

# **INVESTMENT POLICY STATEMENT**

## **Access To Justice Fund Endowment Portfolio**

### **PURPOSE**

The purpose of this Investment Policy Statement is to establish a clear understanding of the philosophy and the investment objectives for the Michigan State Bar Foundation (hereinafter, "Foundation") Access To Justice Fund Endowment Portfolio.

This document will further describe the standards that will be utilized by the Investment Committee in monitoring investment performance, as well as serve as a guideline for any investment manager retained.

The purpose of the funds is to accumulate a pool of assets sufficient to meet the needs of the Foundation. These assets are to be invested in a manner consistent with statutory fiduciary responsibilities.

### **SCOPE**

This Investment Policy Statement applies only to those assets for which the investment managers and the Investment Committee have discretionary authority.

### **INVESTMENT COMMITTEE**

The Foundation's Finance-Audit Committee shall serve as the Investment Committee. The Investment Committee is responsible for investment policies (benchmarks, guidelines and philosophies) and strategies, custodians, investment managers and/or advisors, and other fiduciaries, and monitoring the performance of the custodians, managers, advisors and other fiduciaries. The Investment Committee will review the Investment Policy Statement at least annually.

### **SPENDING POLICY**

Endowment funds available for spending are determined by the Foundation using a total return system. The spending policy will use the average of the market value of the fund as of September 30 for the previous five years. At the end of each successive fiscal year, the most recent year will be added and the initial year will be dropped. The calculation is as follows:

- a) Each year a five-year rolling average of the market value is determined as of September 30.
- b) The amount which can be spent will be up to 5% of the average market value calculated in "a" above.

The funds that may be spent under this spending policy for a particular endowment fund may be drawn from both ordinary income earned (i.e. dividends, interest, rents, royalties, etc.) and capital appreciation, both realized and unrealized, for that endowment fund. All income and appreciation not needed to meet spending needs for a particular endowment fund is credited directly to that fund and reinvested. A designated endowment recipient may elect to reinvest the spending amount available rather than receive payment.

## **GENERAL OBJECTIVES**

*The primary objective of the Access to Justice Fund Endowment Portfolio investments of the Foundation will be to provide long-term growth of capital, without undue exposure to risk. A secondary focus shall be placed on income generation to assist in providing for Foundation distributions. The objectives shall be accomplished utilizing a strategy of equities, fixed income, and cash equivalents to a mix, which is conducive to participation in rising markets while allowing for protection in falling markets.*

## **TIME HORIZON**

Due to the inevitability of short-term market fluctuations, which may cause variations in the investment performance, it is intended that the investment managers will achieve the following performance objectives over a *moving five-year period*, net of investment management fees. However, the Investment Committee reserves the right to evaluate and make any necessary changes regarding the investment managers over a shorter term using the criteria established in the "Evaluation of Investment Managers" section of this statement.

## **SPECIFIC PERFORMANCE OBJECTIVES**

### **Total Foundation**

1. The long-term total return objective shall be to exceed the Consumer Price Index by at least 5% annually.
2. The total return shall target that of the Balanced Index comprised of passive indexes weighted in accordance with the target positions specified in Appendix A, as updated from time to time by the Board of Trustees.
3. The total foundation shall achieve a positive risk adjusted return relative to the Balanced Index.

### **Investment Management**

1. The total return shall seek to track or exceed that of its relevant benchmark in each asset class as specified in Appendix A, as updated from time to time by the Board of Trustees.
2. The investment managers shall be evaluated versus a universe of managers with similar investment objectives, and will be expected to rank in the top 50%.
3. The investment managers will be expected to maintain volatility (beta) versus the relevant benchmark of no greater than about 1 for passive management and 1.2 times for active management, and will be expected to maintain a positive risk adjusted performance (alpha).

