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## EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL INVESTMENT POLICIES

### INTRODUCTION

The purpose of these policies is to provide the *Exxon Valdez* Oil Spill Trustee Council (the "Council") with a comprehensive set of guidelines for the proper management of its investment decisions. Pursuant to its responsibilities to administer natural resource damage recoveries from the Exxon Valdez oil spill, the Council must follow a procedurally prudent process when investing the Joint Trust Fund assets. Prudence is based on the conduct of the Council in managing the assets, and is evaluated by the *process* through which risk is managed, assets are allocated, custodians and managers are chosen, and results are supervised and monitored.

Today's standard of prudence places the emphasis on responsibilities related to the investment portfolio and its purpose, rather than on investment performance. The Council has the responsibility for the general management of the Joint Trust Fund's assets. It is responsible for setting and managing the Joint Trust Fund's investment policy. The Council is not an investment manager or investment specialist and is not responsible for the ultimate investment results. Although it is not possible to guarantee investment success, following the process outlined herein will significantly improve the odds of structuring an investment portfolio which will stand up to public scrutiny and benefit the Joint Trust Fund by providing an acceptable long-run return.

### COUNCIL RESPONSIBILITIES IN GENERAL

Through a 1991 settlement of natural resource damage claims in *State of Alaska v. Exxon Corporation, et al., No. A91-083 CIV*, and *United States of America v. Exxon Corporation, et al., No. A91-082 CIV*, the State of Alaska and the United States, acting through trustees for natural resources injured by the Exxon Valdez oil spill ("Trustees"), are to jointly receive \$900,000,000 in damages payable over a term of years. A substantial portion of these damages are required to be segregated and used by the governments for purposes of restoring, replacing, enhancing, rehabilitating or acquiring the equivalent of natural resources and services lost or injured as a result of the oil spill. These monies, and the interest earned on them, are to be placed in a "Joint Trust Fund" administered by the Trustees. An integral part of this responsibility is to provide prudent and productive investment management of Joint Trust Fund assets and any other receipts as provided either by law or a decision of a Court of law.

A separate Memorandum of Agreement and Consent Decree (the MOA) entered into by the State of Alaska and the United States in *Civil Action No. A91-081*, described the co-

management of these natural resource damage recoveries. The MOA specifies that the following officials act on behalf of the public as Trustees:

***State of Alaska Members:***

- Attorney General, State of Alaska;
- Commissioner, Alaska State Department of Environmental Conservation;
- Commissioner, Alaska State Department of Fish and Game;

***U.S. Government Members:***

- United States Secretary of Agriculture;
- United States Secretary of the Department of the Interior; and
- Administrator of the National Oceanic and Atmospheric Administration, United States Department of Commerce.

Subsequently the Council was created by the Trustees to manage the co-trustee relationship required under the MOA. The authority of the Council is governed by a 1992 Memorandum of Understanding (“MOU”) between the state and federal Trustees. Under the terms of the MOA and MOU, all matters before the Council which require a vote, make a recommendation, approve or disapprove an item, or otherwise render a decision shall require the unanimous agreement of the six Council members or their designees.

The Council is responsible for the management of the Joint Trust Fund’s assets. The Council has broad authority to engage experts and to delegate its investment responsibilities, as it deems appropriate. The Council, when formulating investment policies, has obligated itself to review the recommendations from the Executive Director. The Executive Director will consult with the Investment Working Group (IWG) and such other consultants as the Council may retain from time to time. The IWG consists of one state and one federal Council member or designee, as determined by the Council, and appropriate state and federal officials and at least two investment experts, who are selected by the Executive Director. At least two members of the IWG must have experience and expertise in financial management and the management of institutional investment portfolios.

The Joint Trust Fund is currently held in the registry of the United States District Court and invested by the Court Registry Investment System. In 1999 Public Law 106-113 was enacted, allowing the Joint Trust Fund to be invested in accounts outside the United States Treasury. Under that legislation, such outside investments are limited to income-producing asset classes, including debt obligations, equity securities, and other instruments or securities that have been determined by unanimous vote of the Council to have a high degree of reliability and security. The Joint Trust Fund is also to be managed and allocated consistent with the Resolution of the Council adopted March 1, 1999 concerning the Restoration Reserve.

## **MISSION STATEMENT**

The Council shall establish policy, set direction, and provide oversight and stewardship for the prudent investment and management of the Joint Trust Fund.

