

**Massachusetts Dental Society
Investment & Fiscal Policies**

Developed by:

2004 MDS Budget and Fiscal Planning Committee

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MASSACHUSETTS DENTAL SOCIETY

MDS Vision Statement

The Massachusetts Dental Society: the recognized leader for the enhancement of oral health and the profession.

MDS Mission Statement

The Massachusetts Dental Society is the organization dedicated to improving the oral health of the public and professional development of its member dentists through initiatives in education, advocacy, and promotion of the highest professional standards.

Strategic Goals and Objectives

Five strategic goals were established for the Massachusetts Dental Society. The first four – public health and well being, integrity and ethics of the profession, membership, and education – address the needs of the public and MDS members; the fifth – central administration – targets the needs of the organization.

GENERAL INVESTMENT & FISCAL POLICIES

The purpose of this investment and fiscal policy document is to be a dynamic instrument to provide a guide and focus for the Massachusetts Dental Society (MDS) and its investment advisor (advisors) regarding its general fiscal principles, investment objectives and overall policies that govern its financial arrangements, investment of holdings and budget considerations. It is intended that these policies and objectives provide meaningful direction in the management and supervision of the MDS investments and that they are not overly restrictive given changing economic, business and investment market conditions. These policies were developed with the expectation that there is an inherent volatility in any given portfolio. The intent is to preserve capital at risk and to realize returns that meet or exceed current acceptable benchmarks. It is also intended that this document be reviewed at least annually to ensure that appropriate modifications keep the guidelines up-to-date and relevant to the society's needs in light of current and emerging market conditions.

Fiscal Procedures and Policies

Board of Trustees – The Board approves the investment and fiscal policy statements for the Massachusetts Dental Society. It is responsible for the selection of the investment advisor/consultants upon the recommendation of the Budget and Fiscal Planning Committee with the advice of the Investment Subcommittee. The Budget and Fiscal Planning Committee recommends the confirmation of the investment manager to the Board upon the advice of the Investment Subcommittee.

Budget and Fiscal Planning Committee – *MDS Constitution and Bylaws*, Chapter VII – Regular Committees, Section 30 – Budget and Fiscal Planning Committee

A. Composition

There shall be appointed a Budget and Fiscal Planning Committee composed of the Treasurer as Chair, President Elect, Vice President, Assistant Treasurer, Secretary, and two other members appointed annually by the President in conjunction with the Treasurer. These two (2) other members shall be appointed to staggered two year terms such that no more than one (1) shall expire each year.

B. Duties

1. To prepare for the Board of Trustees the annual budget of the Society.
2. To investigate and recommend to the Board of Trustees an investment policy or changes in such policy when indicated to effect the financial growth of the Society.
3. To establish an investment policy for the employees pension plan* in consultation with the Executive Director, who will have a vote in these matters, and to recommend changes in such plan when indicated to effect the financial growth of this plan to benefit the employees.
4. To establish an Investment Subcommittee on retirement planning and investment trusts to assist the Budget and Fiscal Planning Committee in developing recommendations to the Board of Trustees on behalf of the membership. The Assistant Treasurer shall chair the subcommittee. The President, in consultation with the Treasurer, shall select three members from the Budget and Fiscal Planning Committee to serve on the subcommittee. The subcommittee may identify additional consultants and resources as necessary to accomplish its work.

*N.B. In December 2003 the staff purchase money pension plan was changed to a self-directed plan. By allowing employees to self-direct their Money Purchase balance, the fiduciaries have limited their liability. Section 404(c) of ERISA provides relief from fiduciary liability for retirement plans in which participants exercise independent control over their own plan investments.

However, it remains the fiduciary's responsibility under ERISA to exercise careful due diligence in the evaluation, selection, and ongoing monitoring of appropriate plan investment alternatives. Fiduciaries are relieved of liability for investment loss or performance related to participant investment decisions.

The plan uses the ING investment platform. This provides for monitoring of the investment options offered under the 401 (k) Platform. ING monitors the funds offered, with the help of Morning Star, to make sure they are meeting its standards. If they do not, ING will remove these funds from their 401 (k) platform.

Also, by using EDIA Financial Services to help us select the 401 (k) fund options, we have further reduced our fiduciary liability due to this expertise as investment advisors.

Nothing has changed on the required bonding of our Plan. ERISA requires that our plan be bonded (ERISA bond) for at least 10% of our total plan assets, with a minimum of \$1,000 and maximum bond of \$1,000,000.

