

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 AND  
ADOPTING THE AMENDED AND RESTATED NAVAJO NATION MASTER  
INVESTMENT POLICY

BE IT ENACTED:

SECTION ONE. AUTHORITIES

- A. The Budget and Finance Committee 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, and Chapter budget and finance, for the purpose of coordinating, overseeing, and regulating the fiscal, financial, investment, contracting, and audit policies of the Navajo Nation and to promulgate rules and regulations relative to contracting, investments, and financial matters pursuant to 2 N.N.C. §§ 300(C)(1) and 301(B)(1).
- B. The Navajo Nation Investment Committee is an advisory group to the Budget and Finance Committee in the management of the Nation's investment program and is responsible for recommending to the Budget and Finance Committee the adoption of modifications to the Master Investment Policy, Sub-Policies, and Asset Class Guidelines, pursuant to the Master Investment Policy, §§ 4.3 and 4.3(a).

SECTION TWO. FINDINGS

- A. The Budget and Finance Committee approved and adopted the investment policies for all Navajo Nation financial resources pursuant to Budget and Finance Committee Resolution No. BFO-61-90, as amended by BFJY-114-03, BFJA-01-08, BFJN-17-15 (adopting the Amended and Restated Master Investment Policy and the Asset Class Guidelines

attached thereto as Appendices A through G), BFD-38-17, and BFD-41-17 (collectively, the "Master Investment Policy").

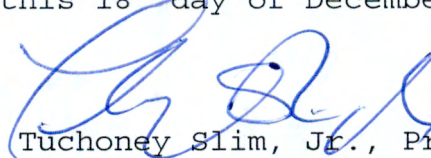
- B. The Investment Committee, upon the advice of its Investment Consultant, RVK Inc., may recommend modifications to the Master Investment Policy for the approval of the Budget and Finance Committee. Master Investment Policy §§ 1.1, 4.3(a), 4.8(a), and 22.
- C. The Investment Committee, the Investment Consultant, and other appropriate advisors as needed, are directed to develop investment guidelines for each asset class of permitted investments (the "Asset Class Guidelines") to provide guidance concerning the management of the Nation's funds. Master Investment Policy, § 21.
- D. The Investment Committee has recommended through Resolution No. NNICN-14-18, attached as **Exhibit 1**, that the Budget and Finance Committee approve and adopt the Amended and Restated Master Investment Policy.

### SECTION THREE. APPROVAL

The Budget and Finance Committee hereby approves and adopts the Amended and Restated Master Investment Policy. An underscored and overstricken version of which is attached as **Exhibit 2**, and the clean version including Appendices A through G is attached as **Exhibit 3**.

## 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 4 in favor, 0 opposed and Pro Tem Chairman not voting this 18<sup>th</sup> day of December 2018.



Tuchoney Slim, Jr., Pro Tem Chairperson  
Budget and Finance Committee

Motion: Honorable Jimmy Yellowhair  
Second: Honorable Lee Jack, Sr.

**RESOLUTION OF  
THE NAVAJO NATION INVESTMENT COMMITTEE**

**Recommending that the Budget and Finance Committee Approve the  
Amendment and Restatement of the Navajo Nation Master Investment Policy**

**WHEREAS:**

1. The Navajo Nation created the Navajo Nation (the "Nation") Investment Committee (the "Investment Committee") pursuant to Resolution No. CAU-39-73, and the Budget and Finance Committee of the Navajo Nation Council (the "Budget and Finance Committee") adopted investment policies for all Navajo Nation Financial Resources (the "Master Investment Policy") pursuant to Budget and Finance Committee Resolution No. BFO-61-90 as amended by BFJY-114-03, BFJA-01-08, BFJN-17-15, BFD-38-17, and BFD-41-17; and

2. The Investment Committee is responsible for recommending to the Budget and Finance Committee the adoption of modifications to the Master Investment Policy, Sub-Policies, and Asset Class Guidelines, pursuant to the Master Investment Policy, Section 4.3(a), and approving investment managers and custodians recommended by the investment consultant pursuant to the Master Investment Policy, Section 4.3(d); and

3. The Nation's investment consultant's duties include making recommendations regarding the reaffirmation and modification of the Master Investment Policy on an annual basis, pursuant to the Master Investment Policy, Section 4.8(a), and such recommendations have been developed in conjunction with the Investment Committee, the Office of the Controller, the Navajo Nation Department of Justice, and the Nation's outside counsel Kutak-Rock; and

4. The Investment Committee has reviewed the proposed modifications to the Master Investment Policy and finds that it is in the Nation's best interest to amend and restate the Master Investment Policy along with the Investment Guidelines in Appendices A through G, attached hereto as Exhibits A and A-1.

**NOW THEREFORE BE IT RESOLVED THAT:**

1. The Investment Committee recommends that the Budget and Finance Committee approve the amended and restated Navajo Nation Master Investment Policy along with the Investment Guidelines in Appendices A through G, attached hereto as Exhibits A and A-1.

**CERTIFICATION**

I certify that the foregoing resolution was duly considered by the Investment Committee, at a duly called meeting at the Office of the Navajo Tax Commission in St. Michaels, Arizona at which a quorum was present and that same was passed by a vote of 3 in favor and 0 opposed, this 8th day of November 2018.



Pearline Kirk, Presiding Chair  
Navajo Nation Investment Committee

Motion: Seth Damon  
Second: Elizabeth Begay  
Vote: 3-0



## THE NAVAJO NATION

### MASTER INVESTMENT ~~POLICIES~~ POLICY

#### Section 1. Introduction and Scope

- 1.1 Introduction.** ~~The~~ This Master Investment Policy ~~and Procedures (the~~ (this “Policy”) and the corresponding Sub-Policies ~~covering specific funds~~ (defined below in Section 20) covering specific funds of the Navajo Nation (the “Nation”) provide the Parties (defined below in Section 3.1) with policy guidance for investing the Nation’s financial resources. ~~The Policies provide~~ This Policy provides the framework for the Nation’s execution of its fiduciary responsibilities to Nation members, employees, and other beneficiaries of the Nation’s funds.

This Policy will be reviewed as needed by the Nation acting through the Nation’s Investment Committee (the “Investment Committee”) and the Budget and Finance Committee of the Navajo Nation Council (the “B&F Committee”). Adoption of this Policy and any subsequent modifications require recommendation by the Investment Committee to the B&F Committee for the B&F Committee’s approval.

#### **1.2 Scope - Funds and Accounts.**

- a) **Scope.** The scope of this Policy and its Sub-Policies applies to all investable funds of the Nation, being short, intermediate, or long-term, or managed internally or externally. Such investable funds include, without limitation, those funds specified below as well as any additional funds of the Nation created from time to time.
- b) **Master Trust.** For purposes of this Policy, the term “Master Trust” refers to the accounts of the Nation in the custody of Northern Trust as Custodian (defined below in Section 4.7) relating to the following funds: Navajo Nation Permanent Fund, Navajo Nation Sihasin Fund, Navajo Nation Land Acquisition Trust Fund, Navajo Nation Veterans Trust Fund, General Fund, 1982 Scholarship Claims Fund, Scholarship Trust Fund (Graduate and TG&E), 1982/1986 Chapter Claims Fund, Navajo Nation Trust Fund for Handicapped Services, Navajo Nation Trust Fund for Vocational Education, Workers Compensation Self-Insurance Fund, Navajo Nation Trust Fund for Senior Citizens Services, and Business and Industrial Development Fund.
- c) **Fund Classification.** Accounts are classified into funds pursuant to ~~GAAP~~ generally accepted accounting principles (“GAAP”) in accordance with specified activities and objectives. The Nation’s existing funds include the following funds organized in the following ~~four~~ five (45) fund classifications (the “Fund Classifications”):

#### ~~GENERAL FUND~~

##### i) GOVERNMENTAL FUNDS

###### General Fund

Navajo Dam Escrow Fund

Oil and Gas Special Revenue Development Fund

Navajo Nation Reforestation Fund

Capital Outlay Match Funding Special Revenue Fund

Navajo Nation Sihasin Fund

## ii) SPECIAL REVENUE FUNDS

### Grant Fund

~~Chapter Government Nation Building Fund (1982 Claims Fund and 1986 Claims Fund)~~

~~Navajo Dam Eserow Fund~~

Scholarship Fund (Navajo Engineering and Construction Authority Trust Fund for Scholarships and Financial Assistance and the Diné Higher Education Grant Fund).