## **EVALUATION OF INVESTMENT MANAGER(S)**

The Foundation reserves the right to evaluate and make any necessary changes regarding the investment manager(s), at any point prior to the stated 5-year time horizon, based upon the following additional criteria:

1. Ability to exceed the performance objectives stated in this Investment Policy Statement.

2. Adherence to the philosophy and style which were articulated to the Foundation at, or subsequent to, the time the investment manager was retained.
3. Ability to exceed the performance of other investment managers who adhere to the same or similar style.
4. Continuity of personnel and practices at the firm.

### **ASSET ALLOCATION**

1. The asset allocation shall be monitored on an ongoing basis and reviewed annually. The asset allocation ranges for the Foundation shall be as specified in Appendix A, as updated from time to time by the Board of Trustees.
2. In the event of severe economic or market conditions, which would negatively impact the Foundation, the investment manager, may deviate from the stated asset structure upon receiving written approval from the investment committee chairman. Any other deviations must first be communicated to, and approved by, the Investment Committee.

### **INVESTMENT MANAGER GUIDELINES**

The guidelines stated below apply to investments in non-mutual and non-pooled funds, where the investment manager constructs a separate, discretionary account on behalf of the Foundation. Although the Investment Committee can not dictate policy to pooled/mutual fund investment managers, it is the Investment Committee's intent to select and retain only pooled/mutual funds with policies that are similar to that of the Foundation. However, all managers (pooled/mutual or separate) are expected to achieve the performance objectives.

#### **General Guidelines**

Unless prior written approval is obtained from the Investment Committee to the contrary:

- a. Each investment manager must satisfy the performance objectives and asset allocation guidelines.
- b. Each investment manager shall have the full investment discretion with regard to market timing and security selection, consistent with this Investment Policy Statement.
- c. The investment managers shall be evaluated on a quarterly basis and should be prepared to meet with the Investment Committee at least annually.
- d. The investment manager shall immediately notify the Investment Committee in writing of any material changes in its investment outlook, strategy, portfolio structure, ownership, or senior personnel.
- e. The investment manager shall maintain compliance with the Asset Allocation specifications.
- f. There shall be no investments in non-marketable securities.

- g. There should be no purchase that would cause a position in the portfolio to exceed 5% of the total issue outstanding.

### **Equity Guidelines**

- a. Where individual securities are used, each investment manager must assure that no position of any one company shall exceed 8% of the manager's total portfolio as measured at market value or 5% as measured at cost.
- b. The equity managers shall handle the voting of proxies and tendering of shares in a manner that is in the best interest of the Foundation and consistent with the investment objectives contained herein.
- c. For diversification purposes, each manager's equity portfolio should have in excess of 20 positions unless the Investment Committee gives prior authorization.

### **Fixed Income and Cash Equivalent Guidelines**

- a. Each investment manager's portfolio must have an overall weighted average credit quality of investment grade (rating of "Baa" or better by Moody's or "BBB" or better by Standard & Poor's rating services). In addition, there shall be no more than 3% bond investments below investment grade (Baa/BBB). Split-rated issues will be governed by the lower rating. In the event that a bond instrument is downgraded below investment grade, the investment manager may retain the security if it deems in the best interest of shareholders.
- b. The duration target of the fixed income portfolio shall be within 20% of the duration of the applicable fixed income benchmark.
- c. Each investment manager must assure that no position of any one issuer shall exceed the greater of \$50,000 or 15% of the manager's Total portfolio as measured at market value or 10% as measured at cost, except for securities issued by the U. S. government and its agencies.
- d. No more than 5% of an investment manager's portfolio at market value shall be invested in commercial paper and not more than 2% in any one issuer. All commercial paper must have a rating of A1 /P1.
- e. Certificates of deposit shall have the highest credit quality rating from a nationally recognized rating service (e.g., Duff and Phelps, IBCA or Thompson Bank- Watch).
- f. Cash equivalents shall be defined as securities with a maturity of one year or less.

