

INVESTMENT POLICY STATEMENT

I.O.L.T.A. Fund 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") I.O.L.T.A. Fund 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 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

All or any part of the income and accumulated principal may be spent at any time upon approval of the Foundation Board.

GENERAL OBJECTIVES

The primary objective of the IOLTA Fund Portfolio investments of the Foundation will be to preserve 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 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 1% annually.
2. The total return shall seek to track that of its relevant benchmark in accordance with the target positions specified under the Asset Allocation section.

Fixed Income Management

1. The total return shall seek to track the total return of its relevant benchmark as described under the Asset Allocation section.
2. The investment managers will be evaluated versus a Fixed Income Manager Universe and will be expected to rank in the top 50%.
3. The investment managers will be expected to maintain a volatility (beta) of no more than 1.20 times that of their relevant benchmarks and will be expected to maintain a positive risk-adjusted performance (alpha) if actively managed.

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:

<u>Type of Securities (Benchmark)</u>	OVERALL FUND	
	Target	
	<u>Position</u>	<u>Range</u>
Fixed Income	100%	100%
US Short Aggregate Bonds (Barclays US 1-5 Year Govt/Credit Index)	34%	29%-39%
US Short Credit Bonds (Barclays US 1-5 Year Corporate Index)	33%	28%-38%
US Short Treasury Bonds (Barclays US 1-3 Year Treasury Index)	33%	28%-38%

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.

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 of target the fixed income portfolio must be within $\pm 20\%$ of the duration of the applicable fixed income benchmark.
- c. Each investment manager must assure that no position of any one issuer shall exceed 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)¹, 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: _____

Investment Manager Responsibilities:

Fixed Income:

Vanguard

Manager Universe

Short Term Bonds
Short Corporate Bonds
Short Treasury Bonds

¹ Lower class defined by Federal Financial Institutional Examination Council (FFIEC).

Adopted by the Michigan State Bar Foundation Board of Trustees on April 28, 1999.

Revised and Adopted by the Michigan State Bar Foundation Board of Trustees on April 16, 2003.

Amended by the Board of Trustees on June 17, 2015 and February 21, 2018.