## **INVESTMENT OBJECTIVES IN GENERAL**

1. Achieve superior administrative and investment performance on a consistent basis when measured against a national universe of public funds.
2. Actual returns will equal or exceed target returns over time while limiting total risk to that which is appropriate to the investment time horizon.
3. Use the best known processes consistent with the Council goals and objectives, specifically but without limitation:
  - Good financial reporting;
  - Good custodian selection and evaluation;
  - Good manager selection and evaluation;
  - Asset allocation; and
  - Awareness of new investment alternatives.
4. Use excellent management practices, as evidenced by:
  - Staff longevity;
  - Independence; and
  - Education and training.
5. Regularly communicate the investment goals, objectives and performance results with the public.

## **STATUS**

Section 311(f) of the Federal Water Pollution Control Act, as amended 33 U.S.C. 1321 (f) establishes liability to the United States and to States for injury, loss, or destruction of natural resources resulting from the discharge of oil or the release of hazardous substances or both and provides for the appointment of State and Federal Trustees.

The Memorandum of Agreement and Consent Decree (MOA) entered into by the State of Alaska and the United States in Civil Action No. A91-081, governs the use of the natural

resource damages, paid by Exxon. The State and Federal Governments act as co-trustees in the collection and joint use of all natural resource damage recoveries for the benefit of natural resources injured, lost or destroyed as a result of the 1989 *Exxon Valdez* oil spill.

The terms of the settlement are contained in the Agreements and Consent Decrees entered into by the State of Alaska and Exxon Corporation Civil Action No. A91-083, and United States of America and Exxon Corporation Civil Action No. A91-082.

The United States Congress in Public Law 102-229 recognized the MOA and Consent Decree. Alaska State Legislature recognized the MOA and Consent Decree in AS 37.14.400.

Pursuant to Public Law 106-113, Joint Trust Funds may be deposited in the Natural Resource Damage Assessment and Restoration Fund and/or accounts outside the United States Treasury. The law requires that the funds are invested only in income-producing obligations and other instruments or securities that have been determined unanimously by the Council to have a high degree of reliability and security.

Guidance regarding the authorities and responsibilities of agencies that receive Joint Trust Funds is incorporated in the Procedures of the *Exxon Valdez* Oil Spill Trustee Council, adopted August 29, 1996.

### **ADMINISTRATION**

The Executive Director and the Trustee Council Office manage the day-to-day administrative functions of the Council, and report directly to the Council. The 1993 Agreement between the State of Alaska and the *Exxon Valdez* Oil Spill Trustee Council requires that the State create and assign an exempt position, designated as the Executive Director of the *Exxon Valdez* Oil Spill Trustee Council, to be responsible to the Council. The State is further required to create and assign exempt positions from the State service to be responsible to the Executive Director for such senior positions under the Executive Director as are approved by the Council.

Any person appointed to the position of Executive Director to the Council shall serve at the pleasure of the Council and may be removed from the position only upon the unanimous vote of all members of the Council. Any person appointed to a senior staff position by the Executive Director shall serve at the pleasure of the Executive Director. Removal of any of these individuals, including the Executive Director, need not be based on cause and no property or other interest in continued employment is or may be created. An organization chart of the Trustee Council Office is shown on Table 1.

The Executive Director of the *Exxon Valdez* Oil Spill Trustee Council shall engage experts and contract for investment services, as the Council deems appropriate. This may involve entering into 'reimbursable services agreements' with State and/or Federal agencies (e.g., the Alaska

Department of Revenue and/or the United States Department of the Interior) for personal services costs and associated contractual costs.

### **GENERAL RESPONSIBILITIES FOR THE PARTIES**

Without limitation of any fiduciary, administrative, or other responsibilities, implied or expressed herein, the parties shall have the following responsibilities for the proper management and administration of the Joint Trust Fund. The parties shall include:

- Trustee Council
- Executive Director/Trustee Council Office Staff
- Investment Working Group
- Auditor
- Legal Counsel
- Bank Custodian(s)
- Investment Consultant(s)
- Investment Managers

#### ***Trustee Council***

- Adopt prudent investment goals and objectives;
- Adopt an appropriate asset allocation strategy;
- Select one or more consultants, bank custodians, external investment managers, and legal counsel who may include the Alaska Department of Law and the United States Department of Justice;
- Control investment and administrative expenses, and incur only those costs that are reasonable in amount and appropriate to the investment responsibilities of the co-trusteeship;
- Provide for an annual, independent audit of the Joint Trust Fund's financial statements;
- Provide for an independent review of investment performance;
- Develop an annual budget;
- Adopt and implement an investment education policy;
- Report financial and investment policies and performance to the public; and
- Avoid conflicts of interest, and conform to the fundamental fiduciary duties of loyalty and impartiality.

