

RESOLUTION OF THE  
BUDGET AND FINANCE COMMITTEE  
OF THE NAVAJO NATION COUNCIL

23<sup>RD</sup> NAVAJO NATION COUNCIL - Fourth Year, 2018

AN ACTION

RELATING TO BUDGET AND FINANCE COMMITTEE; APPROVING THE  
RECOMMENDATION OF THE NAVAJO NATION INVESTMENT COMMITTEE  
AMENDING THE NAVAJO NATION PERMANENT FUND SUB-POLICY TARGET  
ASSET ALLOCATION

BE IT ENACTED:

SECTION ONE. AUTHORITY

- A. The Budget and Finance Committee of the Navajo Nation Council is empowered with the authority to exercise oversight in the areas including, but not limited to, budget, finance, investment, bonds, contracting, insurance, audits, accounting, taxes, loans, Chapter budget and finance for the purpose of coordinating, overseeing, and regulating the fiscal, financial, investment, contracting and audit policies of the Navajo Nation. 2 N.N.C. § 300(C)(1).
- B. The Navajo Nation Investment Committee is empowered to recommend investments and policies for adoption to the Budget and Finance Committee. Budget and Finance Committee Resolution BFJY-114-03, as amended by Resolutions, BFJA-01-08, BFJN-17-15, BFD-38-17, and BFD-41-17.

SECTION TWO. FINDINGS

- A. The Navajo Nation Investment Committee (NNIC) has reviewed materials from the Navajo Nation's designated investment consultant, RVK, Inc., and recommends the Budget and Finance Committee amend the Allocation of Assets in the Navajo Nation Permanent Fund Sub-Policy.
- B. The NNIC Resolution, NNICJU-03-17, approving and recommending the amendment is attached as **Exhibit 1**.

- C. The NNIC recommends amending the Allocation of Assets in the Navajo Nation Permanent Fund Sub-Policy in accordance with Option 2, per **Exhibit 1, Paragraph 3**.

### SECTION THREE. APPROVAL

The Budget and Finance Committee hereby approves the recommendation of the Navajo Nation Investment Committee in accordance with **Exhibit B of Exhibit 1**.

### CERTIFICATION

I, hereby, certify that the foregoing resolution was duly considered by the Budget and Finance Committee of the Navajo Nation Council at a duly called meeting held at Window Rock, Navajo Nation (Arizona), at which a quorum was present and that the same was passed by a vote of 3 in favor and 0 opposed, this 3<sup>rd</sup> day of May 2018.



Dwight Witherspoon, Vice Chairperson  
Budget and Finance Committee

Motion: Honorable Leonard Tsosie  
Second: Honorable Lee Jack, Sr.



EXHIBIT 1

NNICJU-03-17

**RESOLUTION OF  
THE NAVAJO NATION INVESTMENT COMMITTEE**

**Approving and Recommending to the Budget and Finance Committee Approval of an Amendment to the Navajo Nation Permanent Fund Sub-Policy Target Asset Allocation**

**WHEREAS:**

1. Pursuant to Budget and Finance Committee Resolution BFJY-114-03, as amended by Budget and Finance Committee Resolutions BFJA-01-08, BFJN-17-15, BFD-38-17, and BFD-41-17, which adopted investment policies and sub-policies for all Navajo Nation financial resources, the Navajo Nation Investment Committee has the delegated authority to approve and recommend investments and policies for adoption to the Budget and Finance Committee; and

2. Pursuant to its delegated authority, the Office of the Controller has coordinated with the Navajo Nation's designated investment consultant, RVK, Inc. ("RVK"), a recommendation to amend the Allocation of Assets in the Navajo Nation Permanent Fund Sub-Policy; RVK has presented to the Navajo Nation Investment Committee the documents entitled "Permanent Fund – Asset Allocation Analysis" (hereinafter referred to as the "RVK Asset Allocation Analysis"), attached hereto as Exhibit A, and "Amended Navajo Nation Permanent Fund Sub-Policy" (hereinafter referred to as the "Amended Sub-Policy"), attached hereto as Exhibit B. RVK recommends the Option 2 Target Asset Allocation, referenced on pages 61 through 63 of the RVK Asset Allocation Analysis, which increases future expected returns by diversifying into additional asset classes; and

3. The Navajo Nation Investment Committee has considered RVK's presentation and reviewed the RVK Asset Allocation Analysis and the Amended Sub-Policy, and the Navajo Nation Investment Committee approves and recommends amending the Allocation of Assets in the Navajo Nation Permanent Fund Sub-Policy to the Option 2 Target Asset Allocation, and recommends the same for approval by the Budget and Finance Committee of the Navajo Nation Council.

**NOW THEREFORE BE IT RESOLVED THAT:**

The Navajo Nation Investment Committee hereby approves and recommends to the Budget and Finance Committee of the Navajo Nation Council approval of the recommendation to amend the Allocation of Assets in the Navajo Nation Permanent Fund Sub-Policy to the Option 2 Target Asset Allocation as set forth in the Amended Sub-Policy, hereto attached as Exhibit B.

