

# MICHIGAN STATE BAR FOUNDATION INVESTMENT POLICY STATEMENT

## I. Purpose and Scope

The purpose of this Investment Policy (hereinafter “Policy”) is to specify Michigan State Bar Foundation (hereinafter “MSBF”) guidelines for its investment consultants, managers, custodians and other service providers, and to effectively and prudently manage, monitor, and evaluate MSBF’s investment portfolio. This Policy supersedes all prior actions regarding investment policies.

For the purposes of managing investment risk and to optimize investment returns within acceptable risk parameters, the following funds are held as separate investment pools:

- Access to Justice (ATJ) Fund Portfolio – the ATJ Fund Endowment Portfolio and ATJ Fund Operations Portfolio are combined for investment purposes.
- Interest on Lawyers Trust Accounts (IOLTA) Portfolio.
- Michigan State Bar Foundation General Portfolio – this may include contributions, cy pres awards given to MSBF, grants to MSBF that are permitted to be invested, special purpose funds that are permitted to be invested and other funds not identified as IOLTA or ATJ Fund contributions.

In addition to the investment funds listed above, MSBF keeps cash and cash equivalents in a checking account and money market account. MSBF also has a brokerage account to receive stock gifts.

In doing so the Policy:

- clarifies the delegation of duties and responsibilities concerning the management of investment funds.
- identifies the criteria against which the investment performance of the organization’s investments will be measured.
- communicates the objectives to the Board, staff, investment managers, brokers, donors and funding sources that may be involved.
- confirms policies and procedures relative to the expenditure of investment funds.
- serves as a review document to guide the ongoing oversight of the management of the organizations’ investments.

## II. Responsibilities

The Board of Directors has a direct oversight role regarding all decisions that impact MSBF investment funds. Specific responsibilities of the various bodies and individuals responsible for the management of investment funds are set forth below:

## **1. Responsibilities of the Board**

The Board shall ensure that its fiduciary responsibilities concerning the proper management of MSBF's investment funds are fulfilled through appropriate investment structure, internal and external management, and portfolio performance consistent with all policies and procedures. Considering the advice and recommendations of the Investment Committee, the Board shall:

- select, appoint and remove members of the Investment Committee.
- approve investment policies and objectives that reflect the investment-risk orientation of the funds.
- Delegate management and investment decisions to one or more external agents, as further described in Section III. below.

## **2. Responsibilities of the Investment Committee**

The MSBF's Finance Audit Committee shall serve as the Investment Committee. Members of the Investment Committee are not held accountable for less than desirable outcomes, but rather for adherence to procedural prudence, or the process by which decisions are made in respect to investments and endowment assets. In consideration of the foregoing, the Investment Committee is responsible for the development, recommendation, implementation and maintenance of all policies relative to MSBF's investment funds and shall:

- develop and/or propose policy recommendations to the Board regarding the management of all investment funds,
- recommend long-term and short-term investment policies and objectives for the investment funds, including the selection of asset classes, determining asset allocation ranges, and setting performance objectives,
- determine that investment funds are prudently and effectively managed with the assistance of management and any necessary investment consultants and/or other outside professionals, if any,
- monitor and evaluate the performance of all those responsible for the management of investment funds,
- recommend the retention and/or dismissal of investment consultants and/or other outside professionals,
- receive and review reports from management, investment consultants and/or other outside professionals, if any,
- periodically meet with management, investment consultants and/or other outside professionals,
- convene regularly to evaluate whether this Policy, investment activities, risk management controls and processes continue to be consistent with meeting the goals and objectives set for the management of investment funds, and
- Review the Investment Policy Statement periodically.
- Review investment statements quarterly.