~~Navajo Rehabilitation Trust Fund~~

Navajo Tourism Fund

~~Land Acquisition Fund~~

Navajo Nation Environmental Protection Agency Fund

~~Navajo Trust Fund (Phoenix Indian School)~~

Fund Tax Administration Suspense ~~Funds Oil and Gas Development Special Revenue~~

Navajo ~~Forestation~~ Nation Water Rights Claims Fund

~~Local Governance Trust Fund~~

~~Capital Outlay Match Funding Special Revenue Fund~~

~~Sales Tax Trust Fund~~

Navajo Nation Road Fund

Navajo Nation Land Acquisition Trust Fund

Navajo Rehabilitation Trust Fund

Judicial/Public Safety Facilities Fund

1982/1986 Chapter Claims Fund

1982 Scholarship Claims Fund

Scholarship Trust Fund (Graduate and TG&E)

iii) FIDUCIARY FUNDS

A) Pension Trust Funds:

Retirement ~~Fund~~ Plan (“Defined Benefits Plan”)  
Deferred ~~Retirement Fund~~ Compensation Plan  
Nihibeeso Retirement Fund (“401(k) Savings Plan” or “Defined Contribution Plan”)

~~Nonexpendable~~ B) Private Purpose Trust Funds:

Navajo Nation ~~Permanent~~ Trust Fund for Handicapped Services  
Navajo Nation Trust Fund for Vocational Education  
Navajo Nation Trust Fund for Senior Citizens Services  
Navajo Nation Trust Fund for Navajo Preparatory School, Inc.  
Phoenix Urban Navajo Trust Fund  
Navajo Nation Veterans Trust Fund  
~~Sihasin Fund~~ Navajo Nation Local Governance Trust Fund  
Sales Tax Trust Fund

iv) PERMANENT FUND TYPES

Navajo Nation Permanent Fund

v) PROPRIETARY FUNDS

Business and Industrial Development Fund  
Loan Fund  
Employee Housing  
~~Group Health Self-Insurance Fund~~ Parks and Recreation Fund  
~~Property & Casualty Insurance Fund (Insurance Services Fund)~~  
~~Worker’s Compensation Insurance Fund (Insurance Services Fund)~~  
~~Contingency Management~~ Tribal Ranch Fund  
Navajo Times  
Fleet Management  
Duplicating Services  
Office Supply Center  
~~Navajo~~ Air Transportation  
~~Employee Housing~~  
~~Parks and Recreation~~  
~~Archaeology~~  
~~Tribal Ranches~~

Group Health Self-Insurance  
Property and Casualty Self-Insurance  
Workers Compensation Self-Insurance Fund  
Contingency Management Fund

d) The administrative responsibility for the ~~retirement accounts~~ Pension Trust Funds (i.e., the: ~~defined benefit, the 401(k) and the deferred compensation plans~~ Retirement Plan or

Defined Benefits Plan, Deferred Compensation Plan, and the 401(k) Savings Plan or Defined Contribution Plan) rests with the committees or boards established in the respective plan documents. The responsibilities of the Investment Committee are to oversee investment policies and Investment Managers (defined below in Section 4.6) for all of the above-named funds.

**1.3 Additional Funds.** From time to time the Nation designates financial resources into new funds. All such funds will be classified into the Fund Classifications identified in Section 1.2 above, or into a new Fund Classification, and added to the Master Trust, if appropriate. The Controller shall assign the appropriate Fund Classification for new funds in accordance with ~~generally accepted accounting principles ("GAAP")~~ GAAP.

**1.4 Pooling of Funds.** Each Fund Classification will be managed as ~~an individual~~ a single pool to take advantage of economies of scale when making investment purchases and to simplify the investment process, unless ~~comingling~~ internal commingling of the funds is prohibited. Except for cash in certain restricted funds, the Nation will consolidate cash balances from all funds, regardless of Fund Classification, to maximize investment earnings. Investment income will be allocated to the funds based on their respective participation in the aggregate investment and in accordance with GAAP. Funds prohibited from ~~comingling~~ internal commingling will be managed separately (e.g., ~~Retirement~~ Pension Trust Funds).

The Controller may, using his or her professional judgement, establish more than one cash management fund. On a quarterly basis, the Controller shall report the status and performance of the internal cash management fund(s) to the Investment Committee. The Controller shall report to the B&F Committee the establishment of any new cash management fund.

## **Section 2. General Objectives**

**2.1 Investment Objectives and Priorities.** The Nation shall invest all available funds subject to the following objectives and priorities:

- a) Safety of principal. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
- b) Liquidity requirements of anticipated and unanticipated expenditures.
- c) Yield.
- d) Recognition of differing objectives and needs of various fund portfolios.
- e) Conformance with Nation law and other applicable legal restrictions.
- f) Maximization of the total rate of return on investment consistent with the foregoing objectives.
- g) Diversification by asset type, security, and ~~investment manager~~ Investment Manager in order to smooth the volatility of quarterly and annual returns.

**2.2 Short-Term Funds.** The Nation shall invest its short-term funds in a manner that integrates safety, liquidity, and yield as defined by (a)–(c) below. The Nation's short-term funds include:

The General Fund;



The Grant Fund;  
Proprietary Funds;  
The cash portion of long-term funds; and  
Any other short-term funds that may be added.

- a) Safety. The Nation shall treat safety of principal as the foremost objective of the short-term investment portfolio. The Nation shall undertake investments in a manner that seeks to ensure the preservation of capital in the overall short-term investment portfolio. The Nation's objective will be to mitigate Credit Risk (defined below) and Interest Rate Risk (defined below).
  - i) Credit Risk - The risk of loss due to failure of the security issuer or backer ("Credit Risk") will be minimized by the Nation as follows:
    - ~~a) A)~~ Investments will be limited to the safest types of securities;
    - ~~b) B)~~ Investment ~~managers~~ Managers will conduct proper due diligence on investments; and
    - ~~c) C)~~ The short-term investment portfolio will be diversified to minimize potential losses on individual securities.
  - ii) Interest Rate Risk - The Nation will minimize the risk that the market value of securities in the short-term investment portfolio will fall due to changes in general interest rates ("Interest Rate Risk") by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations. Operating funds will be invested primarily in shorter-term securities, money market mutual funds, or similar investment pools.
- b) Liquidity. The short-term investment portfolio shall remain sufficiently liquid to meet all operating requirements of the Nation. This will be accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Since all possible cash demands cannot be anticipated, the portfolio should consist largely of investments with active secondary markets (dynamic liquidity).
- c) Yield. The short-term investment portfolio shall be designed to attain a market rate of return, taking into account the Nation's investment risk constraints and liquidity needs. Yield includes interest from bonds and dividends from common and preferred stocks.

**2.3 Long-Term Funds.** The Nation shall focus its long-term funds on capital growth. The Nation's long-term funds include:

Special Revenue Funds (excluding the Grant Fund);  
Fiduciary Funds; and  
Any other long-term funds that may be added.

**Capital Growth.** The Nation's long-term investment portfolio shall be designed to protect principal while earning a rate of return that will meet or exceed the rate of inflation to preserve the fund assets and to ensure that sufficient reserves will be available to cover future cash requirements. Capital growth is generally achieved by investing prudently in a wide range of

asset classes in order to achieve proper diversification. Since these funds will focus on long-term capital appreciation some short-term volatility including loss of principal may be experienced.

### Section 3. Standards of Care

- 3.1 Prudence.** All participants in the Nation's investment process shall act responsibly as custodians of the public trust. The Controller and the Investment Staff (defined below in Section 4.4), the Investment Committee and its members, the B&F Committee and its members, the Investment Consultant (defined below in Section 4.8), the Investment Managers (~~defined below in Section 4.6~~), the Financial Advisor (defined below in Section 4.9), Special Counsel (defined below in Section 4.10), and any other consultants engaged by the Nation to assist in the Nation's investment program (collectively, the "Parties"), shall follow the "prudent investor" rule in investing or advising the Nation concerning the investment of the Nation's funds. The "prudent investor" rule provides that "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

In connection with performing its responsibilities under this Policy, the Investment Committee shall take into consideration the accepted institutional investment practices of the Government Finance Officers Association ("GFOA") with regard to investment program management, investment policy, portfolio diversification and all other applicable responsibilities, unless such practices are inconsistent with the laws of the Navajo Nation.

- 3.2 Code of Ethics.** The Controller, ~~and the Investment Staff~~, the Investment Committee and its members, ~~and the B&F Committee and its members~~ shall comply with the Navajo Nation Ethics in Government Law set forth in 2 N.N.C. § 3741 *et seq.* (the "Ethics Code").

### Section 4. ~~Delegation of Authority~~ Authorities, Responsibilities and Duties

The Nation shall adhere to, and maintain, a highly structured and organized process for implementing its investment programs.

- 4.1 Budget and Finance Committee.** The B&F Committee is a standing committee of the Navajo Nation Council and is vested with oversight authority with respect to the Nation's investments ~~pursuant to 2 N.N.C. § 300.C (established in Navajo Nation Council Resolution Nos. CO 45-12 and CJA 03-13). Title Two also authorizes the B&F Committee to coordinate, oversee, and regulate for the purposes of coordinating, overseeing, and regulating~~ the investment policies of the Nation, ~~Id. at § 300.C.1, and places a duty on the B&F Committee~~ and with the power to promulgate rules and regulations relative to investment matters, pursuant to 2 N.N.C. §§ 300 (A), 300 (C)(1), and 301(B)(1). The B&F Committee has a duty to protect the interests of the Navajo people through the prudent management of the financial reserves of the Nation. ~~Id. at § 300.C.4-300(C)(4).~~ Pursuant to the aforementioned statutory authority and obligation, the B&F Committee has final authority to approve this Policy and all Nation investment policies, and to reaffirm ~~or~~, modify, or restate this Policy and all Nation investment policies.
- 4.2 Investment Committee.** The Investment Committee will consist of:
- a) The Controller, who shall serve as Chairman of the Investment Committee pursuant to 12 N.N.C. § 203.I;

- b) The ~~Attorney General;~~Executive Director of the Office of the Navajo Tax Commission;
- c) The Auditor General;
- d) ~~A~~The President or a Presidential Appointee;
- e) The Chairman of the B&F Committee;~~and~~
- f) An additional B&F Committee Member;and
- g) The Attorney General as a nonvoting, ex officio member.