#### ***Executive Director/Trustee Council Office Staff***

- Maintain responsibility for the administration and management of the Trustee Council Office;
- Facilitate staff, which performs the administrative functions of the Council and ensures compliance with State and Federal law, the Memorandum of Agreement and Consent Decree, and the Memorandum of Understanding;
- Recommend budget strategies and proposals to the Council;
- Coordinate all administrative matters of the Council, including meeting agendas;

- Make recommendations concerning policies, investment strategies, and procedures in consultation with the Investment Working Group;
- Advise the Council regarding the selection of custodians, an investment consultant, and investment managers in consultation with the Investment Working Group;
- Account for and report on the investment activity of all funds under the investment responsibility of the Council;
- Advise the Council on the evaluation of investment policies and performance of the portfolios in consultation with the Investment Working Group;
- Develop, recommend and implement internal control policies and procedures in consultation with the Investment Working Group to ensure all investment assets are safeguarded;
- Monitor investment managers and custodians for compliance with investment policies established by Council; and
- Recommend and maintain the information systems adequate to fulfill the accounting, monitoring, investing, cash management and other information needs of the Council, in consultation with the Investment Working Group.

#### ***Investment Working Group***

- Review investment policies, strategies and procedures;
- Make recommendations to the Executive Director concerning policies, investment strategies and procedures;
- Advise the Executive Director regarding the selection of custodians, an investment consultant, and investment managers;
- Provide other advice as requested by the Executive Director;
- Attend the asset allocation and investment manager performance review meetings of the Council;
- Brief the Council at the Executive Director's request and/or at the request of a member of the Investment Working Group;
- Act as "prudent expert" on behalf of the Executive Director;
- Develop and recommend investment policy and strategy to the Executive Director;
- Develop and recommend internal control systems and procedures to the Executive Director to ensure all investment assets are safeguarded;
- Recommend to the Executive Director information systems adequate to fulfill the accounting, monitoring, investing, cash management and other information needs of the Council; and
- Advise the Executive Director on the evaluation of investment policies and performance of the portfolios.

#### ***Auditor***

- Measure and validate financial statements and management of the Joint Trust Fund;

<b><i>Background Note:</i></b>
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The auditor is selected by the Council. However, the Council does not have a direct say over the work of the auditor because audits are based upon an independent review of financial statements consistent with the standards prescribed by the American Institute of Certified Public Accountants in conformance with generally accepted accounting principles and Government Accounting Standards Board guidelines.

***Legal Counsel***

- Provide legal assistance and advice to the Council as required.

***Bank Custodian***

- Provide safekeeping and custody of all securities purchased by managers on behalf of the Council;
- Provide for timely settlement of securities transactions;
- Maintain short-term investment vehicles for investment of cash not invested by managers;
- Check all manager accounts daily to make sure that all available cash is invested;
- Collect interest, dividend and principal payments on a timely basis;
- Process corporate actions on a timely basis;
- Price all securities at least on a monthly basis, preferably on a daily basis contingent on asset class and types of securities;
- Lend securities at the direction of the Council;
- Value and monitor derivatives and the trades from which they emanate;
- Provide monthly, quarterly and annual reports;
- The Custodians generally are asked to provide data and reports directly to the Council and service providers on a regular basis; and
- Provide continuing education programs for the Council.

***Investment Consultants***

- Recommend strategic procedures and process;
- Identify problems, issues and opportunities and makes recommendations;
- Upon the request of the Council, prepare an asset allocation study together with alternatives;
- Assist with manager structure, selection, monitoring and evaluation;
- Monitor and evaluate the overall performance of the portfolio;
- Carry out special projects at the request of Council; and
- Provide continuing education to the Council and staff, as appropriate.



