-determined levels of risk and to meet the following stated financial goals:

Objectives to all pools:

- Outpace inflation over time
- Maximize total returns in line with the stated time horizon and risk tolerance
- Invest in a diversified portfolio utilizing cash, fixed income and equity type investments.
- Allow for the portfolio to make budgeted periodic distributions as needed.

TIME HORIZON

Because ALA is a going concern entity with no life expectancy, the investment guidelines can be based upon an investment time horizon of greater than 10 years. Therefore, interim fluctuations should be viewed with appropriate perspective. Short-term liquidity requirements are anticipated to be minimal, but will be necessary at times to help with seasonal operating cash flows.

EXPECTED RETURN

ALA desires that the portfolio both outpace inflation while at the same time earning a return reasonably consistent with other notable industry benchmarks utilizing a similar asset allocation that is consistent with the risk profile provided by ALA. The advisor can provide an updated comparison when necessary or during a review.

RISK TOLERANCES

ALA recognizes and acknowledges that some risk must be assumed in order to achieve long-term investment objectives, and there are uncertainties and complexities associated with contemporary investment markets. Here is a list of just some of the risks involved. First off, both systematic and unsystematic risks exist. Systematic being the risk of problems associated with the entire economy, and unsystematic being the risk associated with owning a specific security. There are equity risks due to things like market capitalization size or investment style such as growth vs value, or international location and currency risk. There are also fixed income risks such as interest rate risk, credit risk, inflation risk and even liquidity risk. ALA recognizes that all of these and even other risks preside.

In establishing the risk tolerance of this IPS, ALA's ability to withstand short term and intermediate term and even long term variability was considered. ALA's prospects for the future, current financial condition and several other factors suggest collectively that interim fluctuation in market value and rates of return consistent with the investment allocation can be tolerated in order to achieve the longer-term objectives.

ALA recognizes that one of the most important things to do to help manage the risk of volatile markets and uncertainty is to allocate between asset classes and then diversify within each class.

ASSET CLASS PREFERENCES & RISK

ALA understands long-term investment performance, in large part, is primarily a function of asset class mix. ALA has reviewed the long-term performance characteristics of the broad asset classes, focusing on balancing the risks and rewards. History shows us while interest-generating investments, such as bond portfolios, have the advantage of relative stability of principle value; they provide little opportunity for real long term capital growth due to their susceptibility to inflation. On the other hand, equity investments, such as common stocks, clearly have a significantly higher expected return but have the disadvantage of much greater year by year variability of return.

From an investment decision making point of view, this year by year variability of equity investments can be worth accepting, provided the time horizon for the equity portion of the portfolio is sufficiently long (10 years).

ALA acknowledges the risks associated with both equity and fixed income investing.

ALA has considered traditional asset classes for inclusion in the target allocation, and has decided not to place any limitations/restrictions on the portfolio.

REBALANCING OF TARGET ALLOCATION

It is understood that the allocation to each asset class will vary over time given changes in the financial markets. The advisor will determine when and what trades to make in order to get back to the prescribed portfolio. ALA desires to keep each asset class within the prescribed range noted on the current investment policy (attached).

MEASURING PERFORMANCE

ALA and the advisor will utilize the advisor's in-house performance reporting tool to monitor portfolio performance. This tool measures returns for the account net of fees over various periods of time. The tool also allows for reasonable comparisons of results against industry benchmarks with similar allocations.

PROCEDURE TO CHANGE IPS

The Investment Policy statement may be changed. The IPS should be reviewed annually. The investment committee is made of the finance committee and the audit committee members. The investment committee representative shall be the finance committee member who has been on that committee for four years.

If the Advisor contacts the American Legion Auxiliary Department of Minnesota office of Treasurer/Executive Secretary stating a need to change or review the IPS, the Department Treasurer shall contact the investment committee representative. The investment committee representative shall canvas the investment committee members as to a recommendation to change the IPS and to determine if an immediate need exists. The investment committee representative shall contact the Department President and Department Executive committee as to the recommendation to change the IPS. The Department Executive committee will enact or reject the investment committee's recommendation.

OTHER PROCEDURES ADDED (POST AUDIT JANUARY 2016)

1. Any one person, who is an authorized account signer, cannot request a withdrawal for more than \$100,000 from the investment account without additional authorization from the Investment Committee.
2. If the Investment Advisor has any concerns regarding the investment account, he/she should contact the Investment Committee Secretary.

Approved March 5, 2016 by the DEC