**4.3 Investment Committee Responsibilities.** The Investment Committee is an advisory group to the B&F Committee in the management of the Nation's investment programs. At a minimum, the Investment Committee will meet once a quarter within sixty (60) days after the quarter ends. The Chairperson of the Investment Committee shall schedule meetings of the Investment Committee as necessary to insure compliance with this Policy, and to protect the investments of the Nation. The Investment Committee's responsibilities include, but are not limited to, the following:

- a) Recommend to the B&F Committee all modifications to ~~the~~this Policy, the Sub-Policies, and the Asset Class Guidelines (defined below in Section 21).
- b) Determine strategies and monitor results for all funds listed above in Section 1.2 (Scope - Funds and Accounts). The Investment Committee shall include in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, potential risks to the Nation's funds, authorized depositories, brokers and dealers, and the target rate of return on the investment portfolio.
- c) Select the Investment Consultant, subject to approval of the Investment Consultant's contract by the B&F Committee.
- d) Accept or reject the Investment Consultant's recommendations for Investment Managers and Custodians ~~(defined below in Section 4.7)~~, subject to the approval of each ~~investment manager and custodial~~Investment Manager contract and each Custodian contract by the B&F Committee.
- e) Select specialty service providers to assist with the selection, feasibility, management, and oversight of direct investments in real estate and other direct investments requiring additional expertise, including without limitation, private equity and venture capital.
- f) Receive quarterly and annual reports from the Investment Consultant regarding the performance of ~~investment managers~~Investment Managers and receive periodic reports from individual ~~investment managers~~Investment Managers.
- g) Receive quarterly and annual reports from the Controller regarding the status of each fund's investment, which reconcile to the Investment Consultant's report.

**4.4 Controller's Responsibility.** The Controller is vested with the authority to pursue the administration and management of the Nation's investment programs, and the Controller has a responsibility to the Navajo Nation Council and the B&F Committee to properly execute and operate the Nation's investment program. 12 N.N.C. § 203.I. The Controller may delegate the



execution authority to his or her staff (the “Investment Staff”) to assist in the operation of the Nation’s investment program. The Controller and the Investment Staff shall act in accordance with established written procedures and internal controls for the management and operation of the investment program consistent with this Policy. No person may engage in an investment transaction with respect to any of the funds listed above in Section 1.2 (Scope - Funds and Accounts) except as provided under the terms of this Policy. The Controller shall be responsible for all transactions undertaken with respect to those funds and shall establish a system of controls to regulate the activities of the Investment Staff. The Controller’s responsibilities include, but are not limited to, the following:

- a) Safekeeping;
- b) Delivery versus payment;
- c) Investment accounting;
- d) Repurchase agreements;
- e) Wire transfer agreements; and
- f) Collateral/depository agreements.

**4.5 Responsibilities of the Controller’s Staff.** Investment Staff of the Office of the Controller may be retained, directed, and authorized by the Controller to support and maintain the integrity of the Nation’s investment program. In striving to attain quality investment management, it is the policy of the Office of the Controller to attract and retain qualified Investment Staff and to promote, encourage, and provide continuing education and professional development for the Investment Staff.

**4.6 Duties of the Investment Managers.** The duties of the Nation’s external investment managers (each an “Investment Manager” and collectively, the “Investment Managers”-duties) include, but are not limited to, the following:

- a) Provide the Nation with a written agreement to invest within the guidelines established by this ~~policy~~Policy and the corresponding ~~asset-class guidelines and shall~~Asset Class Guidelines and commit to comply with the Nation’s Ethics Code as affirmed in writing.
- b) Provide the Nation with proof of liability and fiduciary insurance coverage.
- c) Be (i) a Securities and Exchange Commission (“SEC”) Registered Investment Advisor under the ~~1940 Act, and Investment Advisers Act of 1940, as amended, a “commodity pool operator” under the Commodity Exchange Act, as amended (“CEA”), a commodity trading advisor under the CEA and/or a member of the National Futures Association (“NFA”), as applicable, unless exempted by applicable laws, rules and regulations from being required to register thereunder or be a member thereof due to its status as a regulated entity (i.e., certain banks), and (ii)~~ recognized as providing demonstrated expertise over a number of years in the management of institutional assets.
- d) Adhere to the investment management style concepts and principles for which they are engaged by the Nation.



- e) Execute all transactions for the benefit of the Nation with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the Nation and, where appropriate, facilitate the recapture of commissions on behalf of the Nation.
- f) Reconcile monthly accounting, transaction, and asset summary data with Custodian valuations and communicate and resolve any significant discrepancies with the Nation's Investment Consultant and Custodian.
- g) Report in writing to the Controller and Investment Consultant on all significant matters pertaining to their firm's ownership, investment style and philosophy, changes in personnel, significant client departures, and periods of underperformance.

~~h) Vote the proxies of invested companies as they deem appropriate. The Investment Committee reserves its right to exercise its proxy rights when it so chooses.~~

**4.7 Duties of Custodians.** The duties of the Nation's custodian's bank (the "Custodian") ~~duties~~ include, but are not limited to, the following:

- a) Provide complete global custody and depository services for the designated Nation accounts.
- b) Provide an audited monthly report of the investment activities conducted by the Investment Managers.
- c) Provide monthly and year-end accounting statements for all funds, including all transactions.
- d) Collect all interest income and dividends and principal realization and properly report it in monthly statements.
- e) Reconcile monthly accounting, transaction, and asset summary data and communicate and resolve any significant discrepancies with the Nation's Investment Consultant and Investment Managers.

**4.8 Duties of the Investment Consultant.** The Nation's investment consultant (the "Investment Consultant") must be independent of all ~~managers~~ Investment Managers and ~~eustodians~~ Custodians, with no conflicts of interests with any current or prospective service providers to the Nation. The Investment Consultant's duties include, but are not limited to, the following:

- a) Make recommendations to the Controller, Investment Committee, and B&F Committee regarding investment policy and strategic asset allocation. The Investment Consultant shall make recommendations regarding the reaffirmation ~~and~~, modification or restatement of ~~these Policies~~ this Policy on an annual basis.
- b) Assist the Nation in the selection of qualified ~~investment managers~~ Investment Managers, and assist in the oversight of existing ~~managers~~ Investment Managers, including monitoring changes in personnel, ownership, and the investment process.
- c) Assist with Request for Information ("RFI") research and summary due diligence of qualified custodian(s) and securities lending agents.

- d) Negotiate fee arrangements and other contract terms with the ~~investment-managers~~Investment Managers on behalf of the Nation.
- e) Negotiate and arrange for brokerage and custodial services.
- f) Prepare a quarterly performance report including performance attribution on all the Nation's Investment Managers, funds, and total assets, including a check on the Investment Managers' guideline compliance and adherence to investment style and discipline.
- g) Handle special projects at the request of the Investment Committee.
- h) Handle certain other matters, primarily reporting, as described elsewhere in this Policy, ~~and the~~ Sub-Policies and ~~the~~ Asset Class Guidelines.
- i) Report proxy votes as needed to the Investment Committee.

**4.9 Duties of the Financial Advisor.** The Nation's financial advisor (the "Financial Advisor") must be independent of the Investment Consultant, all ~~managers~~Investment Managers and ~~custodians~~Custodians, with no conflicts of interest with any current or prospective service providers to the Nation. The Financial Advisor's duties shall include, but not be limited to, the following:

- a) Make recommendations to the Controller, the Investment Committee, and the B&F Committee regarding direct and specialized investments.
- b) Handle special projects at the request of the Office of the Controller, the Investment Committee, and the B&F Committee.

**4.10 Appointment and Duties of Special Counsel.** The Controller may recommend to the Attorney General of the Navajo Nation Department of Justice (the "Attorney General") engagement of special counsel ("Special Counsel") with specialized expertise with respect to investment matters, including private equity, alternative investments, restructuring, hedging and mergers and acquisitions, to advise the Nation on investment matters. Duties of Special Counsel shall be established in an attorney contract negotiated and executed by the Attorney General pursuant to the Attorney General's authority and duties set forth in 2 N.N.C. § 1963.B. Duties of Special Counsel may include, but shall not be limited to, the following:

- a) Advise the Office of the Controller, the Investment Committee, and the B&F Committee on legal matters concerning investment policy and investment opportunities, including both direct and passive investments.
- b) Assist the Nation in the selection of advisors, consultants, managers and other service providers, including the preparation of requests for proposals and the evaluation of proposals.
- c) Assist the Nation in the negotiation of fee arrangements and contract terms, including dispute resolution, jurisdiction, governing law, protection of confidential information and intellectual property and other agreement provisions, consistent with the laws and policies of the Nation.

- d) Handle special projects at the request of the Office of the Controller, the Investment Committee, the B&F Committee, and the Department of Justice.

## Section 5. Asset Allocation Guidelines and Rebalancing Policy

The target asset allocation guidelines and time parameters for achieving target allocations are outlined in the Sub-Policy established for each separate fund. Such Sub-Policies shall be approved by the B&F Committee upon recommendation by the Investment Committee.

## Section 6. Cash Holdings

It is the policy of the Nation for equity Investment Managers to be fully invested at all times, except in anticipation of large withdrawals. Equity Investment Managers should maintain less than five percent (5%) of their portfolios in cash equivalents. Fixed income Investment Managers can maintain higher cash balances (e.g., as bar-bell strategies necessitate this exposure to cash). This Section does not apply to cash Investment Managers.

## Section 7. ~~Pooled~~/Commingled Investments

- 7.1 **Definition of Commingled Investments.** “Commingled ~~investments~~Investments” refer to investment ~~instruments where~~vehicles in which there is a pooling of ~~securities owned by funds from~~ multiple clients managed by an Investment Manager as one account for diversification and cost benefits and, therefore, ~~investment managers~~Investment Managers cannot tailor the portfolio to suit client-specific guidelines. Commingled Investments may be used for investment in approved asset classes with the Investment Committee taking into consideration fees, investment minimums, liquidity and other investment-related factors when reviewing investment vehicle options. Commingled Investments may be structured as limited partnerships, limited liability companies, private Real Estate Investment Trusts (“REITs”), trusts, partnerships, joint ventures, corporations or other investment vehicles. Commingled Investments include mutual funds, hedge funds, commingled investment funds, private equity funds, unit trusts, exchange traded funds, portable alpha funds, venture capital funds and other types of commingled investment vehicles.
- 7.2 **~~Mutual Fund~~Commingled Investments/~~Commingled Funds~~ Criteria.**
  - a) No single investment of the Nation’s funds shall be made in any ~~mutual fund or other commingled investment~~Commingled Investment that would contain more than ten percent (10%) of the Nation’s total portfolio valued at market at the time of such investment, unless otherwise recommended by the Investment Committee and approved by the B&F Committee.
  - b) With the approval of the Investment Committee, the Nation may invest in any ~~commingled (including, without limitation, any limited partnership, limited liability company, commingled investment fund, hedge fund, private equity fund, unit trust, joint venture, trust or mutual fund),~~Commingled Investment as long as it is either (i) registered under the Securities Act of 1933 and/or the Investment Company Act of 1940, as amended, and has qualified under applicable state registration requirements or (ii) is exempt from such federal and state registration.
  - c) Any mutual fund must be purchased at the current net asset value; ~~and if a commingled/mutual fund is used as an investment, the prospectus or operating guidelines~~



~~of that fund will be the operative policy and the guidelines set forth in this Policy shall not control.~~ of such mutual fund.