***Background Notes:***

The Council selects and appoints investment consultants to provide objective, independent third-party advice on specific investment classes, including debt and equity securities, real estate, alternative investments, and other areas where focused attention is needed. Investment consultants do not accept discretionary decision-making authority on behalf of Council. Investment consultants function in a research, evaluation, education and due diligence capacity for Council and are fiduciarily responsible for the quality of the service delivered.

***Investment Managers***

- Act as a “prudent expert” on behalf of the Council;
- Develop a portfolio strategy within the specific mandate and asset size determined by the Council;
- Manage, purchase and sell assets for the portfolio; and
- Act as a co-fiduciary for assets under its management.

**RESPONSIBILITIES OF THE COUNCIL**

The statutory responsibility of the Council is to invest Joint Trust Fund monies in income-producing obligations and other instruments or securities that have a high degree of reliability and security. Although it is a matter of debate whether the Joint Trust Fund is a true trust or simply a misnomer for public money restricted to a particular use, the statutory responsibilities of the Council in the management of the Joint Trust Fund are best defined through analogy to the Restatement (Third) of Trusts which indicates that trust property shall be made productive with primary emphasis on the preservation of capital and due consideration for the maximization of income. When investing trust property, the trustee has a duty to conform to the terms of the trust, and to conform to applicable law in the absence of provisions in the trust. In the absence of contrary law or trust provisions it imposes the standard of the “prudent investor” which

*“ . . . requires the exercise of reasonable care, skill, and caution, and is to be applied to investments not in isolation but in the context of the trust portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the trust.”*

Restatement (Third) of Trusts, §277

The standard of the “prudent investor” has been viewed as approving a portfolio theory of investments but does not impose a duty to maximize income. Indeed, the standard gives primary emphasis to preservation of the trust estate, while receiving a *reasonable* (emphasis added) amount of income rather than incur undue risks. Only where all else is equal should the trustee choose the investment that produces the greater return. In addition, the trust must be invested in such a way that the purpose of the trust is not thwarted. It is therefore imperative

that investment policies and asset allocation strategies adopted by the Council reflect the underlying purposes and intent of the Joint Trust Fund.

Looking to the Restatement (Third) of Trusts, therefore, the responsibilities of the Council can be summarized as follows:

1. Take all actions for the sole benefit of the Joint Trust Fund.
2. Prepare written investment policies and document the process. In doing so the Council shall:
  - Determine the mission and objectives of the Joint Trust Fund;
  - Choose an appropriate asset allocation strategy;
  - Establish specific investment policies consistent with the Joint Trust Funds' objectives; and
  - Select investment managers to implement the investment policy.
3. Diversify assets with regard to specific risk and return objectives appropriate to the intended use of the Joint Trust Fund.
4. Use "prudent experts" to make investment decisions.
5. Control investment expenses.
6. Monitor the activities of all investment managers and investment consultants.
7. Avoid conflicts of interest.

The Council and staff should regularly undertake continuing education relevant for their duties. Specifically, all Council members and key staff should participate in an educational program, which provides basic instruction on the four primary components of the investment management process:

- Investment responsibility and procedural process;
- Developing investment policy guidelines and designing optimal investment manager structures;
- Implementing investment policy; and
- Monitoring and controlling an investment program.

### **INDEMNIFICATION**

State law, [AS 37.10.071(e)] provides that the State shall indemnify fiduciaries of a state fund or an officer or employee of the state against liability under AS37.10.071(d) for breach of a statutory duty in exercising investment, custodial, or depository powers or duties to the extent

that the alleged act or omission was performed in good faith and was prudent under the applicable standard of prudence. However, actions which do not fall within the area of good faith and prudent practices are not statutorily entitled to indemnification. Indemnification language consistent with AS 37.10.071(e) as well as the desire of State trustees to hold retained investment managers and other retained fiduciaries to high standards are included in contract language with such retained consultants.

The Trustee Council may wish to ensure that trust assets and its own services are protected and in that respect may purchase insurance or provide for self-insurance to cover the acts including fiduciary acts, errors and omissions of its members and agents.

As a general matter, the Attorney General has advised members of State boards analogous to that of the Council that it would act in defense of such board member actions consistent with the provisions of AS 37.10.071(e), or would retain counsel to act in that regard. There are no comparable indemnification provisions under federal law. Federal employees are normally represented by the United States Department of Justice in litigation arising out of their official duties.