### **3. Responsibilities of Management**

Management shall be responsible for the day-to-day administration and implementation of policies established by the Board and/or the Investment Committee concerning the management of investment funds. Management shall also be the primary liaison between any investment consultants, investment managers, and/or other outside professionals that may be retained to assist in the management of such funds. Specifically, management shall:

- oversee the day-to-day operational investment activities of all investment funds subject to policies established by the Board and/or the Investment Committee.
- contract with any necessary outside service providers, such as: investment consultants, investment managers, banks, and/or trust companies and/or any other necessary outside professionals.
- ensure that the service providers adhere to the terms and conditions of their contracts; have no material conflicts of interests with the interests of MSBF; and performance monitoring systems are sufficient to provide the Investment Committee with timely, accurate and useful information.
- regularly meet with any outside service providers to evaluate and assess compliance with investment guidelines, performance, outlook and investment strategies; monitor asset allocation and rebalance assets, as directed by the Investment Committee and in accordance with approved asset allocation policies, among asset classes and investment styles; and tend to all other matters deemed to be consistent with due diligence with respect to prudent management of investment funds.
- comply with official accounting and auditing guidelines regarding due diligence and ongoing monitoring of investments. Prepare and issue periodic status reports to the Board and the Investment Committee.
- Review investment statements monthly.

### **III. Delegation of Authority**

To the extent it considers prudent, the Board may delegate management and investment decisions to one or more external agents, such as a bank, investment advisor, investment manager or custodian, except where prohibited by the terms of a gift instrument. The assets of the Portfolio will be managed by external investment managers. The Board will act in good faith and with the care an ordinarily prudent person in like position would exercise under similar circumstances in:

- (i) selecting, continuing or terminating any external agent (including assessing the agent's independence, including any conflicts of interest such agent has or may have);
- (ii) establishing the scope and terms of the delegation, including the compensation to be paid; and
- (iii) monitoring the agent's performance and compliance with the scope and terms of the delegation.

The Board, in making the decision as to whether to delegate such functions to a specific external agent, shall conduct such due diligence as the Board deems appropriate, such as reviewing

information regarding the external agent's experience, personnel, track record and proposed compensation as compared to appropriate peers. Any external agent to which management and investment authority is delegated owes a duty to MSBF to exercise reasonable care, skill and caution to comply with the scope and terms of the delegation.

Any external agents shall provide the Board with reports on investment performance on an annual basis, at a minimum, and more frequently if requested by the Board. The Board will assess at least annually the performance and independence of any external agent, including any conflicts of interest it may have.

MSBF will seek to ensure that any investment managers retained to invest MSBF's assets in accordance with this Policy and any specific guidelines for the investment manager established by the Board, which may include return and risk expectations, asset allocations and investment strategies (including allowed and prohibited investments). Specific guidelines established for investment managers will be reviewed from time to time by the Board and revised as necessary.

With respect to investments in non-mutual and non-pooled funds, whereby the investment manager constructs a separate, discretionary account on behalf of MSBF, the general guidelines set forth below apply. Although the Investment Committee cannot 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 like that of MSBF. However, all managers (pooled/mutual or separate) are expected to achieve the performance objectives.

#### **Investment Manager Responsibilities**

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 full investment discretion about market timing and security selection, consistent with this Policy and subject to the prudence standards under Michigan's Uniform Prudent Management of Institutional Funds Act (herein "MIUPMIFA").
- c. The investment manager shall 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. There shall be no investments in non-marketable securities.
- f. There shall be no purchase that would cause a position in the portfolio to exceed 5% of the total issue outstanding.

#### **IV. Investment Considerations**

In accordance with MSBF's understanding of MIUPMIFA, the Investment Committee must consider the purposes of both MSBF and its assets in managing and investing funds. All individuals responsible for managing and investing MSBF's investment funds must do so in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances.

## **V. Objectives**

The primary objective of each fund is to preserve capital and provide long-term growth, without undue exposure to risk. A secondary focus shall be placed on income generation to assist in providing for MSBF distributions. Due to the inevitability of short-term market fluctuations, which may cause variations in the investment performance, it is intended that the performance objectives will be achieved over a moving five-year period.

The long-term total return objective for each fund shall be to exceed the Consumer Price Index by at least 5% annually, with the lowest volatility as indicated by standard deviation. The asset allocation shall be monitored on an ongoing basis and reviewed annually. The asset allocations (including target positions for each Portfolio) are specified in Appendix A, as updated from time to time by the Board. Asset class and rebalancing guidelines are specified in Appendix B.

In the event of severe economic or market conditions, which would negatively impact MSBF, the investment manager may deviate from the stated asset structure upon receiving written approval from the Chair of the Investment Committee. Any other deviations must first be communicated to, and approved by, the Investment Committee.