- d) The Investment Manager for a Commingled Investment shall have demonstrated a favorable record of at least three years in managing institutional assets in the particular investment strategy relating to such Commingled Investment; provided, that shorter-term histories will be considered for entire portfolio management teams that have portable favorable records from predecessor firms of at least three years in managing institutional assets in the particular investment strategy relating to such Commingled Investment.

**7.3 Commingled Investments Exception.** Commingled Investments may provide lower costs and better diversification than can be obtained with a separately managed account pursuing the same investment objectives. However, Commingled Investments cannot customize investment policies and guidelines to the specific needs of individual clients. The Investment Committee may determine to accept the policies of Commingled Investments in order to achieve such lower costs and diversification benefits. Therefore, Commingled Investments and the related Investment Managers and their respective affiliates recommended by the Investment Committee and approved by the B&F Committee shall be exempt from the policies and restrictions specified in this Policy (other than those set forth in this Section 7), and the related Investment Managers and their respective affiliates will have full discretion over the portfolio management decisions subject to the guidelines established by the respective organizational and related documents and offering documents of the Commingled Investments and the contracts with the related Investment Managers and their respective affiliates. Proxy votes for securities held by Commingled Investments shall be exercised by the related Investment Managers.

## **Section 8. Permissible Investments**

**8.1 Asset Category Definitions.** ~~Investments must be made in accordance with accepted institutional investment practices of the Government Finance Officers Association (GFOA) and Association of Investment Management Research ("AIMR"). Investments must be of high of~~ institutional quality and well diversified. Investment ~~managers~~ Managers must exercise prudence in all matters and invest solely for the benefit of the Nation.

- a) Domestic Equity - Common and Preferred Stocks. The emphasis of the common stock portfolio will be on high quality companies, which offer above-average returns as a protection against inflation. Securities should be publicly traded at a level sufficient to insure liquidity of the holdings without significant adverse effects on price due to rapid sale. In certain circumstances, securities may be purchased in an initial public offering ("IPO") for companies and in sectors where it is reasonably anticipated that there is a high likelihood that there will be an active secondary market for the securities to insure liquidity of the holdings without significant adverse effects on the price due to rapid sale.
- b) International Equity - International equity managers concentrate on identifying companies or countries or both that offer competitive valuation levels and potential for capital appreciation. The countries will be developed and emerging markets and generally represented by the MSCI All Country World (Ex. US) Index.
- c) Fixed-Income - The primary role of the fixed-income portfolio is to provide a stable investment return and to generate income while diversifying the investment assets. In addition, the role of fixed-income is to provide a deflationary hedge. The fixed-income



asset class will typically include the following security types and the permissible investments for this asset class are further detailed in the Appendix:

- i) Bonds, notes or other obligations of the United States government, its agencies, government-sponsored enterprises, corporations, or instrumentalities for which the credit of the United States government is pledged for the payment of the principal and interest.
  - ii) Bonds, notes, or other obligations issued by a Native Nation or a state, or by their respective political subdivisions, that have received an investment grade bond rating.
  - iii) Bonds, notes, commercial paper or other obligations of any corporation organized and operating within the United States.
  - iv) Debt obligations of non-United States governmental or quasi-governmental entities, that may be denominated in foreign currencies; obligations, including but not limited to bonds, notes or commercial paper with an investment grade rating of any corporation organized outside of the United States. Currency transactions, including spot or cash basis currency transactions, forward contracts and buying or selling options or futures on foreign currencies, shall be permitted for the purposes of hedging foreign currency risk.
  - v) Collateralized obligations, including but not limited to mortgages, held in trust that: (1) are publicly traded and are registered by the SEC or other Self Regulatory Organization ("SRO") and (2) have underlying collateral that is either an obligation of the United States government or has received an investment grade rating from a nationally recognized rating agency.
- d) Diversified Inflation Strategies ("DIS"). The investment objective of DIS is to provide total returns and capital appreciation exceeding inflation by a premium (e.g. CPI + 5%) as measured by the appropriate custom inflation index. The primary role of the DIS allocation is to hedge against the erosion of asset values due to inflation and to diversify portfolio risks. The DIS asset class may include but is not limited to master limited partnerships ("MLPs"), royalty trusts, infrastructure, treasury inflation protected securities ("TIPS"), real estate/REITs, natural resources, commodities, and currencies and can be implemented either through diversified multi-asset strategies or as separate standalone allocations using individual asset class types.
- e) ~~Hedge Funds~~Absolute Return/Global Tactical Asset Allocation ("GTAA") – ~~Hedge fund~~Absolute Return and GTAA strategies are designed to provide returns similar to publicly traded equities but with significantly lower volatility. Additionally, these strategies should exhibit low correlations to the traditional asset classes in the portfolio. Investments in ~~hedge funds~~Absolute Return and GTAA strategies can be made via fund of fund, direct investments, and mutual fund vehicles. The ~~hedge fund~~Absolute Return/GTAA asset class may include but is not limited to strategy types including event driven, long/short equity, long/short credit, distressed, risk-parity, macro, directional/tactical (including global macro and managed futures inclusive of commodities and currency) and relative value.

- f) Cash Equivalents. Cash equivalents are interest bearing securities that maximize liquidity and safety of principal. The following types of cash equivalents are eligible for investment:
- i) Certificates of Deposit (“CDs”) that are one hundred percent (100%) federally insured or collateralized with government or government agency securities with a market value of at least one hundred and two percent (102%) of the face value of the certificate. Preference placement in CDs may be granted to those financial institutions that are supportive of the Nation’s fiscal objectives (e.g., loans, lease/purchase agreements, check cashing fee waivers, etc.);
  - ii) United States Treasury Bills;
  - iii) Repurchase Agreements acquired under an Investment Committee-approved master agreement;
  - iv) Commercial Paper of the highest three grades as rated by a nationally recognized rating agency; and
  - v) Commercial Bank Trust Department commingled liquidity funds specifically approved by the Investment Committee.

Maturities should be short enough that funds can be quickly liquidated with no loss of principal.

- g) Real Estate. The real estate investment objectives are to provide the client with total return, capital appreciation, protection against inflation risk, and consistent returns as measured by the appropriate real estate index. External investment management firms that have demonstrated a favorable record in managing real estate portfolios will actively manage Nation funds invested in real estate. The primary role of the real estate portfolio is to generate income while diversifying the investment assets. The real estate asset class may include but is not limited to the following:
- i) Core Real Estate – Commingled pools and Real Estate Investment Trusts (REITs) appropriate for institutional investors including diversification by property type and geographic location. ~~If investment is made via a commingled vehicle, the prospectus or operating guidelines of that vehicle shall be the operative policy.~~
  - ii) Non-Core Real Estate – Investments in value-added and mezzanine debt.
  - iii) First-lien mortgages and other debt instruments, and direct real estate equity/outright ownership.

This Section 8.1(g) shall not apply to the Navajo Nation Land Acquisition Trust Fund.

- h) Private Equity. The investment objectives of Private Equity are to provide the Nation with total return, capital appreciation, and protection against inflation risk with an expected return premium above public equity markets as measured by an internal rate of return (“IRR”) based on the S&P 500 (e.g., S&P 500 + 5%). ~~External investment management firms that have demonstrated a favorable long term record in managing private equity investments will actively manage such investments held by the Nation. A~~

diverse array of strategies that provide either return enhancement or diversification benefits shall be sought across multiple vintage years. Such strategies, accessed through fund of fund, co-investment, or direct partnership vehicles, may include but are not limited to leveraged buyouts, secondaries, distressed debt, venture capital, special situations, and other opportunistic strategies.

i) Direct Investments.—

- i) Direct investment of Nation funds in emerging growth, pre IPO and other non-public companies through various investment structures (e.g., a partnership or joint venture), either equity or debt based, is permitted subject to investment and operational due diligence by the Investment Committee or its designee. The Nation shall not invest in a direct investment that has a projected annual rate of return of less than the five (5) year average rate of return of the Master Trust portfolio, gross of fees, except as to the direct investments addressed in Section 8.1-(i)(ii) below, rates shall be as negotiated, but at no less than the ten (10) year average rate of return of the Master Trust portfolio. The average rate of return of the Master Trust portfolio shall be set at the rate set forth in the most recent quarterly report provided by the Investment Consultant.
- ii) Direct investment of Nation funds in any entity or enterprise owned in whole or part by the Nation, is permitted subject to investment and operational due diligence by the Investment Committee or its designee. Direct investment in any entity or enterprise owned in whole or part by the Nation shall be evaluated consistent with the above Section 2.1 (Investment Objectives and Priorities), including but not limited to, the overall benefit to the Nation of such investment, the promotion of tribal economic development, the promotion of tribal self-sufficiency and self-governance, the creation of jobs for enrolled members of the Nation, and the promotion of health, education, safety, and welfare of enrolled members of the Nation.

j) Accretive Investments. Accretive investment of Navajo Nation funds may include, without limitation, equity and debt investments in real estate, business expansions, financing, and land. The Investment Committee may invest with co-investors and operating partners specific to any Accretive Investment. Annual rate of return targets for Accretive Investments shall be priced using an industry-standard index used to price similar commercial transactions. The Investment Committee may consider an Accretive Investment that falls below the annual return target if such Accretive Investment is likely to achieve significant benefits to the Navajo Nation's economic, social, political, environmental, and community goals to maximize positive impact to the Navajo Nation while providing capital appreciation, protection against inflation risk, risk diversification and consistent returns, according to the Accretive Sub-Policy.

k) ~~j~~ Other Investments. Other investments, including entertainment investments and professional sports franchises, subject to the limitations of Section 11 below.

l) ~~k~~ High Yield Investments. Notwithstanding anything to the contrary in this Section 8, investments which offer potential for higher returns and price appreciation, including but not limited to investments in early stage companies, real estate development projects and other ventures where there are substantial upside returns but also greater risks; provided that such investments shall not be made in the Nation, an enterprise of the Nation or any



affiliates thereof, and the aggregate purchase amount of such investments shall not exceed in the aggregate 1% of the assets in the Master Trust at the time of investment.