A fiduciary of a state fund under Alaska law relating to the Council would be each person provided by law to manage investments in an account invested by the State of Alaska (AS 37.10.071(f)(3)). In this respect, the consultants retained by State trustees are not fiduciaries per se and as such are not entitled to the cross-indemnification for acts which were taken in good faith or within the scope of prudent behavior under AS 37.10.071. However, such consultants would certainly be held to a standard of care applicable to their standards of professional responsibility, and liability and a requirement to indemnify the Joint Trust Fund may be built into contracts. Auditors and investment consultants are not fiduciaries of a state fund within the statutory definition of AS 37.10.071(f). However, a custodial bank may have certain fiduciary obligations to the extent that, for example, it is involved in short-term cash management and securities lending functions if such services are utilized.

### **DELEGATION OF AUTHORITY**

The Council, through the appropriate state and/or federal agencies, may contract for investment, custodial or depository services on a discretionary or non-discretionary basis to the State and Federal governments and their employees, or to independent investment management firms, banks, financial institutions or trust companies by designation through appointments, contracts or letters of authority.

### **CODE OF ETHICS AND CONFLICTS OF INTEREST**

The State trustees and employees of the Trustee Council Office are subject to the Alaska Executive Branch Ethics Act (AS 39.52). In general, the State law provides that high moral and ethical standards are essential for the conduct of free government and that a Code of Ethics for the guidance of public officers will discourage those officers from acting upon personal or financial interests in the performance of their public responsibilities, and will improve standards for public service and promote and strengthen faith and confidence in public officers.

The State Code of Ethics provides that any effort to benefit a personal or financial interest through official action is a violation. The Code details specific prohibitions pertaining to the abuse of official position, acceptance of gifts, improper use of disclosure of information and improper influence. By law, the State trustees are subject to conflict of interest disclosure requirements of AS 39.50 which includes the delivery of annual reports on financial and business interests to the Alaska Public Officers Commission.

All federal government employees are subject to the standards of conduct provided by the Ethics in Government Act of 1978, Public Law 95-521, as amended, including the Ethics Reform Act of 1989, Public Law 101-194. The statutory prohibitions are found in Title 18 of the United States Code, Sections 201 through 209, which include representational activities, conflict of interest, and dual compensation. Standards of conduct for all government employees are also delineated by Executive Order 12674, as amended by Executive Order 12731. The federal standards of conduct are further delineated in the regulations of the Federal Register, and include acceptance of gifts from outside sources; gifts between employees; gifts from foreign sources; acceptance of travel and related expenses; outside work; honoraria; outside activities; political activity; lobbying; procurement; misuse of government time, equipment, and information; nepotism; negotiating for non-federal employment; post employment; disclosure of financial interests; and penalties. The Department of the Interior, Commerce and Agriculture have additional ethics standards and requirements for all of their employees, including annual training and financial disclosure statements for specific persons, which include members of the Trustee Council.

### **STRATEGIC ASSET ALLOCATION POLICY IN GENERAL**

The Council recognizes that strategic asset allocation is the single most important policy decision affecting portfolio return and risk. At least annually, the Council will evaluate its current strategic asset allocation policies. The current policies will be compared with potential alternative policies on a consistent basis.

The specific status of the Joint Trust Fund, including funding status, earnings assumptions, liquidity requirements, and expected growth shall be considered. The Council's investment consultant will use a "mean variance" optimization approach to evaluate the current and alternative policies. The specific inputs to the modeling process will be defined and contrasted with actual historic results. The implications for expected return and risk will be considered

over multiple time horizons. The development of optimized asset allocations requires estimates of risk (standard deviation of returns for each asset class), the modeled return for each asset class, and the correlations of each asset class with other asset classes. The strategic analysis will include those asset classes for which the Council believes reasonable inputs are available. Asset subsets where meaningful historic data are not available shall not be considered as a part of the strategic asset allocation analysis. Such subsets or categories, however, may be included as part of an appropriate broad asset category.

### ***Manager Structure***

Within each major asset category, the Council will determine an appropriate management structure. The structure analysis will consider the potential benefits, risks and costs associated with utilizing active versus passive investment approaches, varied investment philosophies and approaches and vendor diversification.