**CERTIFICATION**

I hereby certify that the foregoing resolution was duly considered by the Navajo Nation Investment Committee, at a duly called meeting at the 6565 Americas Pkwy. #700 KPMG Corporate Office Albuquerque, New Mexico at which a quorum was present and that same was passed by a vote of 4 in favor and 0 opposed, this 16<sup>th</sup> day of June, 2017.

Pearline Kirk  
Presiding Chair  
Navajo Nation Investment Committee

Motion: Seth Damon  
Second: Tom Chee  
Vote: 4-0

# Permanent Fund – Asset Allocation Analysis





# Permanent Fund Diversification

The Navajo Nation Permanent Fund has worked to incrementally increase its diversification, and has made the below changes over the years:

Year	Previous/Potential Action
2005	<ul style="list-style-type: none"><li>• Added allocation to International Equity</li></ul>
2006	<ul style="list-style-type: none"><li>• Added allocation to Real Estate</li></ul>
2013	<ul style="list-style-type: none"><li>• Added allocation to GTAA strategies</li></ul>
2017+	<ul style="list-style-type: none"><li>• Consider adding further diversifying asset classes – Bank Loans, Non-Core Real Estate, Private Equity</li></ul>

The Sihasin Fund was established in 2015, and incrementally funded through 2016.

# Asset Allocation Study

## Risk & Return Assumptions

Asset Class	Arithmetic Return Assumption	Standard Deviation Assumption
Large/Mid Cap US Equity	7.00	17.75
Small Cap US Equity	7.50	21.25
Broad International Equity	8.85	20.65
Int. Duration Fixed Income	3.50	6.00
Bank Loans	5.25	10.00
Core Real Estate	6.25	12.50
Non-Core Real Estate	9.25	22.50
GTAA	6.25	10.00
Private Equity	10.00	25.50

## Historical Observations

Index	Longest Historical Time Frame	Annualized Arithmetic Return	Annualized Standard Deviation
S&P 500 (Cap Wtd)	Jan 1926 - Dec 2016	11.36	18.78
Russell 2000	Jan 1979 - Dec 2016	13.01	19.47
MSCI ACW Ex US IMI (Gross)	Jun 1994 - Dec 2016	6.28	16.71
Bloomberg US Agg Bond	Jan 1976 - Dec 2016	7.44	5.38
CS Leveraged Loan	Jan 1992 - Dec 2016	5.74	5.11
NCREIF ODCE (Gross) (AWA)	Jan 1978 - Sep 2016 (Q)	8.62	5.34
Custom Non-Core RE Index*	Apr 1989 - Sep 2016 (Q)	7.72	8.61
Custom GTAA Index*	Jun 1994 - Dec 2016	6.96	9.32
Cambridge US Private Equity Index	Jul 1986 - Jun 2016 (Q)	13.11	9.34

## Correlation Assumptions

	Large/Mid Cap US Equity	Small Cap US Equity	Broad International Equity	Int. Duration Fixed Income	Bank Loans	Core Real Estate	Non-Core Real Estate	GTAA	Private Equity
Large/Mid Cap US Equity	1.00	0.83	0.82	0.18	0.44	0.24	0.15	0.82	0.75
Small Cap US Equity	0.83	1.00	0.75	0.07	0.44	0.21	0.10	0.74	0.71
Broad International Equity	0.82	0.75	1.00	0.01	0.52	0.31	0.07	0.92	0.75
Int. Duration Fixed Income	0.18	0.07	0.01	1.00	-0.01	-0.08	-0.10	0.28	-0.28
Bank Loans	0.44	0.44	0.52	-0.01	1.00	0.20	0.00	0.56	0.56
Core Real Estate	0.24	0.21	0.31	-0.08	0.20	1.00	0.77	0.33	0.57
Non-Core Real Estate	0.15	0.10	0.07	-0.10	0.00	0.77	1.00	0.07	0.39
GTAA	0.82	0.74	0.92	0.28	0.56	0.33	0.07	1.00	0.74
Private Equity	0.75	0.71	0.75	-0.28	0.56	0.57	0.39	0.74	1.00