MDS Constitution and Bylaws, Chapter V – Elective Officers, Section 160 –Duties of the Treasurer

It shall be the duty of the Treasurer:

- A. To be the custodian of all monies, securities and deeds belonging to the Society, and of all valuable papers, which may come into his/her possession, and to hold, invest, and disburse same as provided in these *Bylaws*.
- B. To approve and make authorized expenditures as provided in Chapter XII, *Section 50*, of these *Bylaws*.
- C. To be Chair of the Budget and Fiscal Planning Committee.
- D. To review and recommend action regarding applications for relief.
- E. To submit a written report at each regular session of the House of Delegates.

MDS Constitution and Bylaws, Chapter V – Elective Officers, Section 170 –Duties of the Assistant Treasurer

It shall be the duty of the Assistant Treasurer:

- A. To assist the Treasurer in the performance of his/her duties, as requested.
- B. To perform the duties of the Treasurer in his/her absence.
- C. To chair and serve as a member of the Investment Subcommittee that advises the Budget and Fiscal Planning committee.
- D. To perform such other duties as may be provided in these *Bylaws*.

Budgeting Process

The Massachusetts Dental Society attempts to function on a balanced budget philosophy. Each department or program budget is annually reviewed for appropriateness and funding. MDS programs and activities are linked to the MDS strategic plan in order to determine funding.

Each MDS department shall prepare an annual budget request after it determines its goals for the following year. Budgeting always follows long-range planning, establishment of goals and objectives. New programs or projects that need funding require approval by the House of Delegates.

The treasurer, in cooperation with the executive director, will prepare a preliminary budget document for consideration by the Budget and Fiscal Planning Committee, after input by

council/committee chairs and staff. The committee will utilize this preliminary document, make appropriate amendments to it and present a budget to the Board of Trustees for review and approval. The Board of Trustees shall review the revised master budget as prepared by the committee, make appropriate amendments to it, and shall present a final budget to the House of Delegates for consideration and approval.

During the course of the year, members, councils, committees, trustees, or the executive director requesting funds from the Board of Trustees's contingency fund shall make those requests in writing to the Board for consideration. The Board may evaluate these requests using similar criteria as in the master budget determination. All funds not expended during the year revert to the general fund and are not carried between budget years. The contingency fund shall be developed annually. It should not exceed 2% of the adopted current expense budget.

The Massachusetts Dental Society strives to maintain equity reserves (defined as the sum of the general fund, operating reserve fund and MDS reserve fund) of at least 30% of its annual budget of operating expenses. These reserves shall be invested in accordance with the Society's master statement of investment objectives.

The Society should annually budget for equipment maintenance and replacement of technology infrastructure.

The Massachusetts Dental Society owns and maintains its physical facility. Capital acquisitions and debt service should be carefully monitored and established in accordance with Society reserves.

The Massachusetts Dental Society shall maintain a line of credit up to 10% of the annual operating budget. The line of credit shall be reviewed annually.

INVESTMENT POLICY STATEMENT (IPS)

General Purpose

The purpose of this specific Investment Policy Statement (IPS) is to assist the Massachusetts Dental Society (Society) and Investment Advisor (Advisor) in effectively monitoring and evaluating the management of the Society's assets. The Society's investment program is defined in the various sections of the IPS by:

1. Stating the Society's expectations, objectives, and guidelines for the investment of its assets.
2. Establishing an investment structure for managing the Society's assets. This includes specific asset classes, investment management styles, 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.
3. Establishing criteria to select, monitor, evaluate, and compare the performance results achieved by the money managers on a regular basis.
4. Providing effective communications between the Society, Advisor, and membership

5. Complying with all applicable fiduciary, prudence and due diligence requirements experienced investment professionals would use, and with all applicable laws, rules, and regulations from various local, state, federal, and international political entities that may impact the Society's assets.

General Procedures

MDS should operate in a financially prudent manner for the interest and benefit of its members. Preservation of capital is the primary investment goal for the Society with growth of capital as the secondary objective. It is anticipated that the time horizon available for investment of funds is at least three to five years or an average market cycle. The Board of Trustees, upon recommendation of the Budget and Fiscal Planning Committee with the advice of its Investment Subcommittee, selects an investment management consultant and investment managers to provide services necessary for it to perform its obligations under these policy statements.