### **Derivative Guidelines**

The investment managers shall not utilize derivative securities to amplify or distort the risk of loss beyond a level that is reasonably expected given the objectives of their strategies or to increase the actual or potential risk posture of the Plans. Subject to other provisions in this Investment Policy Statement, the use of primary derivatives, including, but not limited to, Structured Notes, lower class tranches of Collateralized Mortgage Obligations (CMO's)<sup>1</sup>, Principal Only (PO) or Interest Only (IO) Strips, Inverse Floating Securities, Future Contracts, options, short sales, margin trading and such other specialized activity are prohibited.

Moreover, the investment managers are precluded from using derivatives to effect a leveraged portfolio structure (if the Investment Committee specifically approves options and futures, such positions must be offset in their entirety by corresponding cash or securities).

The Investment Committee must explicitly authorize the use of such derivative instruments, and shall consider certain criteria including, but not limited to, the following:

- a. Manager's proven expertise in such category.
- b. Value added by engaging in derivatives.
- c. Liquidity of instruments.
- d. Actively traded by major exchanges (or for over-the-counter positions, executed with major dealers).
- e. Manager's internal procedures to evaluate derivatives, such as scenario and volatility analysis and duration constraints.

### **Rebalancing Guidelines**

It is expected that the Foundation actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset and sub-asset classes. The Foundation will be re-balanced to its target normal asset allocation under the following circumstances:

- a. Utilize incoming cash flow or outgoing money movements to realign the current weightings closer to the target weightings for the portfolio.
- b. The portfolio will be reviewed quarterly to determine the deviation from target weightings. During each quarterly review, the following parameters will be applied:
  - i. If any asset class (equity or fixed income) within the portfolio is +/-5 percentage points from its target weighting, the portfolio will be rebalanced.
  - ii. If any sub-asset class (underlying fund) within the portfolio has increased or decreased by greater than 20% of its target weighting, the fund may be rebalanced.
- c. The investment manager may provide a rebalancing recommendation to the committee at any time.
- d. The investment manager shall act within a reasonable period of time to evaluate deviation from these ranges.

### **CONCLUSION**

This statement of investment policy shall be reviewed annually. Investment performance will be reviewed on a quarterly basis. Each investment manager may provide any suggestions regarding appropriate adjustments to this statement or the manner in which investment performance is reviewed.

Acknowledged on behalf of the Michigan State Bar Foundation

By: \_\_\_\_\_  
Alfred M. Butzbaugh, President

Dated: \_\_\_\_\_

<sup>1</sup> Lower class defined by Federal Financial Institutional Examination Council (FFIEC).

Adopted by the Michigan State Bar Foundation Board of Trustees on June 21, 2000, with revisions adopted by the Board of Trustees on April 16, 2003, November 15, 2006, November 14, 2007, June 16, 2010, June 19, 2013, June 17, 2015 and February 21, 2018.

**Access To Justice Fund Endowment Portfolio  
Appendix A**

**Balanced Index**

**Asset Allocation**

The asset allocation shall be monitored on an ongoing basis and reviewed annually.

Type of Securities	Target Position	Range	Benchmark
<b>Equities</b>	<b>70%</b>	<b>65-75%</b>	
Passive Domestic Equities	42%		CRSP US Total Market Index
Passive International Equities	28%		FTSE Global All Cap ex-US Index
<b>Fixed Income</b>	<b>30%</b>	<b>25-35%</b>	
Passive Domestic Bonds	12%		Barclays US Aggregate Bond Index
Intermediate Investment Grade Bonds	4%		Barclays US 5-10 Year Credit Index
Short Investment Grade Bonds	5%		Barclays US 1-5 Year Credit Index
Passive International Bonds	9%		Barclays Global Aggregate Ex-USD Index

**Investment Manager Responsibilities:**

		<u>Manager Universe</u>
Equities	Vanguard	US All Cap Core Equity Foreign Large Blend Equity
Fixed Income:	Vanguard	Intermediate Term Bond Intermediate Investment Grade Bond Short Investment Grade Bond Foreign Bonds

Approved by the Board of Trustees on November 14, 2007  
 Amended by the Board of Trustees on June 16, 2010  
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