# Asset Allocation Study

## Permanent Fund - Efficient Portfolios (Current Asset Classes)

	Min	Max	1	2	3	4	5	6	7	8	9	10	Permanent - Current
Large/Mid Cap US Equity	10	50	25	15	10	11	15	20	24	28	33	37	33
Small Cap US Equity	0	10	0	3	9	10	10	10	10	10	10	10	8
Broad International Equity	10	20	10	17	19	20	20	20	20	20	20	20	12
Int. Duration Fixed Income	0	40	40	40	37	34	30	25	21	17	12	8	22
Core Real Estate	0	10	10	10	10	10	10	10	10	10	10	10	10
GTAA	0	15	15	15	15	15	15	15	15	15	15	15	15
Total			100	100	100	100	100	100	100	100	100	100	100
Capital Appreciation			35	35	38	41	45	50	54	58	63	67	53
Capital Preservation			40	40	37	34	30	25	21	17	12	8	22
Alpha			15	15	15	15	15	15	15	15	15	15	15
Inflation			10	10	10	10	10	10	10	10	10	10	10
Expected Return			5.60	5.75	5.90	6.05	6.20	6.35	6.50	6.65	6.80	6.95	6.30
Risk (Standard Deviation)			8.72	8.87	9.36	9.91	10.54	11.19	11.85	12.52	13.20	13.89	11.49
Return (Compound)			5.24	5.38	5.49	5.59	5.68	5.77	5.85	5.92	5.99	6.06	5.68
Return/Risk Ratio			0.64	0.65	0.63	0.61	0.59	0.57	0.55	0.53	0.52	0.50	0.55
RVK Expected Eq Beta (LCUS Eq = 1)			0.46	0.45	0.48	0.51	0.55	0.59	0.63	0.67	0.71	0.75	0.62
RVK Liquidity Metric (T-Bills = 100)			82	82	81	82	82	82	83	83	84	84	83

Total Equity cannot exceed 67% of the Total Portfolio.

# Asset Allocation Study

## Permanent Fund - Efficient Portfolios (Adding Non-Core Real Estate and Private Equity)

	Min	Max	1	2	3	4	5	6	7	8	9	10	Permanent - Current	Permanent - Option 1
Large/Mid Cap US Equity	10	50	20	10	10	10	10	10	15	21	27	37	33	22
Small Cap US Equity	0	10	0	2	3	5	7	10	10	10	10	10	8	8
Broad International Equity	10	20	10	12	13	15	17	20	20	20	20	20	12	15
Int. Duration Fixed Income	0	40	40	40	37	32	27	23	17	11	5	0	22	20
Core Real Estate	0	10	10	10	10	10	10	10	10	10	10	10	10	10
Non-Core Real Estate	0	5	5	5	5	5	5	5	5	5	5	5	0	5
GTAA	0	15	15	15	15	15	15	15	15	15	15	10	15	15
Private Equity	0	8	0	5	8	8	8	8	8	8	8	8	0	5
Total			100	100	100	100	100	100	100	100	100	100	100	100
Capital Appreciation			35	35	38	43	48	52	58	64	70	80	53	55
Capital Preservation			40	40	37	32	27	23	17	11	5	0	22	20
Alpha			15	15	15	15	15	15	15	15	15	10	15	15
Inflation			10	10	10	10	10	10	10	10	10	10	10	10
Expected Return	5.71	5.92	6.14	6.35	6.56	6.77	6.99	7.20	7.41	7.62	7.83	8.04	6.30	6.69
Risk (Standard Deviation)	8.19	8.41	9.04	9.78	10.55	11.34	12.25	13.20	14.17	15.37	16.37	17.41	11.49	11.48
Return (Compound)	5.39	5.59	5.76	5.90	6.04	6.17	6.30	6.40	6.49	6.54	6.58	6.58	5.68	6.08
Return/Risk Ratio	0.70	0.70	0.68	0.65	0.62	0.60	0.57	0.55	0.52	0.50	0.55	0.55	0.55	0.58
RVK Expected Eq Beta (LCUS Eq = 1)	5.40	5.41	5.44	5.48	5.53	5.57	5.62	5.68	5.73	5.81	5.81	5.81	0.62	5.59
RVK Liquidity Metric (T-Bills = 100)	78	73	71	71	71	71	72	72	73	74	74	74	83	74