Certain general investment guidelines and objectives shall guide the investment management consultant and the investment manager, the designated agents of the Board of Trustees. These guidelines and objectives shall be reviewed and may be amended by the Board from time to time. All investments must be made with the Prudent Person Rule.

This statement reflects the investment policy, objectives and constraints of the entire Massachusetts Dental Society, including its Relief Fund. This statement of investment policy does not include the MDS employee's pension, which is governed by its own organizing documents.

This IPS has been prepared for the Society, a 501c(6) not-for-profit corporation. The Relief Fund is a separate charitable fund under IRS Code 501(c)(3). There are two portfolios (Portfolios):

1. An Unrestricted account with assets of approximately \$2,747,000 (as of March 29, 2004); and
2. A Restricted account with assets of approximately \$185,900 (as of March 29, 2004).

The Society has established a unique asset allocation strategy for each Portfolio.

Statement of General Investment Objectives

The objectives of the Society's Investment Policy have been established in conjunction with a comprehensive review of current and projected financial requirements. The current budget is prepared and implemented without revenue from our investment portfolio. Therefore our investments need to be managed to assure that the following objectives are considered to:

1. Maintain the purchasing power of the current assets. The objective is to maintain the level of services and programs in relation to the average cost increases.
2. Maximize return within reasonable and prudent levels of risk.
3. Maintain an appropriate asset allocation based on a total return policy that is compatible with a flexible spending policy, while still having the potential to produce positive real returns.

Time Horizon

The investment guidelines for the Unrestricted Portfolio are based upon an investment horizon of two to five years. Therefore, interim fluctuations should be viewed with appropriate perspective. Short-term liquidity requirements are anticipated to be met with the Restricted Portfolio.

Risk Tolerances

The Society recognizes and acknowledges some risk must be assumed in order to achieve the long-term investment objectives of the Unrestricted Portfolio, and there are uncertainties and complexities associated with contemporary investment markets.

In establishing the risk tolerances for this IPS, the Society's ability to withstand short- and intermediate-term variability (through the Restricted Portfolio) were considered. The Society's prospects for the future, current financial condition, and level of funding in the Restricted Portfolio suggest collectively some interim fluctuations in market value and rates of return may be tolerated with the Unrestricted Portfolio in order to achieve longer-term objectives.

Performance Expectations

The following Performance Expectations should act as a goal for the performance of the Unrestricted Portfolio as an average return over a time horizon of two to four years with the authority of the Investment Subcommittee to make changes as needed.

In general, the Society would like the Unrestricted Portfolio to earn at least a targeted return of 6%. It is understood an average return of 6% will require superior management performance to: (1) retain principal value; and (2) achieve portfolio growth. Furthermore, the objective is to earn a long-term rate of return that is at least 5% greater than the rate of inflation as measured by the CPI.

Also, the Society would strive to have the Restricted Portfolio (Relief Fund) earn at least a targeted return of 5%. The objective is to earn a long-term rate of return that is at least 3% greater than the rate of inflation as measured by the CPI.

Asset Class Guidelines

The Society believes that long-term investment performance, in large part, is primarily a function of asset class mix. The Society has reviewed the long-term performance characteristics of the broad asset classes, focusing on balancing the risks and rewards.

Portfolio Funding Guidelines

The MDS funds shall be invested in a portfolio of high quality stocks and bonds as follows:

Stock Specifications

- Equity securities can be comprised of:
 1. Common stocks
 2. Convertible notes and bonds
 3. Convertible preferred stocks
 4. American Depository Receipts (ADRs) of non-US companies
 5. Mutual funds
- Equities can be chosen from the New York Stock Exchange, American Stock Exchange, NASDAQ (the National Association of Securities Dealers Automated Quotation System), the Canadian Stock Exchange and US trading exchanges as an American Depository Receipt (ADR).
- Minimal market capitalization for equity holdings must be at least \$100 million.
- Equity market capitalization by size should roughly approximate 60% large-cap, 30% mid-cap and 10% small-cap.
- No more than 5% of the portfolio holdings shall be invested in any one security.
- No more than 20% of the entire portfolio shall be invested in any one industry or market sectors.
- Prohibited assets include, but are not limited to:
 1. Commodities or futures contracts including gold or currency futures
 2. Private placements
 3. Options
 4. Venture capital investments
 5. Fixed income securities of foreign governments
 6. Derivatives
 7. Warrants
 8. Lease-backs
 9. Conditional sales contracts
 10. Unregistered or restricted stock
 11. Collateralized non-government backed mortgage securities
 12. Guaranteed insurance contracts
- Prohibited transactions include, but are not limited to:

1. Short sales
 2. Margin transactions
- No investments shall be made in any security in which the equity position cannot be liquidated in 1 trading day and the manager shall not initiate or maintain an equity position where the share investment position would exceed the average daily trading volume for the preceding three-month period.
 - No investments shall be made in any corporation, which, has as a major activity (i.e. in excess of 15% or corporate sales) or manufactures, fabricates, processes, sells or otherwise furnishes the public with tobacco or alcohol products.