For each major asset category, the Council will strive to achieve a structure that assures potential exposure to the entire asset category. Particular emphasis, however, may be placed on those subcategories or approaches where the Council has determined the potential benefits are superior to alternative approaches. For example, with respect to international exposure, the management structure may result in a systematic asset allocation bias in favor of developed markets and a corresponding bias against emerging market. Similarly, with respect to domestic equities, the structure decisions may result in a slight bias in favor or against a particular investment style. All such decisions shall be conscious decisions. Unless explicitly decided to the contrary, assets within each major asset category shall be allocated among managers so as to achieve broad diversification and aggregate return and risk profiles similar to the broad market.

At least annually, the Council shall review its management structure to ascertain that desired diversification is being achieved. The Executive Director, in consultation with the IWG, staff, and investment consultants shall prepare such analysis and recommendations for the Council's consideration.

### ***Manager Selection***

A rigorous, objective due diligence process will be utilized in the selection of all investment managers retained by the Council. The analysis will be conducted by the Council's investment consultant. The managers' roles in the Council program and specific evaluation criteria will be defined prior to the identification of potential candidates. Candidates will be evaluated both quantitatively and qualitatively.

- Quantitative factors will include a comprehensive analysis of historic performance over a variety of market environments. Candidate performance will be evaluated relative to appropriate market indices and peer groups. Candidates will be analyzed to determine whether portfolio construction has adhered to their stated investment styles.

- Qualitative factors such as ownership structure, depth of staff, professional expertise, experience managing comparable portfolios, key employee incentives, stability, and potential conflicts of interest also will be considered.

The consultant will identify a semi-finalist group of candidates. All semi-finalists will be judged by the consultant as capable of meeting the Council's needs. The Council will interview all or a portion of the semi-finalist group and make the final selection. The IWG's recommendations to the Executive Director shall be solicited as an integral part of this process.

#### ***Guidelines for Manager Termination***

The performance of the Council's investment managers will be monitored on an ongoing basis. The Council may place a manager on a "Watch List" or terminate a manager at any time. The Council may, by separate resolution, adopt specific criteria to be utilized in identifying developments, which would cause a manager to be placed on a "watch list" and removed from such a list.

#### ***Securities Lending***

The Council may enter into a securities lending arrangement with an agent(s) when the Council concludes that such arrangements would be beneficial to the Joint Trust Funds. Securities lending services may be provided by the Council's bank custodian or an independent service provider. Securities lending programs result in the agent undertaking a direct or indirect asset management function. The Council will use the same skill and due diligence in the evaluation and selection of such agent(s) as utilized in the selection of money managers.

#### ***Rebalancing Guidelines***

The Council may periodically instruct staff to shift and/or limit staff's authority to shift assets within asset classes and/or among asset classes. Unless restricted by Council action, the Executive Director or an appropriate designee shall have discretion to move assets among investment managers and asset categories provided that such actions are consistent with movement of the actual asset allocation within the variability bands of the Council's strategic asset allocation policy and manager structure targets. Such adjustments to the actual asset allocation may be made without prior Council approval when the actual asset allocation falls outside of the variability target bands at end of a calendar month. The Executive Director shall make the necessary adjustments to the initial target allocation within 30 calendar days. Staff shall report any asset shifts at the next regular Council meeting. Such reports will include a description of the rationale for the shift.

### **INDIVIDUAL ACCOUNT PROGRAM OBJECTIVES**

The Council is responsible for the prudent investment of the Joint Trust Fund within the defined purpose and investment objectives of each program mandated by law and policies of the Council. The Council anticipates that the Joint Trust Fund (Restoration Reserve), along with

other unallocated funds and accrued interest, will have a fair market value of approximately \$170 million on or about October 1, 2002. Consistent with the March 1, 1999 resolution funds in the Restoration Reserve and other remaining unobligated settlement funds available October 1, 2002, shall be allocated in the following manner:

- \$55 million of the estimated funds remaining on October 1, 2002 and the associated earnings thereafter will be managed as a long-term funding source, with a significant proportion of these funds to be used for small parcel habitat protection.; and
- The remaining balance of the funds on October 1, 2002 will be managed so that the annual earnings, adjusted for inflation, will be used to fund annual work plans that include a combination of research, monitoring, and general restoration.

Consequently, the Joint Trust Fund has a twofold investment mandate: (1) short-term liquidity for ongoing habitat restoration purposes, including the probable acquisition of lands, and (2) a long-term endowment to generate future income. Future land purchases are subject to ongoing negotiations and the timeline of their corresponding investments cannot be determined until such negotiations are concluded. The investment horizon of these funds would change based upon the probable acquisition date.