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# Asset Allocation Study

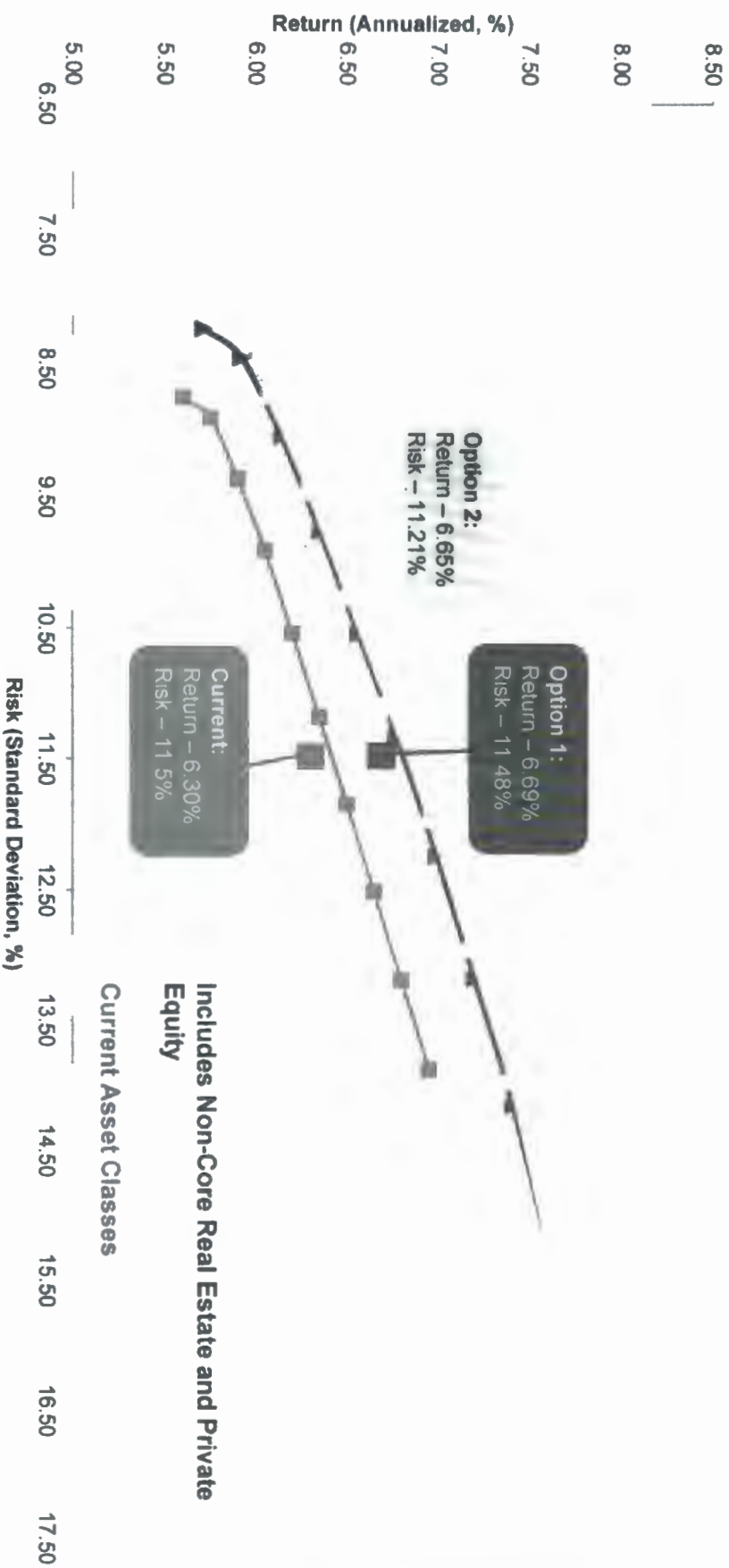
## Permanent Fund - Efficient Portfolios (Adding Bank Loans, Non-Core Real Estate, and Private Equity)

	Min	Max	1	2	3	4	5	6	7	8	9	10	Permanent - Current	
Large/Mid Cap US Equity	10	50	15	10	10	10	10	10	12	18	24	37	33	21
Small Cap US Equity	0	10	0	0	1	3	6	8	10	10	10	10	8	7
Broad International Equity	10	20	10	10	11	13	16	18	20	20	20	20	12	15
Int. Duration Fixed Income	0	40	40	39	35	30	25	21	15	9	3	0	22	19
Bank Loans	0	5	5	5	5	5	5	5	5	5	5	0	0	5
Core Real Estate	0	10	10	10	10	10	10	10	10	10	10	10	10	10
Non-Core Real Estate	0	5	5	5	5	5	5	5	5	5	5	5	0	5
GTAA	0	15	15	15	15	15	15	15	15	15	15	10	15	13
Private Equity	0	8	0	6	8	8	8	8	8	8	8	8	0	5
Total			100	100	100	100	100	100	100	100	100	100	100	100
Capital Appreciation			30	31	35	40	45	49	55	61	67	80	53	53
Capital Preservation			45	44	40	35	30	26	20	14	8	0	22	24
Alpha			15	15	15	15	15	15	15	15	15	10	15	13
Inflation			10	10	10	10	10	10	10	10	10	10	10	10
Expected Return			5.62	5.84	6.07	6.29	6.51	6.73	6.96	7.18	7.40	7.62	6.30	6.65
Risk (Standard Deviation)			7.64	8.02	8.71	9.47	10.27	11.10	11.97	12.97	13.98	15.37	11.49	11.21
Return (Compound)			5.34	5.54	5.71	5.87	6.02	6.16	6.30	6.40	6.50	6.54	5.68	6.07
Return/Risk Ratio			0.74	0.73	0.70	0.66	0.63	0.61	0.58	0.55	0.53	0.50	0.55	0.59
RVK Expected Eq Beta (LCUS Eq = 1)			5.37	5.38	5.42	5.46	5.51	5.55	5.60	5.66	5.72	5.81	0.62	5.58
RVK Liquidity Metric (T-Bills = 100)			76	70	69	69	69	69	69	70	71	74	83	72

Total Equity cannot exceed 67% of the Total Portfolio.