Bond or Fixed Income Specifications

- Fixed income investments may include:
 1. Certificates of deposit of one year or less issued by a major depository which has capital and surplus of \$25 million or more and which is fully insured;
 2. Interest bearing accounts in federally insured banks or saving and loans, no single account to exceed federally insured amounts;
 3. Money market funds;
 4. US Government obligations and their agencies;
 5. Corporate debt securities rated AA or better by Moody's or the S&P.
 6. Mortgage backed bonds;
 7. Preferred stock
- Weighed average maturity shall be at the discretion of the investment manager and shall be in keeping with a conservative portfolio.
- At no time shall the weighed maturity exceed 15 years.
- Maturities of longer than 20 years shall not comprise more than 10% of the entire fixed income portfolio.
- No single holding shall comprise greater than 10% of the fixed income portfolio with the exception of the US Governmental holdings.
- Municipal bonds and foreign bonds should not be held in this portfolio.

The following eleven asset classes were selected:

Cash Equivalents (CE)
 Short Term Fixed Income (STFI)
 Intermediate Term Fixed Income (ITFI)
 Long Term Fixed Income (LTFI)
 Large-Cap Value (LCV)
 Large-Cap Growth (LCG)
 Mid-Cap Equity (MCE)
 Small-Cap Equity (SCE)
 International Equity (IE)
 Global Fixed Income
 Real Estate

EXECUTIVE SUMMARY

Type of Plan: MDS General Funds – unrestricted
Relief Fund – restricted

Current Assets: (1) Unrestricted: \$2,747,000
(as of March 29, 2004) (2) Restricted: \$185,900

Time Horizon: (1) Unrestricted: Greater than 2 and less than 5 years
(2) Restricted: Less than 5 years

Modeled Return: (1) Unrestricted: 6% (5% over the Consumer Price Index [CPI])
(2) Restricted: 5% (3% over the CPI)

Modeled Loss: (1) Unrestricted: -5% (2) Restricted: -1.9%

Asset Allocation – (1) Unrestricted Portfolio (65/35):

The intended long-term allocation of the portfolio is 60% stock, 40% bonds, and 0% cash. The subcommittee may, at any time, vote to move allocations of stock to as high as 70% or as low as 50%. Also, the subcommittee might want to suggest that market conditions could take allocations out of a range. The subcommittee would then aim to rectify this aberration in a timely manner.

It is expected that the allocation would remain within plus or minus 5% of the strategic allocation.

	<u>Guidelines to Strategic Allocation</u>	<u>Current Portfolio Allocation</u>
Domestic Large-Cap Equity	0	0
Growth	25	13%
Value	25	12%
Mid-Cap Equity	5	11%
Small-Cap Equity	5	10%
International Equity	5	14%
Intermediate-Term Fixed Income*	25	23%
Cash Equivalents	5	6%
Short-Term Fixed Income		10%
High Yield Bond Fund	5	1%

*Includes Global Fixed Income

Asset Allocation – (1) Restricted Portfolio (40/60):

	<u>Guidelines to Strategic Allocation</u>	<u>Current Portfolio Allocation</u>
Domestic Large-Cap Equity	0	
Growth	0	
Value	20	
Mid-Cap Equity	0	
Small-Cap Equity	0	
International Equity	0	
Short-Term Fixed Income	15	32%
Long-Term Fixed Income		8%
Intermediate-Term Fixed Income*	35	49%
Cash Equivalents	10	11%

*Includes Global Fixed Income

Rebalancing of Strategic Allocation

The percentage allocation to each asset class may vary as much as plus or minus 5% depending upon market conditions. The Investment fund manager shall notify the Society of any percentage allocations over plus or minus 5% and get the concurrence of the Investment Subcommittee. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Portfolio. If there are no cash flows, the allocation of the Portfolio will be reviewed quarterly.