### Section 9. Prohibited Investments

The following investments are prohibited in ~~separate~~separately managed account situations (i.e., not ~~mutual or commingled funds~~Commingled Investments). Should a prohibited transaction occur it should be reported immediately to the Controller, who will report it at the next Investment Committee meeting where the Investment Committee will decide how to proceed.

- 9.1 **Self-Dealing Transactions.** Investment Managers shall not purchase or hold any security or other investment that is issued by a corporation with which the Investment Manager's firm has any type of ownership relationship.
- 9.2 **Individual CD's and Time Deposits.** Individual CDs and Time Deposits shall not exceed applicable Federal Depository Insurance Corporation ("FDIC") deposit insurance limits unless they are one hundred percent (100%) collateralized by eligible securities or fully covered by a surety bond.
- 9.3 **Letter Stock.** Letter stock and other unregistered equity securities are prohibited. ~~Memberships~~For the avoidance of doubt, memberships in limited liability companies, partnership interests, corporations or other ownership in connection with hedge funds, venture capital, private equity, other Commingled Investments and real estate investments are not prohibited.
- 9.4 **Litigation with the Nation.** The Nation prefers not to invest in a company with which it is involved in litigation or a major contractual dispute.
- 9.5 **General Prohibitions.** No investment may be made in any enterprise of the Nation for the purpose of allowing that enterprise to make a direct or indirect investment in any entity or project that is not wholly owned and managed by the Nation or an enterprise of the Nation.

### Section 10. Derivatives Policy

~~Investments in derivatives shall be consistent with the Policy set forth in this document.~~

- ~~a) No derivatives are permitted whose value fluctuates as a multiple of any underlying security.~~
- ~~b) Investments in derivatives shall be unleveraged investments.~~
- ~~c) No investment shall be made in any newly formed instrument without the consent of the Investment Committee.~~
- ~~d) Futures, forwards, and options are permitted only if they are used in a defensive hedging manner, i.e., to control the volatility of a currency.~~

Investment Managers shall not purchase securities on margin, sell short, use individual stock options, puts, calls or trade in futures contracts, unless specified in the investment management agreement entered into by the Nation and the Investment Manager.



## **Section 11. Concentration and Diversification Guidelines Pertaining to the Overall Investment Program**

- a) Not more than ~~two and one-half~~five percent (~~2.5~~5%) of the outstanding ~~common~~ shares of any public corporation shall be owned by the Nation.
- b) An investment in privately held companies or joint ventures, including entertainment investments and professional sports franchises, may not exceed ten percent (10%) of the ~~value of the~~ Master Trust portfolio valued at market at the time of the investment.-

## **Section 12. Collateralization**

This Section 12 applies solely to the Controller's cash management activities on behalf of the Nation.

In accordance with the GFOA-recommended Practice on the Collateralization of Public Deposits, full collateralization will be required on non-negotiable CDs. Repurchase agreements shall be consistent with the GFOA-Recommended Practice on Repurchase Agreements.

For deposit type instruments investments managed internally, adequate collateral over the FDIC Insurance limit must be obtained to protect the assets of the Nation. Acceptable collateral is limited to U.S. Treasury and agency securities. The minimum acceptable limit is one hundred and two percent (102%) of assets.

## **Section 13. Safekeeping/Custody**

The Controller, with notification ~~of~~to the B&F Committee, shall contract with an authorized safekeeping agent(s) for safekeeping securities owned by the Nation as part of its investment portfolio or held as collateral to secure CDs or repurchase agreements. All securities transactions shall be conducted on a delivery versus payment basis to the Controller's safekeeping bank or to the Office of the Controller. The Office of the Controller, custodian, or safekeeping ~~agency~~agent(s) shall have custody of all securities purchased or held and all evidence of deposits and investments.

To protect against potential fraud and embezzlement, the assets of the Nation shall be secured through third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions. Collateralized securities such as repurchase agreements shall be purchased using the delivery versus payment procedure. Unless prevailing practices or economic circumstances dictate otherwise, ownership shall be protected through third-party custodial safekeeping. The independent auditor shall review safekeeping procedures annually. The independent auditor shall conduct periodic audits of safekeeping and custodial systems.

## **Section 14. Voting of Proxies**

To the extent that investments include ownership rights, such as the voting of proxies, such ownership rights shall be exercised according to the vehicle type:

- 14.1 Separately Managed Accounts.** Proxy votes for securities held in separately managed accounts shall be exercised by the ~~Manager in its discretion.~~ Each Investment Manager as it deems appropriate taking into account the interests of the Nation. The Investment Committee reserves its right to exercise its proxy rights when it so chooses. Each Investment Manager shall keep accurate written records as to the exercise of such ownership rights, whether exercised by the

Investment Manager or by the Investment Committee, and shall report in writing to the Investment Committee or Office of the Controller upon request.

- 14.2 Commingled Investments.** For proxy votes issued by ~~mutual funds, commingled trusts, limited partnerships, and other commingled investments; the consultant~~ Commingled Investments to the Nation, the Investment Consultant will provide voting guidance and recommendations to the Nation upon request. For the avoidance of doubt, proxy votes for securities held by Commingled Investments shall be exercised by the related Investment Managers as set forth in Section 7 above.

### **Section 15. Securities Lending**

A securities lending program may be implemented by the master Custodian or an outside independent securities lending agent. The belief is that this program will provide additional income without incurring additional risk. For all securities lent, liquid financial assets of the highest quality will be held as collateral in amounts equal to or greater than the value of securities lent. Cash, U.S. Treasury Bills and Notes, and A-1 or P-1 rated Commercial Paper are acceptable collateral.

Supervision of the lending program by the Investment Committee shall include:

- a) Procedures to review the creditworthiness of all borrowers;
- b) Requirements for full collateralization of all loans;
- c) Other methods and procedures required by the Investment Committee for securing the lending program.

### **Section 16. Commission Recapture Program**

The Office of the Controller assisted by the Investment Consultant shall monitor the commission recapture and discount brokerage programs to insure that Investment Managers provide the best effort to meet their commission recapture guidelines. The quality of execution should never be jeopardized.

Investment Managers may utilize brokers who provide the best net trade (discount brokerage) for their transactions.

The Office of the Controller assisted by the Investment Consultant shall report, at least annually, to the Investment Committee and the B&F Committee the Investment Managers' adherence to the commission recapture guidelines.

### **Section 17. Trades and Exchanges**

Investment Managers and the Office of the Controller may sell or exchange securities in the course of daily management of specific funds. Such trades may be executed to raise cash, to shift maturity, to change asset mix, to enhance yield, and to improve quality. The goal of all such trades is to maximize portfolio performance while minimizing risk.

- a) The Office of the Controller and all Investment Managers will take advantage of security swap opportunities to improve portfolio yield.
- b) To account for market fluctuations and volatility, the Office of the Controller or its agent (independent pricing agent) will mark to market all securities at least monthly. If a

significant market event takes place during the month that impacts the value of the portfolio, the Office of the Controller or its agent will mark the portfolio to market to determine the impact on the portfolio.

The Controller shall determine the market value of all securities in the portfolio on at least a quarterly basis. These values shall be obtained from a reputable and independent source and the Investment Consultant shall make a report to the Investment Committee at least quarterly. The report shall include the market value and unrealized gain or loss of the securities in the portfolio.

## **Section 18. Procedures for Selecting and Reviewing Investment Managers**

- 18.1 Review Process.** The Nation's investments shall be managed by professional Investment Managers except to the extent the Investment Committee specifically delegates investment authority for cash management portfolios to the Office of the Controller. When it is decided that an Investment Manager(s) is to be hired, the Investment Consultant shall solicit qualified proposals in compliance with the Navajo Nation Business Opportunity Act, 5 N.N.C. §201 *et seq.* (the "Business Opportunity Act"). The Controller and Investment Consultant will select at least two finalists to make an oral presentation to the Investment Committee. The Investment Committee will evaluate the finalists and select the Investment Manager(s) best suited to meet the Nation's investment needs. Evaluation factors will include the finalists' one-year, five-year and ten-year performance record and the associated risks taken to achieve the returns, the quality and stability of the investment personnel of each company, adherence to philosophy/style, and the fees charged by each company.
- 18.2** The B&F Committee shall approve the Investment Manager(s) selected by the Investment Committee. When presenting the selected Investment Manager(s) to the B&F Committee for approval, the Investment Committee shall include a summary of the finalists not selected and the evaluation factors and ranking utilized in the selection process. A contract with the Investment Manager(s) selected by the Investment Committee and approved by the B&F Committee will be executed pursuant to applicable Nation contract approval procedures.
- 18.3** If the Investment Committee recommends, subject to the approval of the B&F Committee, terminating an existing Investment Manager(s) prior to completion of the contract approval and execution process for the replacement Investment Manager(s), the Investment Committee, with guidance from the Investment Consultant, shall determine how assets currently under management by the Investment Manager(s) to be terminated will be liquidated, if necessary, and invested on a temporary basis. If available, a passive, benchmark tracking investment strategy with similar investment exposure to that of the terminated Investment Manager(s) shall be used for short-term investment purposes. If a passive, benchmark tracking investment strategy with similar investment exposure to that of the terminated Investment Manager(s) is unavailable, the Investment Committee, with guidance from the Investment Consultant, shall recommend, subject to the approval of the B&F Committee, using either (i) another existing Investment Manager(s) within the same asset class (or sub-asset class) or (ii) an alternative solution for short-term investment purposes, in each case so long as the recommended approach remains consistent with total fund and asset class risk expectations for the applicable assets. If the Investment Committee determines, with guidance from the Investment Consultant, that no reasonably acceptable alternatives exist for short-term investment, the Investment Committee may recommend, subject to the approval of the B&F Committee, liquidating the applicable



assets, if necessary, and holding such assets in cash prior to the completion of the contract approval and execution process for the replacement Investment Manager(s).