# Asset Allocation Study

## Permanent Fund Efficient Frontier Comparison – Impact of Adding Asset Classes



# Asset Allocation Study

## Permanent Fund Monte Carlo Analysis – Expected Return By Percentile

1 Year	Permanent - Permanent -		
	Current	Option 1	Option 2
1st Percentile	(28.37)	(26.54)	(27.06)
5th Percentile	(13.17)	(12.40)	(12.43)
25th Percentile	(0.97)	(0.44)	(0.33)
50th Percentile	6.36	6.87	6.93
75th Percentile	14.08	14.38	14.38
95th Percentile	25.99	26.01	25.97
99th Percentile	35.69	35.17	34.85
3 Years			
1st Percentile	(15.70)	(14.83)	(15.41)
5th Percentile	(6.67)	(5.83)	(5.81)
25th Percentile	1.26	1.81	1.86
50th Percentile	6.05	6.46	6.52
75th Percentile	10.52	10.84	10.87
95th Percentile	17.40	17.54	17.57
99th Percentile	22.45	22.36	22.32
5 Years			
1st Percentile	(11.41)	(10.40)	(10.84)
5th Percentile	(4.33)	(3.68)	(3.75)
25th Percentile	2.07	2.61	2.67
50th Percentile	5.87	6.29	6.34
75th Percentile	9.51	9.84	9.87
95th Percentile	14.87	15.03	15.03
99th Percentile	18.70	18.74	18.71
10 Years			
1st Percentile	(6.39)	(5.43)	(5.77)
5th Percentile	(1.62)	(1.05)	(1.15)
25th Percentile	2.97	3.47	3.49
50th Percentile	5.72	6.14	6.16
75th Percentile	8.39	8.73	8.78
95th Percentile	12.15	12.41	12.41
99th Percentile	14.73	14.88	14.87

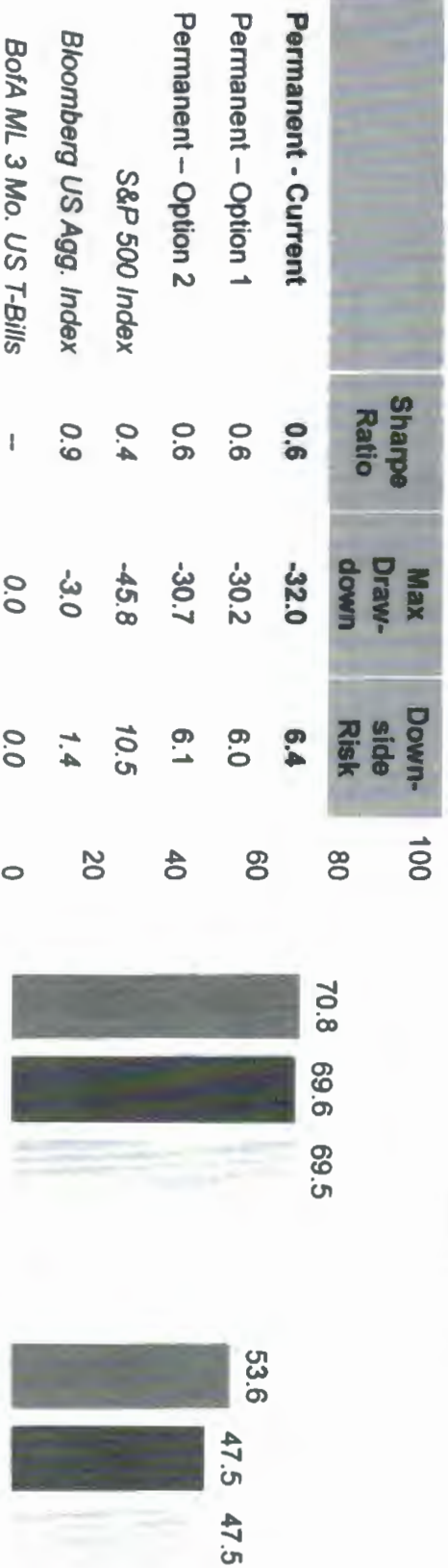
Over longer term periods, Portfolio Options 1 & 2 can potentially protect capital better in down markets as well as participate in up markets.

99th Percentile represents the extreme upside, 1st percentile represents the extreme downside, and 50th percentile represents the expected outcome.