If the Society judges cash flows insufficient to bring the Portfolio within the strategic allocation ranges, the Society shall decide whether to effect transactions to bring the strategic allocation within the threshold ranges.

DUTIES AND RESPONSIBILITIES

MDS Investment Subcommittee

The Investment Subcommittee shall assist the Budget and Fiscal Planning Committee in developing recommendations to the Board of Trustees on behalf of the membership. The Assistant Treasurer shall chair the subcommittee. The President, in consultation with the Treasurer, shall select three members from the Budget and Fiscal Planning Committee to serve on the subcommittee. The subcommittee may identify additional consultants and resources as necessary to accomplish its work.

The Investment Subcommittee shall also monitor the investment decisions to ensure that they comply with the investment policies in this statement. The subcommittee will also consider any proposed revisions to these statements and recommend appropriate action to the Budget and Fiscal Planning Committee. The subcommittee is responsible for the assessment of the

investment managers based on a review of performance by the investment advisor/consultant as benchmarked against appropriate market standards and the Society's investment policies.

The primary fiduciary responsibilities of the Investment Subcommittee are to:

1. Prepare and maintain this investment policy statement;
2. Prudently diversify the Portfolio's assets to meet an agreed upon risk/return profile.
3. Prudently select investment options;
4. Control and account for all investment, record keeping, and administrative expenses associated with the Portfolio;
5. Monitor and supervise all service vendors and investment options;
6. Avoid prohibited transactions and conflicts of interest as stated in the following House of Delegates resolution and *Bylaws*:

The House of Delegates passed resolution 11-H-03 in 2003. The resolution states that members of the Massachusetts Dental Society who serve in any voluntary capacity have an obligation to disclose any personal or business relationship they or a member of their immediate family may have with a company or individual doing business with the Massachusetts Dental Society when such company or individual is being discussed at a meeting. This includes any business or party with which the Society conducts its business or is considering for a business relationship. Having made this disclosure, the member will be allowed to discuss and vote on the issue.

For the purposes of administering the investment policies and procedures, and remove any possible conflicts of interest, the following shall apply to any member of the Budget and Fiscal Planning Committee and Investment Subcommittee to create an additional "arms length" situation concerning the selection, evaluation, and future consideration of an investment manager or investment consultant advising those committees:

1. A member must immediately disclose any relationship as outlined in the MDS Policy of Disclosure, Resolution 11H-03 and
2. That member must immediately recuse himself or herself from any discussion, deliberation, or vote with regard to the selection, evaluation, and termination of an investment advisor or investment consultant to those committees, and further,
3. That failure to comply with 1 and 2 above will subject the member to actions under Chapter IV, Section 70-Removal or Section 80-Suspension by the MDS Board of Trustees.

Chapter IV – Board of Trustees, Section 70 – Removal

Any Trustee may be removed from office by a two-thirds (2/3) vote of the district membership present and voting whenever, in its judgment, the best interest of the Society would be served thereby. Such a district vote may be requested by the MDS Board of Trustees when in its judgment, and by two-thirds (2/3) vote, a Trustee is deemed to be grossly or willfully in neglect of his/her duties, presents and undisclosed conflict of interest, discloses confidential information of the Society, conducts unwarranted or unauthorized activities on behalf of the Society, fails to comply with Society policies, or is convicted of a felony. The Trustee to be removed and the district president or chair

shall be provided with a copy of the statement of reasons for removal not less than thirty (30) days in advance of the session at which the Trustee is to be removed. The Trustee to be removed shall have an opportunity to be heard by the district.

Chapter IV – Board of Trustees, Section 80 – Suspension

Any Trustee may be suspended with cause by a four-fifths (80%) vote of the membership of the Board of Trustees. Such a vote may be taken at a regular or special meeting of the Board of Trustees. At the discretion of the Board of Trustees, the suspended trustee may be required to vacate the Board immediately upon suspension. Within 30 days, such suspension shall be subject to review and ratification by a two-thirds (2/3) vote of the district executive committee present and voting at a regular or special meeting. If the executive committee deems a review necessary by the district membership, this review shall occur within 30 days at a regular or special meeting of the district dental society. The Board of Trustees may provide to the district a motion containing recommendations with respect to such suspension, including but not limited to, any recommendation relative to continued suspension (which shall include a recommendation as to the duration thereof), or removal.