## **VI. Expenditure of Investment Funds**

All decisions relative to the expenditure of investment funds must assess the uses, benefits, purposes and duration for which the investment fund was established, and, if relevant, consider the factors:

1. the duration and preservation of the investment fund;
2. purposes of MSBF and the fund;
3. general economic conditions;
4. possible effect of inflation or deflation;
5. expected total return from income and appreciation of investments;
6. other organizational resources;
7. all applicable investment policies; and
8. where appropriate, alternatives to spending from the investment fund and the possible effects of those alternatives.

For each decision to appropriate investment funds for expenditure, a contemporaneous record should be kept and maintained describing the nature and extent of the consideration that the appropriate body gave to each of the stipulated factors.

Spending policies for each of the investment portfolios are specified in Appendix C.

## **VII. Donor Restrictions**

In all instances, donor intent shall be respected when decisions are rendered concerning the investment or expenditure of donor restricted funds. Any attempt to lift restrictions on any fund shall be conducted in full compliance with the law.

*Original Adopted by the Board of Directors September 18, 2024*

## Appendix A

### ATJ Portfolio, IOLTA Portfolio and MSBF General Portfolio Asset Allocation

The asset allocation shall be monitored on an ongoing basis and reviewed annually. The need for rebalancing is to be reviewed by the investment manager at least quarterly.

The following applies to all portfolios:

| <b>Type of Securities</b>           | <b>Target</b>   |               | <b>Benchmark</b>                       |
|-------------------------------------|-----------------|---------------|--|
|                                     | <b>Position</b> | <b>Range</b>  |  |
| <b>Equities</b>                     | <b>70%</b>      | <b>65-75%</b> |  |
| Passive Domestic Equities           | 42%             |               | CRSP US Total Market Index             |
| International Equities              | 28%             |               | FTSE Global All Cap ex-US Index        |
| <b>Fixed Income</b>                 | <b>30%</b>      | <b>25-35%</b> |  |
| 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      |
| International Bonds                 | 9%              |               | Barclays Global Aggregate Ex-USD Index |

#### **Investment Manager Responsibilities:**

Equities

Fixed Income:

#### **Manager Universe**

US All Cap Core Equity

Foreign Large Blend Equity

Intermediate Term Bond

Intermediate Investment Grade Bond

Short Investment Grade Bond

Foreign Bonds

## **Appendix B**

### Asset Class and Rebalancing

#### **Equity Guidelines**

- a. Where individual securities are used, each investment manager must ensure 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 MSBF and consistent with the investment objectives contained herein.
- c. For diversification purposes, each manager's equity portfolio should have more than 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% of bond investments below investment grade (Baa/BBB). Split-rated issues will be governed by the lower rating. If 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 Portfolios.

#### **Rebalancing Guidelines**

It is expected that the funds actual asset allocation will vary from its target asset allocation because of the varying periodic returns earned on its investments in different asset and sub-asset classes. The funds will be re-balanced to its target 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 to evaluate deviation from these ranges.

## Appendix C

### Spending Policies

#### **ATJ Fund Portfolio:**

Pursuant to the Access to Justice Fund Financial Guidelines, the investment assets of the ATJ Fund are divided into two portfolios, the ATJ Fund Endowment Portfolio and the ATJ Fund Operations Portfolio. The portfolios may be combined for investment purposes. These portfolios have the following spending policies:

1. ATJ Fund Operations Portfolio - MSBF may make periodic withdrawals to support charitable purposes consistent with the ATJ Fund Program.
2. ATJ Fund Endowment Portfolio - Endowment funds available for spending are determined by the Foundation using a total return system. The spending policy will use the average 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 incomes 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.

#### **IOLTA Portfolio:**

MSBF will make periodic withdrawals from its investment portfolio to support its charitable purposes. IOLTA funds are available for spending for permissible purposes in alignment with the IOLTA Program. Spending of IOLTA fund reserves are subject to the IOLTA Grant Stabilization/Emergency Issues Reserve Fund Policy, as adopted by the Board.

#### **MSBF General Portfolio:**

MSBF will make periodic withdrawals from its investment portfolio to support its charitable purposes and operating expenses. MSBF General Portfolio funds are available for spending. Spending of MSBF reserves are subject to the Operating Reserve Fund Policy, as adopted by the Board.