**18.4** ~~18.3~~ **Selection Criteria for Investment Managers.** Criteria will be established for each Investment Manager search undertaken by the Nation and will be tailored to the Nation's needs and priorities. In general, eligible Investment Managers will possess attributes including, but not limited to, the following:

- a) The firm, or the principal of the firm, must be experienced in managing money for institutional clients, family offices or other sophisticated investors in the asset class/product category/investment style specified by the Nation and its Investment Consultant.
- b) The firm must be ~~CFA Institute compliant~~ (i) an SEC Registered Investment Advisor under the Investment Advisers Act of 1940, as amended, a "commodity pool operator" under the CEA, a commodity trading advisor under the CEA and/or a member of the NFA, as applicable, unless exempted by applicable laws, rules and regulations from being required to register thereunder or be a member thereof due to its status as a regulated entity (i.e., certain banks), (ii) in current good standing with respective regulators with no recent material compliance or disciplinary violations, and (iii) not involved in any material ongoing or pending litigation with current or former clients of the firm.
- c) The firm must have a minimum five-year history (three-year for small cap stocks) with the desired investment style and demonstrated continuity of key personnel, and must offer a reasonable fee schedule; shorter-term histories will be considered for entire portfolio management teams that have portable track records from predecessor firms.
- d) The firm must display a record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and retaining clients.
- e) The firm must have an asset base sufficient to accommodate the Nation's portfolio. In general, managers should have ~~at~~ at least \$500 million of discretionary institutional assets under management, and the aggregate amount of the Nation's portfolio under management by the firm should make up no more than ten percent (10%) of the firm's total ~~asset-base~~ assets under management.
- f) The firm must demonstrate adherence to the investment style sought by the Nation, and adherence to the firm's stated investment discipline.
- g) The firm's fees should be competitive with industry standards for the product category.
- h) The firm must comply with the "Duties of the Investment Managers" outlined in ~~subsection~~ Section 4.6 above and conform to ~~AIMR~~ CFA Institute standards for performance reporting.

**18.5** ~~18.4~~ **Criteria for Investment Manager Termination.** The Nation reserves the right to terminate an Investment Manager. Grounds for termination may include, but are not limited to, the following:



- a) Failure to comply with the guidelines agreed upon for the management of the Nation's funds, including holding restricted securities and conducting prohibited transactions.
- b) Failure to achieve performance objectives specified in the Investment Manager's guidelines. Managers who fall into the bottom quartile on the Nation's consultant peer universe for three consecutive quarters will be placed on a "watch list." The watch list is not an automatic termination, but a red flag for the Nation's Investment Consultant, the Controller, and the Investment Committee alerting them to conduct further due diligence to understand the underperformance. The Investment Committee will have the discretion at any time to take an Investment Manager off the watch list once they are comfortable that the Investment Manager's problems have been resolved.
- c) Significant deviation from the Investment Manager's stated investment philosophy, style, or process.
- d) Loss of key personnel or significant ownership changes that create instability in an organization.
- e) Evidence of illegal or unethical behavior by the Investment Manager's firm.
- f) Lack of willingness to cooperate with reasonable requests by the Nation or the Nation's Investment Consultant for information, meetings, or materials.
- g) Loss of confidence by the Investment Committee, the Controller, or the Nation's Investment Consultant.
- h) A change in the Nation's asset allocation program which necessitates a shift of assets to another asset class or style.

The presence of any one or a combination of these factors will be carefully reviewed by the Controller, the Investment Committee, and the Nation's Investment Consultant, but will not necessarily result in an automatic termination.

**18.6** ~~18.5~~ **Performance Monitoring.** The Controller shall monitor monthly statements and receive quarterly, audited performance reports from the Investment Consultant. The Investment Consultant shall monitor at least quarterly the track record of each Investment Manager under contract to determine whether or not that Investment Manager is performing up to the standard required by the benchmark of performance specified in the Investment Manager's contract and shall report those findings to the Investment Committee. If at any time the standard required is not being met, the Controller with the assistance of the Investment Consultant shall make a report of that fact to the Investment Committee and give a recommendation to the Investment Committee. The Investment Committee will then determine what action will be taken by the Controller.

**18.7** ~~18.6~~ **Manager Alerts.** Investment Managers are to provide the Investment Committee and the Investment Consultant with written notice of any material changes in their respective firms (i.e., change in personnel, ownership and policy, etc.).

**18.8** ~~18.7~~ **Termination.** The ~~decision~~recommendation to terminate an Investment Manager shall be by majority vote of the Investment Committee present at the meeting, subject to the approval of the B&F Committee.

## Section 19. Navajo Preference

- 19.1 Adherence to Navajo Nation Laws, Rules and Regulations.** All Parties shall comply with all applicable laws, rules and regulations of the Nation, including, without limitation, the Navajo Preference in Employment Act (the “Preference in Employment Act”), 15 N.N.C. § 601 *et seq.*, and the Business Opportunity Act. The terms and provisions of the Preference in Employment Act and the Business Opportunity Act are specifically incorporated herein, and become a part of this Policy; and breach by any Party of any terms and provisions of such laws shall constitute a breach of this Policy and provide grounds for the suspension or termination or other remedy as specified in the Preference in Employment Act, the Business Opportunity Act, or this Policy.
- 19.2 Navajo/Native American Promotion Policy.** It is the policy of the Nation to support and promote the growth and development of Navajo or other Native American owned and controlled firms in accordance with the Preference in Employment Act and to the degree permitted by applicable federal laws.
- 19.3 Identification of Qualified Navajo/Native American Firms.** The Investment Consultant shall make reasonable efforts to identify and bring to the attention of the Investment Committee and the B&F Committee qualified Navajo and other qualified Native American owned and controlled investment management and brokerage firms. The phrase “owned and controlled” shall be defined by 5 N.N.C. § 202.J of the Business Opportunity Act and shall not include “fronts” as defined in 5 N.N.C. § 202.F of the Business Opportunity Act. The phrase “qualified” as it applies to Investment Managers shall be defined by this Policy, including, but not limited to, Sections 18.1 and 18.2 of this Policy and shall include desired rates of return. The phrase “qualified” as it applies to brokerage firms shall incorporate the standards set forth by the GFOA and shall include participation in commission recapture programs, if appropriate.
- 19.4 Qualified Navajo/Native American Investment Managers Preference.** The Investment Committee and the B&F Committee shall give preference to qualified Navajo and other qualified Native American owned and controlled investment management firms, whenever such qualified firms are available, when selecting new or successor investment managers. Such preference is not intended to and shall not dilute or negate adherence to this Policy, including but not limited to the Investment Objectives and Priorities identified in Section 2.1 of this Policy. Consistent with 5 N.N.C. § 201.D of the Business Opportunity Act, such preference is not intended to require the selection of unqualified Navajo or other unqualified Native American investment managers.
- 19.5 Qualified Navajo/Native American Brokerage Firm Preference.** The Investment Managers, current and future, shall make reasonable efforts to direct, under the restrictions identified below, a minimum of twenty percent (20%) of the transactional execution of the Nation’s investment funds to qualified Navajo and other qualified Native American owned and controlled brokerage firms identified by the Investment Consultant under Section 19.3 above, whenever such qualified firms are available. Such direction or preference should never jeopardize the quality of execution. Such direction or preference is also not intended to and shall not dilute or negate adherence to this Policy, including, but not limited to, the Investment Objectives and Priorities identified in Section 2.1 of this Policy and the Duties of the Investment Manager identified in Section 4.6 of this Policy. Consistent with 5 N.N.C. § 201.D of the Business Opportunity Act, such preference is not intended to require the ~~Investment Managers to utilize~~ selection of unqualified Navajo or other unqualified Native American brokerage firms.

**19.6 Compliance.** The lack of substantial compliance with Sections 19.1 through 19.5 above shall be grounds for termination. The Investment Committee, with the assistance of the Investment Consultant, shall report annually to the B&F Committee on compliance by the Parties with the provisions of Sections 19.1 through 19.5 above.

#### **Section 20. Sub-Policies**

The Investment Committee, along with the Investment Consultant, will develop specific investment policies (“Sub-Policies”) for each fund, which will include any unique or specific investment objectives for a particular fund; its asset allocation to cash, bonds and stocks; any specific investment restrictions; the fund spending policy; and the investment expectations for the fund.

The investment objectives, asset allocation guidelines, and other specific investment information will be covered for each fund within the Nation’s investment program under the Sub-Policies ~~and~~ and modifications to the Sub-Policies and asset class guidelines must be ~~approved~~ recommended by the Investment Committee ~~to go into effect~~ and approved by the B&F Committee.