Investment Advisor or Investment Management Consultant

The Society may periodically retain an objective, third-party Advisor or Investment Management Consultant to assist the Society in managing the overall investment process. The Advisor or Consultant will be responsible for guiding the Society through a disciplined and rigorous investment process to enable the Society to meet the fiduciary responsibilities outlined above. The Advisor or Consultant shall confirm, at least annually, that the investments are in compliance with the current IPS. In addition, the Advisor or Consultant may assist the Investment Subcommittee in establishing investment policies, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.

Investment Fund Manager(s)

As distinguished from the Society and the Advisor or Consultant, who are responsible for managing the investment process, investment managers are responsible for making investment decisions (security selection and price decisions). The specific duties and responsibilities of each investment manager are to:

1. Manage the assets under their supervision in accordance with the guidelines and objectives outlined in their respective Service Agreements, Prospectus, or Trust Agreement.
2. Exercise full investment discretion with regard to buying, managing, and selling assets held in the Portfolios to meet investment objectives.
3. Vote promptly all proxies and related actions in a manner consistent with the long-term interest and objectives of the Portfolios as described in this IPS. Each investment manager shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.

4. Communicate to the Investment Subcommittee all significant changes pertaining to the fund it manages or the firm itself. Changes in ownership, organizational structure, financial condition, and professional staff are examples of changes to the firm in which the Subcommittee is interested.
5. Effect all transactions for the Portfolio subject “to best price and execution.” If a manager utilizes brokerage from the Portfolio assets to effect “soft dollar” transactions, detailed records will be kept and communicated to the Investment Subcommittee.
6. Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like portfolios with like aims in accordance and compliance with the Uniform Prudent Investor Act and all applicable laws, rules, and regulations.

Custodian

The brokerage or bank institution custodian will be responsible for the safekeeping of the Portfolio’s assets. The specific duties and responsibilities of the custodian are to:

1. Maintain separate accounts by legal registration;
2. Value the holdings;
3. Collect all income and dividends owed to the Portfolio;
4. Settle all transactions (buy-sell orders) initiated by the Investment Manager;
5. Provide monthly and regular accounting reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall Portfolio since the previous report.

Budget and Fiscal Planning Committee

The Budget and Fiscal Planning Committee will review at least annually the specific asset allocations and all costs associated with the management of the Portfolio’s investment program, including:

1. Expense ratios of each investment option against the appropriate peer group.
2. Custody fees i.e. the holding of the assets, collection of the income, and disbursement of payments.
3. Whether the manager is demonstrating attention to “best execution” in trading securities.
4. That the Investment Advisor or Consultant has confirmed the compliance of the investments to the IPS to the Investment Subcommittee.
5. That the Society confirms annually its compliance with any IRS standards on fund accumulation for exempt purposes.

Investment Subcommittee

The Investment Subcommittee will review specific asset allocations in the portfolios and may modify these periodically with the consent of the Budget and Fiscal Planning Committee. The Budget and Fiscal Planning Committee will inform the Board of Trustees of such modifications.

1. The preferred portfolio asset allocations should approximate one-third value equities, one-third growth equities, and one-third fixed income. These allocations may fluctuate to accommodate the Society's needs, financial status, or other factors.
2. The equity portion of the portfolio should attempt to have a maximum allocation of 65% to the total portfolio holdings.

INVESTMENT MANAGER SELECTION

The Investment Advisor will apply the following due diligence criteria in selecting each money manager or mutual fund:

1. *Regulatory oversight:* Each investment manager should be a regulated bank, an insurance company, a mutual fund organization, or a registered investment adviser.
2. *Correlation to style or peer group:* The product should be highly correlated to the asset class of the investment option. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the manager to the appropriate peer group.
3. *Performance relative to a peer group:* The product's performance should be evaluated against the peer group's median manager return, for 1-, 3-, and 5-year cumulative periods.
4. *Performance relative to assumed risk:* The product's risk-adjusted performance (Alpha and/or Sharpe Ratio) should be evaluated against the peer group's median manager's risk-adjusted performance.
5. *Minimum track record:* The product's inception date should be greater than three years.
6. *Assets under management:* The product should have at least \$75 million under management.
7. *Holdings consistent with style:* The screened product should have no more than 20% of the portfolio invested in "unrelated" asset class securities. For example, a Large-Cap Growth product should not hold more than 20% in cash, fixed income, and/or international securities.
8. *Expense ratios/fees:* The product's fees should not be in the bottom quartile (most expensive) of their peer group.
9. *Stability of the organization:* There should be no perceived organizational problems – the same portfolio management team should be in place for at least two years.