Each program mandate shall be evaluated relative to an appropriate market benchmark and also relative to an appropriate peer group of competitive alternatives. The number of investment options and the market benchmarks shall be determined by the Council.

## **STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES**

### ***Introduction***

The Council hereby establishes the following Statement of Investment Objectives and Policies ("the Statement") for the investment of the Joint Trust Fund. The Council assumes full and complete responsibility for establishing, implementing and monitoring adherence to the Council's policies. The Council reserves the right at any time to amend, supplement or rescind this Statement.

### ***Investment Objectives***

- Provide adequate liquidity for ongoing restoration purposes.
- Preserve the inflation-adjusted value of invested capital on endowment funds.
- Realize competitive, total rates of return.
- Incur minimum levels of risk that are appropriate to other long-term investment objectives.

### ***Time Horizon***

- Establish short and long-term investment objectives

- Evaluate performance over one-, three-, and five-year time periods, with primary emphasis for endowment funds placed on the longer time periods.

### ***Benchmarks***

Given the investment objectives and time horizons of the Joint Trust Fund, benchmarks are established to gauge progress towards their achievement. The benchmarks are as follows:

- Variability of total market value. The percentage change in the market value shall be contrasted to that expected from normal investment strategy.
- Competitive rates of return. (Unless specified otherwise, the following benchmarks are based on time-weighted rates of return.)
  1. For liquidity purposes, total annualized returns equal to inflation as measured by the U.S. Consumer Price Index of all Urban Wage Earners.
  2. For endowment purposes, the total annualized returns shall be established by separate resolution and shall be in excess of inflation as measured by the U. S. Consumer Price Index of all Urban Wage Earners.
  3. Total annualized returns should equal or exceed the return on a *passively* managed (market index based) portfolio with the same asset mix as the normal strategic asset mix.
  4. Total Joint Trust Funds' annualized returns should exceed the median return on an *actively* managed portfolio with the same asset mix as the normal strategic asset mix and comparable risk.
  5. The time-weighted, total rates of return shall be compared to the total rates of return for similar public funds.
- Passively Managed Strategic Benchmark. Performance shall be compared on a quarterly basis to that of a passively managed strategic benchmark. On a biannual basis, performance will be presented to the Council. However, the main purpose of this comparison shall be to contrast the long-term, actively-managed, pre-investment fee performance results versus that of a passively managed portfolio with an asset mix identical to the normal strategic asset mix. The passively managed strategic benchmarks shall be as follows:

<b>Asset Class</b>	<b>Market Indexes</b>
Cash	90-Day U.S. Treasury Bills
Broad Domestic Equity	Russell 3000 Index
Domestic Large Cap	S&P 500 Index
Domestic Small Cap	Russell 2000 Index
International Equity	EAFE Index
Domestic Fixed Income	Lehman Aggregate Index
Intermediate Fixed Income	Lehman Intermediate Gov't Index
International Fixed Income	Salomon Non-Dollar Gov't Bond Index



On a quarterly basis, an independent contractor shall calculate the *passively* managed strategic benchmark by multiplying the respective index total return times the normal strategic asset mix percentage. These statistics will be summed to generate a weighted average total passively managed benchmark return. For periods longer than one quarter, the quarterly returns, in factor form, will be chain-linked. In the case of periods longer than one year, the return shall be annualized.

- Actively Managed Strategic Benchmark. On a quarterly basis, an independent contractor shall calculate the *actively* managed strategic benchmark by multiplying the median actively managed portfolio return for each asset class segment times the normal strategic asset mix percentage. These statistics will be summed to generate a weighted average total actively managed benchmark return. For periods longer than one quarter, median returns for each asset class segment shall be determined for the length of the period and then multiplied times the appropriate normal strategic mix percentage. Those statistics will also be summed to generate a weighted average total actively managed strategic benchmark return.
- Asset Class Segments. To maintain an efficient risk/return profile and for the purpose of setting objectives and policies for the different asset classes, assets shall be structured into domestic equity, international equity, domestic fixed income, and international fixed income segments. Collectively and/or individually, portfolios shall be called Managed Account(s), whether the investments are direct or through units of commingled funds. Managed Account investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent investor acting in a like capacity and familiar with these matters would use in the conduct of Trust Funds of like character and with like aims.