# Asset Allocation Comparison – Historical Time Periods

MPT Stats – 15 Years

Market Capture vs. MSCI ACW Index – 15 Years



## Risk & Return

	10 Years		15 Years	
	Return (%)	Standard Deviation (%)	Return (%)	Standard Deviation (%)
Permanent - Current	5.6	10.8	6.8	10.4
Permanent – Option 1	5.7	10.1	7.3	9.7
Permanent – Option 2	5.6	10.2	7.2	9.8
S&P 500 Index	7.0	16.2	6.7	15.7
Bloomberg US Agg. Index	4.3	3.4	4.6	3.5
BoFA ML 3 Mo. US T-Bills	0.8	0.8	1.3	0.8

Performance and statistics shown as of December 31, 2016. Historical statistics shown for the representative portfolios are based on broad asset benchmark returns, and are not client specific.



# Permanent Fund Asset Allocation

## Considerations, Process, and Next Steps

- The Permanent Fund can potentially increase it's expected return by further diversifying it's target asset allocation into additional asset classes.
- Introducing illiquid asset classes (Non-Core Real Estate and Private Equity) will likely serve to decrease the Plans' overall income generation, as these investments are driven primarily by capital appreciation, and do not have a significant and reliable yield component.
- If an updated target allocation is approved, the following steps are required to implement the allocation in the Permanent Fund. RVK will work with the Controller's Office and Navajo Nation Department of Justice as necessary.

### 1) Approve Asset Allocation & Update Investment Policy

- Update target asset allocation as applicable
- Comprehensively review the policy to update/modernize the policy language

### 2) Interview & Approve Investment Managers

- Bank Loans
- Non-Core Real Estate (multi-year commitment process)
- Private Equity (multi-year commitment process)

### 3) Implement Asset Allocation Changes in Permanent Fund

- Establish new accounts - complete/approve all new account documents
- Coordinate all asset investments / redemptions, cash transfers, and Sub-Trust plan allocations with Northern Trust
- Notify investment managers of upcoming investments / redemptions, and coordinate necessary documents

*Amended*  
**Navajo Nation Permanent Fund**  
(Sub-Policy)

STATEMENT OF INVESTMENT OBJECTIVES, GUIDELINES AND PROCEDURES

**A. General.** This statement governs the investment of Permanent Fund (Fund) as a sub-policy of the Navajo Nation Master Investment Policies.

This statement is set forth in order that the Navajo Nation Council, the Budget & Finance Committee, the Investment Committee, Staff, the investment advisor and its investment managers and others entitled to such information may be made aware of the Policy of Permanent Fund with regard to the investment of its assets and the expectations and requirements of the Investment Committee with respect to the ongoing management of the investments. The purpose of this document is to establish the investment policies, standards of prudence and performance expectations for the Fund. The Investment Committee is responsible for the fiduciary oversight of the investments and has chosen these policies as its statement of intent for achieving the investment objectives described below.

**B. The Fund.** The Permanent Fund (Fund) was established to provide revenues in future years. Twelve percent of all unrestricted revenues of the Navajo Nation are transferred to the Fund. The Navajo Nation Council resolution, which established the Fund, stipulates that the principal may not be expended except pursuant to a referendum approved by the Navajo Nation Council and adopted by a two-thirds majority vote of registered Navajo voters. Permanent Fund income may be expended for administration and management of the Fund until September 30, 2006.

Fund income is defined as realized income including interest, dividends and realized gains or losses.

All amounts of money deposited in the Fund shall be invested as soon as practical in accordance with Investment Objectives and Investment Policies of the Navajo Nation as formally adopted by the Budget and Finance Committee of the Navajo Nation Council.

The Fund is expected to be available in perpetuity so it will be invested with a long-term perspective. It is important to follow coordinated policies regarding spending and investment decisions, which will protect the principal and produce reasonable total returns.

To assure that the integrity of these assets shall be maintained to the maximum extent feasible, the Investment Committee has established the following Policies:

- To be invested in accord with The Master Investment Policy and Procedures approved by the Budget & Finance Committee.

- To preserve the purchasing power of the investments while at the same time increasing the size of the corpus in order to support growth in the Navajo Nation Permanent Fund. Preservation of principal is of high priority and essential over the long term.

**C. Investment Objectives.** The primary objectives of the Fund shall be:

- Preservation of capital in real terms,
- Obtain maximum returns within reasonable and acceptable levels of risk.

Financial objectives of the Permanent Fund have been established in conjunction with a comprehensive review of the current and projected financial requirements of the Fund. The targeted rate of return is 4% above Consumer Price Index. While there cannot be complete assurance that the defined objectives will be realized, it is believed that the likelihood of their realization is reasonably high, based on the investment policy of the Fund.

The achievement of the investment objectives of the Fund will be reviewed on an annual basis. This review will focus on the continued feasibility of achieving the objectives and the continued appropriateness of the investment policy. It is not expected that the policy will change frequently; in particular, short-term changes in the financial markets should generally not require an adjustment in the policy.