OVERSIGHT PROCEDURES

Monitoring of Guidelines

The investment manager's progress in meeting the objectives contained in this plan shall be reviewed periodically by the Investment Subcommittee. The Investment Subcommittee shall forward a report of this review to the Budget and Fiscal Planning Committee for inclusion in its annual report to the House of Delegates. The investment manager will report detailed holdings and performance to the Investment Subcommittee on a monthly basis, and provide a quarterly summary report to the Budget and Fiscal Planning Committee.

Performance Objectives

The Society acknowledges fluctuation rates of return characterize the securities markets, particularly during short-term periods. Recognizing that short-term fluctuation may cause variations in performance, the Society intends to evaluate manager performance from a long-term perspective.

The Society is aware the ongoing review and analysis of the investment managers is just as important as the due diligence implemented during the manager selection process. The performance of the investment managers will be monitored on an ongoing basis and it is at the Society's discretion to take corrective action by replacing a manager if it deems it appropriate at any time.

On a timely basis, but not less than quarterly, the Investment Subcommittee will review whether each manager continues to conform to the duties and responsibilities outlined in the previous section, specifically:

1. The manager's adherence to the portfolio's investment guidelines;
2. Material changes in the manager's organization, investment philosophy, and/or personnel; and,
3. Any legal, SEC, and/or other regulatory agency proceedings affecting the manager.

The Society has determined it is in the best interest of the Portfolio's participants that performance objectives be established for each investment manager. Manager performance will be evaluated in terms of an appropriate market index (e.g. the S&P 500 stock index for large-cap domestic equity manager) and the relevant peer group (e.g. the large-cap growth mutual fund universe for a large-cap growth mutual fund).

Asset Class	Index	Peer Group
Large-Cap Equity		
Blend	S&P 500	Large-Cap Blend
Growth	Russell 200 Growth	Large-Cap Growth
Value	Russell 200 Value	Large-Cap Value
Mid-Cap Equity	S&P 400	Mid-Cap Blend
Small-Cap Equity	Russell 2000	Small-Cap Blend
International Equity	MSCI EAFE	Foreign Stock
Fixed Income		
Intermediate-term Bond	Lehman Brothers Gov't/Credit Intermediate	Intermediate-Term Bond
Short-term Bond	Lehman Brothers 1-3 year Government	Short-Term Bond
Money Market	90 day T-Bills	Money Market Database

Portfolio Performance Measurements

- Total portfolio performance should achieve a 6% real rate of return over 3, 5, and 10-year periods, outperform the CPI over the same market cycle, and at least equal index returns.

- Portfolio return should outperform the CPI over the same market cycle and at least equal the return of a comparative index of holdings similarly allocated.
- Portfolio managers should achieve a total rate of return that ranks in the top quartile of similar investment managers over a five-year period.
- The portfolio should achieve superior and consistent long-term investment performance, judged on a 3, 5, or 10-year basis rather than a short-term (1 year or under).

A manager shall be placed on a “Watchlist” and a thorough review and analysis of the investment manager shall be conducted, when:

1. A manager performs below the median for their peer group over a 1-, 3-, and/or 5-year cumulative period.
2. A manager’s 3-year risk adjusted return (Alpha and/or Sharpe) falls below the peer group’s median risk adjusted return.
3. There is a change in the professionals managing the portfolio.
4. There is a significant decrease in the product’s assets.
5. There is an indication the manager is deviating from his/her stated style and/or strategy.
6. There is an increase in the product’s fees and expenses.
7. Any extraordinary event occurs that may interfere with the manager’s ability to fulfill their role in the future.

A manager’s evaluation may include, but not be limited to, the following steps:

1. A letter to the manager asking for an analysis of the underperformance.
2. An analysis of recent transactions, holdings, and portfolio characteristics to determine the cause for underperformance or to check for a change in style.
3. A meeting with the manager, which may be conducted on-site, to gain insight into organizational changes and any changes in strategy or discipline.

The decision to retain or terminate a manager cannot be made by a formula. It is the Society’s confidence in the manager’s ability to perform in the future that ultimately determines the retention of a manager.

INVESTMENT POLICY ANNUAL REVIEW GUIDELINES

The Investment Subcommittee will review this IPS at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.