#### **Section 21. Asset Class Guidelines**

The Investment Committee, along with the Investment Consultant and other appropriate advisors as needed, will develop specific investment guidelines for each asset class or investment (“Asset Class Guidelines”), which will include objectives, general guidelines, diversification, return expectations, and prohibited practices. Specific investment guidelines for asset classes are included in the Appendix and shall be approved by the B&F Committee upon recommendation by the Investment Committee.

~~As a general matter such guidelines will recognize that investments are managed for total return and with very little cash flow responsibility and that all investments are available for long term investment, and shall be managed in a diversified and prudent manner subject to the stated guidelines contained within this Policy.~~

Sector and security selection, portfolio structure and timing of purchases and sales are delegated to the Investment Manager subject to the Investment Manager’s contract. Transactions that involve a broker acting as a “principal” and “agent” where such broker or dealer is also the Investment Manager who is making the transaction are prohibited. For separately managed ~~investments~~ accounts, transactions shall be executed on the basis of “best price and execution” for the sole benefit of the Nation. As described in and as limited by Section 7 above, for Commingled Investments, the related Investment Managers ~~of commingled funds, limited partnerships, or mutual funds~~ and their respective affiliates will have full discretion over the portfolio management decisions taking into consideration the guidelines established by the ~~funds’ respective partnership agreements and fund prospectuses~~ respective organizational and related documents and fund offering documents and the contracts with the related Investment Managers and their respective affiliates. Any material violation of these Asset Class Guidelines is to be corrected immediately upon discovery and reported to the Investment Consultant and the Investment Committee in a timely manner.

#### **Section 22. Amendments**

This Policy may be amended as necessary from time to time upon recommendation by the Investment Committee and approval by the B&F Committee.



Document comparison by Workshare 9 on Friday, January 4, 2019 11:15:01 AM

Input:	
Document 1 ID	netdocuments://4820-4141-6578/1
Description	Navajo Nation Master Investment Policy (December 2017)
Document 2 ID	netdocuments://4813-5296-0898/2
Description	Navajo Nation Master Investment Policy (DOJ Version without Appendices)
Rendering set	Kutak Option 1

Legend:	
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Split/Merged cell	
Padding cell	

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Moved to	10
Style change	0
Format changed	0
Total changes	378

## THE NAVAJO NATION

### MASTER INVESTMENT POLICY

#### Section 1. Introduction and Scope

- 1.1 Introduction.** This Master Investment Policy (this “Policy”) and the corresponding Sub-Policies (defined below in Section 20) covering specific funds of the Navajo Nation (the “Nation”) provide the Parties (defined below in Section 3.1) with policy guidance for investing the Nation’s financial resources. This Policy provides the framework for the Nation’s execution of its fiduciary responsibilities to Nation members, employees, and other beneficiaries of the Nation’s funds.

This Policy will be reviewed as needed by the Nation acting through the Nation’s Investment Committee (the “Investment Committee”) and the Budget and Finance Committee of the Navajo Nation Council (the “B&F Committee”). Adoption of this Policy and any subsequent modifications require recommendation by the Investment Committee to the B&F Committee for the B&F Committee’s approval.

**1.2 Scope - Funds and Accounts.**

- a) **Scope.** The scope of this Policy and its Sub-Policies applies to all investable funds of the Nation, being short, intermediate, or long-term, or managed internally or externally. Such investable funds include, without limitation, those funds specified below as well as any additional funds of the Nation created from time to time.
- b) **Master Trust.** For purposes of this Policy, the term “Master Trust” refers to the accounts of the Nation in the custody of Northern Trust as Custodian (defined below in Section 4.7) relating to the following funds: Navajo Nation Permanent Fund, Navajo Nation Síhasin Fund, Navajo Nation Land Acquisition Trust Fund, Navajo Nation Veterans Trust Fund, General Fund, 1982 Scholarship Claims Fund, Scholarship Trust Fund (Graduate and TG&E), 1982/1986 Chapter Claims Fund, Navajo Nation Trust Fund for Handicapped Services, Navajo Nation Trust Fund for Vocational Education, Workers Compensation Self-Insurance Fund, Navajo Nation Trust Fund for Senior Citizens Services, and Business and Industrial Development Fund.
- c) **Fund Classification.** Accounts are classified into funds pursuant to generally accepted accounting principles (“GAAP”) in accordance with specified activities and objectives. The Nation’s existing funds include the following funds organized in the following five (5) fund classifications (the “Fund Classifications”):
  - i) **GOVERNMENTAL FUNDS**
    - General Fund
    - Navajo Dam Escrow Fund
    - Oil and Gas Special Revenue Development Fund
    - Navajo Nation Reforestation Fund
    - Capital Outlay Match Funding Special Revenue Fund
    - Navajo Nation Síhasin Fund
  - ii) **SPECIAL REVENUE FUNDS**

- Grant Fund
- Scholarship Fund (Navajo Engineering and Construction Authority Trust Fund for Scholarships and Financial Assistance and the Diné Higher Education Grant Fund)
- Navajo Tourism Fund
- Navajo Nation Environmental Protection Agency Fund
- Tax Administration Suspense Fund
- Navajo Nation Water Rights Claims Fund
- Navajo Nation Road Fund
- Navajo Nation Land Acquisition Trust Fund
- Navajo Rehabilitation Trust Fund
- Judicial/Public Safety Facilities Fund
- 1982/1986 Chapter Claims Fund
- 1982 Scholarship Claims Fund
- Scholarship Trust Fund (Graduate and TG&E)

iii) FIDUCIARY FUNDS

A) Pension Trust Funds:

- Retirement Plan ("Defined Benefits Plan")
- Deferred Compensation Plan
- Nihibeeso Retirement Fund ("401(k) Savings Plan" or "Defined Contribution Plan")

B) Private Purpose Trust Funds:

- Navajo Nation Trust Fund for Handicapped Services
- Navajo Nation Trust Fund for Vocational Education
- Navajo Nation Trust Fund for Senior Citizens Services
- Navajo Nation Trust Fund for Navajo Preparatory School, Inc.
- Phoenix Urban Navajo Trust Fund
- Navajo Nation Veterans Trust Fund
- Navajo Nation Local Governance Trust Fund
- Sales Tax Trust Fund

iv) PERMANENT FUND TYPES

- Navajo Nation Permanent Fund

v) PROPRIETARY FUNDS

- Business and Industrial Development Fund
- Loan Fund
- Employee Housing
- Parks and Recreation Fund
- Archaeology Services
- Tribal Ranch Fund
- Navajo Times
- Fleet Management
- Duplicating Services



Office Supply Center  
Air Transportation  
Group Health Self-Insurance  
Property and Casualty Self-Insurance  
Workers Compensation Self-Insurance Fund  
Contingency Management Fund

- d) The administrative responsibility for the Pension Trust Funds (i.e., the Retirement Plan or Defined Benefits Plan, Deferred Compensation Plan, and the 401(k) Savings Plan or Defined Contribution Plan) rests with the committees or boards established in the respective plan documents. The responsibilities of the Investment Committee are to oversee investment policies and Investment Managers (defined below in Section 4.6) for all of the above-named funds.

**1.3 Additional Funds.** From time to time the Nation designates financial resources into new funds. All such funds will be classified into the Fund Classifications identified in Section 1.2 above, or into a new Fund Classification, and added to the Master Trust, if appropriate. The Controller shall assign the appropriate Fund Classification for new funds in accordance with GAAP.

**1.4 Pooling of Funds.** Each Fund Classification will be managed as a single pool to take advantage of economies of scale when making investment purchases and to simplify the investment process, unless internal commingling of the funds is prohibited. Except for cash in certain restricted funds, the Nation will consolidate cash balances from all funds, regardless of Fund Classification, to maximize investment earnings. Investment income will be allocated to the funds based on their respective participation in the aggregate investment and in accordance with GAAP. Funds prohibited from internal commingling will be managed separately (e.g., Pension Trust Funds).

The Controller may, using his or her professional judgement, establish more than one cash management fund. On a quarterly basis, the Controller shall report the status and performance of the internal cash management fund(s) to the Investment Committee. The Controller shall report to the B&F Committee the establishment of any new cash management fund.

## **Section 2. General Objectives**

**2.1 Investment Objectives and Priorities.** The Nation shall invest all available funds subject to the following objectives and priorities:

- a) Safety of principal. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
- b) Liquidity requirements of anticipated and unanticipated expenditures.
- c) Yield.
- d) Recognition of differing objectives and needs of various fund portfolios.
- e) Conformance with Nation law and other applicable legal restrictions.
- f) Maximization of the total rate of return on investment consistent with the foregoing objectives.

- g) Diversification by asset type, security, and Investment Manager in order to smooth the volatility of quarterly and annual returns.

**2.2 Short-Term Funds.** The Nation shall invest its short-term funds in a manner that integrates safety, liquidity, and yield as defined by (a)–(c) below. The Nation’s short-term funds include:

The General Fund;  
The Grant Fund;  
Proprietary Funds;  
The cash portion of long-term funds; and  
Any other short-term funds that may be added.

- a) Safety. The Nation shall treat safety of principal as the foremost objective of the short-term investment portfolio. The Nation shall undertake investments in a manner that seeks to ensure the preservation of capital in the overall short-term investment portfolio. The Nation’s objective will be to mitigate Credit Risk (defined below) and Interest Rate Risk (defined below).
  - i) Credit Risk - The risk of loss due to failure of the security issuer or backer (“Credit Risk”) will be minimized by the Nation as follows:
    - A) Investments will be limited to the safest types of securities;
    - B) Investment Managers will conduct proper due diligence on investments; and
    - C) The short-term investment portfolio will be diversified to minimize potential losses on individual securities.
  - ii) Interest Rate Risk - The Nation will minimize the risk that the market value of securities in the short-term investment portfolio will fall due to changes in general interest rates (“Interest Rate Risk”) by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations. Operating funds will be invested primarily in shorter-term securities, money market mutual funds, or similar investment pools.
- b) Liquidity. The short-term investment portfolio shall remain sufficiently liquid to meet all operating requirements of the Nation. This will be accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Since all possible cash demands cannot be anticipated, the portfolio should consist largely of investments with active secondary markets (dynamic liquidity).
- c) Yield. The short-term investment portfolio shall be designed to attain a market rate of return, taking into account the Nation’s investment risk constraints and liquidity needs. Yield includes interest from bonds and dividends from common and preferred stocks.