**D. The Investment Committee Responsibilities.** The Investment Committee is an advisory committee to the Budget & Finance Committee and will have the responsibility and authority to oversee the investments of the Fund. The Investment Committee and its designated investment advisor will then select the specific asset mix reflecting judgments as to the investment environment as well as the specific needs of the Fund. The Investment Committee will discharge their duties with prudence and ethics as stated in Section 3 of the Navajo Nation Master Investment Policies.

**E. Investment Policy Guidelines.** The Budget & Finance Committee does not expect the Investment Committee to be reactive to short-term investment developments, recognizing that the needs for payout are long term and that investment competence must be measured normally over a meaningful period of time. While the quantitative assessment of managerial competence will be measured normally over a complete market cycle, the Budget & Finance Committee anticipates that the Investment Committee will make interim qualitative judgments. Specific qualitative factors which the Investment Committee on an ongoing basis will review.

Asset Allocation



The most important component of an investment strategy is the asset mix, or the resource allocation among the various classes of securities available to the Permanent Fund investments. The Investment Committee will be responsible for target and actual asset allocation for the investments that will best meet the needs of the Fund, taking into consideration the appropriate level of portfolio volatility. The Investment Committee will then submit to the Budget & Finance Committee the long-term asset allocation ranges.

Long term

The risk/return profile shall be maintained by describing a long-term "target" strategic asset allocation and is set forth below.

Investment Time Horizon

In making investment strategy decisions for the Fund, the focus shall be on a long-term investment time horizon that encompasses a complete business cycle (usually three to five years). Interim evaluation will be required if a significant change in fees, manager personnel, strategy or manager ownership occurs.

**Allocation of Assets**

It shall be the policy of the Fund to be invested in accordance with the maximum and minimum range for each asset class as stated below:

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Cash Equivalents	0%	0%	10%
Fixed Income	15%	22%	35%
— Short/Intermediate	10%	18%	25%
— Core Plus	75%	82%	90%
U.S. Equity	30%	41%	50%
— Large Cap	70%	80%	90%
— Small/Mid Cap	15%	20%	25%
Non U.S. Equity	5%	12%	20%
Core Real Estate	0%	10%	15%
Absolute Return/GTAA	10%	15%	20%



Target Asset Allocation			
	Minimum	Target	Maximum
U.S. Equity	15%	28%	41%
Large Cap	11%	21%	31%
Small / Mid Cap	4%	7%	10%
International Equity	10%	15%	20%
Core / Core Plus Fixed Income	15%	19%	25%
Bank Loans	2.5%	5%	7.5%
Core Real Estate	5%	10%	15%
Non-Core Real Estate	0%	5%	7.5%
Absolute Return / GTAA	8%	13%	18%
Private Equity	0%	5%	7.5%
Cash Equivalents	0%	0%	5%

The asset allocation ranges established by this investment policy represent the long-term perspective. As such, rapid unanticipated market shifts may cause the asset mix to fall outside the policy ranges. Any divergence should be of a short-term nature. Staff will review the asset allocation of the Fund on a quarterly basis and rebalance to within policy ranges as necessary.

**F. Performance Expectations.** The measurement period for complete evaluation will be trailing twelve-quarter periods and complete market cycles. Market cycles are defined to include both a rising and a declining leg. Therefore, a minimum period of evaluation shall be typically three to five years.

The most important performance expectation is the achievement of investment results that are consistent with the Fund's investment objective statement. Performance will be monitored against a custom index of the target allocation.

*Amended*  
**Navajo Nation Permanent Fund**  
(Sub-Policy)

STATEMENT OF INVESTMENT OBJECTIVES, GUIDELINES AND PROCEDURES

**A. General.** This statement governs the investment of Permanent Fund (Fund) as a sub-policy of the Navajo Nation Master Investment Policies.

This statement is set forth in order that the Navajo Nation Council, the Budget & Finance Committee, the Investment Committee, Staff, the investment advisor and its investment managers and others entitled to such information may be made aware of the Policy of Permanent Fund with regard to the investment of its assets and the expectations and requirements of the Investment Committee with respect to the ongoing management of the investments. The purpose of this document is to establish the investment policies, standards of prudence and performance expectations for the Fund. The Investment Committee is responsible for the fiduciary oversight of the investments and has chosen these policies as its statement of intent for achieving the investment objectives described below.

**B. The Fund.** The Permanent Fund (Fund) was established to provide revenues in future years. Twelve percent of all unrestricted revenues of the Navajo Nation are transferred to the Fund. The Navajo Nation Council resolution, which established the Fund, stipulates that the principal may not be expended except pursuant to a referendum approved by the Navajo Nation Council and adopted by a two-thirds majority vote of registered Navajo voters. Permanent Fund income may be expended for administration and management of the Fund until September 30, 2006.

Fund income is defined as realized income including interest, dividends and realized gains or losses.

All amounts of money deposited in the Fund shall be invested as soon as practical in accordance with Investment Objectives and Investment Policies of the Navajo Nation as formally adopted by the Budget and Finance Committee of the Navajo Nation Council.

The Fund is expected to be available in perpetuity so it will be invested with a long-term perspective. It is important to follow coordinated policies regarding spending and investment decisions, which will protect the principal and produce reasonable total returns.

To assure that the integrity of these assets shall be maintained to the maximum extent feasible, the Investment Committee has established the following Policies:

- To be invested in accord with The Master Investment Policy and Procedures approved by the Budget & Finance Committee.
- To preserve the purchasing power of the investments while at the same time increasing the size of the corpus in order to support growth in the Navajo Nation Permanent Fund. Preservation of principal is of high priority and essential over the long term.

**C. Investment Objectives.** The primary objectives of the Fund shall be:

- Preservation of capital in real terms,
- Obtain maximum returns within reasonable and acceptable levels of risk.

Financial objectives of the Permanent Fund have been established in conjunction with a comprehensive review of the current and projected financial requirements of the Fund. The targeted rate of return is 4% above Consumer Price Index. While there cannot be complete assurance that the defined objectives will be realized, it is believed that the likelihood of their realization is reasonably high, based on the investment policy of the Fund.

The achievement of the investment objectives of the Fund will be reviewed on an annual basis. This review will focus on the continued feasibility of achieving the objectives and the continued appropriateness of the investment policy. It is not expected that the policy will change frequently; in particular, short-term changes in the financial markets should generally not require an adjustment in the policy.

**D. The Investment Committee Responsibilities.** The Investment Committee is an advisory committee to the Budget & Finance Committee and will have the responsibility and authority to oversee the investments of the Fund. The Investment Committee and its designated investment advisor will then select the specific asset mix reflecting judgments as to the investment environment as well as the specific needs of the Fund. The Investment Committee will discharge their duties with prudence and ethics as stated in Section 3 of the Navajo Nation Master Investment Policies.

**E. Investment Policy Guidelines.** The Budget & Finance Committee does not expect the Investment Committee to be reactive to short-term investment developments, recognizing that the needs for payout are long term and that investment competence must be measured normally over a meaningful period of time. While the quantitative assessment of managerial competence will be measured normally over a complete market cycle, the Budget & Finance Committee anticipates that the Investment Committee will make interim qualitative judgments. Specific qualitative factors which the Investment Committee on an ongoing basis will review.

Asset Allocation

The most important component of an investment strategy is the asset mix, or the resource allocation among the various classes of securities available to the Permanent Fund investments. The Investment Committee will be responsible for target and actual asset allocation for the investments that will best meet the needs of the Fund, taking into consideration the appropriate level of portfolio volatility. The Investment Committee will then submit to the Budget & Finance Committee the long-term asset allocation ranges.

Long term

The risk/return profile shall be maintained by describing a long-term “target” strategic asset allocation and is set forth below.

Investment Time Horizon

In making investment strategy decisions for the Fund, the focus shall be on a long-term investment time horizon that encompasses a complete business cycle (usually three to five years). Interim evaluation will be required if a significant change in fees, manager personnel, strategy or manager ownership occurs.

**Allocation of Assets**

It shall be the policy of the Fund to be invested in accordance with the maximum and minimum range for each asset class as stated below:



<b>Target Asset Allocation</b>			
	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>
<b>U.S. Equity</b>	<b>15%</b>	<b>28%</b>	<b>41%</b>
Large Cap	11%	21%	31%
Small / Mid Cap	4%	7%	10%
<b>International Equity</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>
<b>Core / Core Plus Fixed Income</b>	<b>15%</b>	<b>19%</b>	<b>25%</b>
<b>Bank Loans</b>	<b>2.5%</b>	<b>5%</b>	<b>7.5%</b>
<b>Core Real Estate</b>	<b>5%</b>	<b>10%</b>	<b>15%</b>
<b>Non-Core Real Estate</b>	<b>0%</b>	<b>5%</b>	<b>7.5%</b>
<b>Absolute Return / GTAA</b>	<b>8%</b>	<b>13%</b>	<b>18%</b>
<b>Private Equity</b>	<b>0%</b>	<b>5%</b>	<b>7.5%</b>
<b>Cash Equivalents</b>	<b>0%</b>	<b>0%</b>	<b>5%</b>

The asset allocation ranges established by this investment policy represent the long-term perspective. As such, rapid unanticipated market shifts may cause the asset mix to fall outside the policy ranges. Any divergence should be of a short-term nature. Staff will review the asset allocation of the Fund on a quarterly basis and rebalance to within policy ranges as necessary.

**F. Performance Expectations.** The measurement period for complete evaluation will be trailing twelve-quarter periods and complete market cycles. Market cycles are defined to include both a rising and a declining leg. Therefore, a minimum period of evaluation shall be typically three to five years.

The most important performance expectation is the achievement of investment results that are consistent with the Fund's investment objective statement. Performance will be monitored against a custom index of the target allocation.