**2.3 Long-Term Funds.** The Nation shall focus its long-term funds on capital growth. The Nation’s long-term funds include:

Special Revenue Funds (excluding the Grant Fund);  
Fiduciary Funds; and

Any other long-term funds that may be added.

Capital Growth. The Nation's long-term investment portfolio shall be designed to protect principal while earning a rate of return that will meet or exceed the rate of inflation to preserve the fund assets and to ensure that sufficient reserves will be available to cover future cash requirements. Capital growth is generally achieved by investing prudently in a wide range of asset classes in order to achieve proper diversification. Since these funds will focus on long-term capital appreciation some short-term volatility including loss of principal may be experienced.

### **Section 3. Standards of Care**

- 3.1 Prudence.** All participants in the Nation's investment process shall act responsibly as custodians of the public trust. The Controller and the Investment Staff (defined below in Section 4.4), the Investment Committee and its members, the B&F Committee and its members, the Investment Consultant (defined below in Section 4.8), the Investment Managers, the Financial Advisor (defined below in Section 4.9), Special Counsel (defined below in Section 4.10), and any other consultants engaged by the Nation to assist in the Nation's investment program (collectively, the "Parties"), shall follow the "prudent investor" rule in investing or advising the Nation concerning the investment of the Nation's funds. The "prudent investor" rule provides that "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

In connection with performing its responsibilities under this Policy, the Investment Committee shall take into consideration the accepted institutional investment practices of the Government Finance Officers Association ("GFOA") with regard to investment program management, investment policy, portfolio diversification and all other applicable responsibilities, unless such practices are inconsistent with the laws of the Navajo Nation.

- 3.2 Code of Ethics.** The Controller and the Investment Staff, the Investment Committee and its members, and the B&F Committee and its members shall comply with the Navajo Nation Ethics in Government Law set forth in 2 N.N.C. § 3741 *et seq.* (the "Ethics Code").

### **Section 4. Authorities, Responsibilities and Duties**

The Nation shall adhere to, and maintain, a highly structured and organized process for implementing its investment programs.

- 4.1 Budget and Finance Committee.** The B&F Committee is a standing committee of the Navajo Nation Council and is vested with oversight authority with respect to the Nation's investments for the purposes of coordinating, overseeing, and regulating the investment policies of the Nation, and with the power to promulgate rules and regulations relative to investment matters, pursuant to 2 N.N.C. §§ 300 (A), 300 (C)(1), and 301(B)(1). The B&F Committee has a duty to protect the interests of the Navajo people through the prudent management of the financial reserves of the Nation. *Id.* at § 300(C)(4). Pursuant to the aforementioned statutory authority and obligation, the B&F Committee has final authority to approve this Policy and all Nation investment policies, and to reaffirm, modify, or restate this Policy and all Nation investment policies.
- 4.2 Investment Committee.** The Investment Committee will consist of:



- a) The Controller, who shall serve as Chairman of the Investment Committee pursuant to 12 N.N.C. § 203.I;
- b) The Executive Director of the Office of the Navajo Tax Commission;
- c) The Auditor General;
- d) The President or a Presidential Appointee;
- e) The Chairman of the B&F Committee;
- f) An additional B&F Committee Member; and
- g) The Attorney General as a nonvoting, ex officio member.

**4.3 Investment Committee Responsibilities.** The Investment Committee is an advisory group to the B&F Committee in the management of the Nation's investment programs. At a minimum, the Investment Committee will meet once a quarter within sixty (60) days after the quarter ends. The Chairperson of the Investment Committee shall schedule meetings of the Investment Committee as necessary to insure compliance with this Policy, and to protect the investments of the Nation. The Investment Committee's responsibilities include, but are not limited to, the following:

- a) Recommend to the B&F Committee all modifications to this Policy, the Sub-Policies, and the Asset Class Guidelines (defined below in Section 21).
- b) Determine strategies and monitor results for all funds listed above in Section 1.2 (Scope - Funds and Accounts). The Investment Committee shall include in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, potential risks to the Nation's funds, authorized depositories, brokers and dealers, and the target rate of return on the investment portfolio.
- c) Select the Investment Consultant, subject to approval of the Investment Consultant's contract by the B&F Committee.
- d) Accept or reject the Investment Consultant's recommendations for Investment Managers and Custodians, subject to the approval of each Investment Manager contract and each Custodian contract by the B&F Committee.
- e) Select specialty service providers to assist with the selection, feasibility, management, and oversight of direct investments in real estate and other direct investments requiring additional expertise, including, without limitation, private equity and venture capital.
- f) Receive quarterly and annual reports from the Investment Consultant regarding the performance of Investment Managers and receive periodic reports from individual Investment Managers.
- g) Receive quarterly and annual reports from the Controller regarding the status of each fund's investment, which reconcile to the Investment Consultant's report.

**4.4 Controller's Responsibility.** The Controller is vested with the authority to pursue the administration and management of the Nation's investment programs, and the Controller has a

responsibility to the Navajo Nation Council and the B&F Committee to properly execute and operate the Nation's investment program. 12 N.N.C. § 203.I. The Controller may delegate the execution authority to his or her staff (the "Investment Staff") to assist in the operation of the Nation's investment program. The Controller and the Investment Staff shall act in accordance with established written procedures and internal controls for the management and operation of the investment program consistent with this Policy. No person may engage in an investment transaction with respect to any of the funds listed above in Section 1.2 (Scope - Funds and Accounts) except as provided under the terms of this Policy. The Controller shall be responsible for all transactions undertaken with respect to those funds and shall establish a system of controls to regulate the activities of the Investment Staff. The Controller's responsibilities include, but are not limited to, the following:

- a) Safekeeping;
- b) Delivery versus payment;
- c) Investment accounting;
- d) Repurchase agreements;
- e) Wire transfer agreements; and
- f) Collateral/depository agreements.

**4.5 Responsibilities of the Controller's Staff.** Investment Staff of the Office of the Controller may be retained, directed, and authorized by the Controller to support and maintain the integrity of the Nation's investment program. In striving to attain quality investment management, it is the policy of the Office of the Controller to attract and retain qualified Investment Staff and to promote, encourage, and provide continuing education and professional development for the Investment Staff.

**4.6 Duties of the Investment Managers.** The duties of the Nation's external investment managers (each an "Investment Manager" and collectively, the "Investment Managers") include, but are not limited to, the following:

- a) Provide the Nation with a written agreement to invest within the guidelines established by this Policy and the corresponding Asset Class Guidelines and commit to comply with the Nation's Ethics Code as affirmed in writing.
- b) Provide the Nation with proof of liability and fiduciary insurance coverage.
- c) Be (i) a Securities and Exchange Commission ("SEC") Registered Investment Advisor under the Investment Advisers Act of 1940, as amended, a "commodity pool operator" under the Commodity Exchange Act, as amended ("CEA"), a commodity trading advisor under the CEA and/or a member of the National Futures Association ("NFA"), as applicable, unless exempted by applicable laws, rules and regulations from being required to register thereunder or be a member thereof due to its status as a regulated entity (i.e., certain banks), and (ii) recognized as providing demonstrated expertise over a number of years in the management of institutional assets.

- d) Adhere to the investment management style concepts and principles for which they are engaged by the Nation.
- e) Execute all transactions for the benefit of the Nation with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the Nation and, where appropriate, facilitate the recapture of commissions on behalf of the Nation.
- f) Reconcile monthly accounting, transaction, and asset summary data with Custodian valuations and communicate and resolve any significant discrepancies with the Nation's Investment Consultant and Custodian.
- g) Report in writing to the Controller and Investment Consultant on all significant matters pertaining to their firm's ownership, investment style and philosophy, changes in personnel, significant client departures, and periods of underperformance.

**4.7 Duties of Custodians.** The duties of the Nation's custodian bank (the "Custodian") include, but are not limited to, the following:

- a) Provide complete global custody and depository services for the designated Nation accounts.
- b) Provide an audited monthly report of the investment activities conducted by the Investment Managers.
- c) Provide monthly and year-end accounting statements for all funds, including all transactions.
- d) Collect all interest income and dividends and principal realization and properly report it in monthly statements.
- e) Reconcile monthly accounting, transaction, and asset summary data and communicate and resolve any significant discrepancies with the Nation's Investment Consultant and Investment Managers.

**4.8 Duties of the Investment Consultant.** The Nation's investment consultant (the "Investment Consultant") must be independent of all Investment Managers and Custodians, with no conflicts of interests with any current or prospective service providers to the Nation. The Investment Consultant's duties include, but are not limited to, the following:

- a) Make recommendations to the Controller, Investment Committee, and B&F Committee regarding investment policy and strategic asset allocation. The Investment Consultant shall make recommendations regarding the reaffirmation, modification or restatement of this Policy on an annual basis.
- b) Assist the Nation in the selection of qualified Investment Managers, and assist in the oversight of existing Investment Managers, including monitoring changes in personnel, ownership, and the investment process.
- c) Assist with Request for Information ("RFI") research and summary due diligence of qualified custodian(s) and securities lending agents.



- d) Negotiate fee arrangements and other contract terms with the Investment Managers on behalf of the Nation.
- e) Negotiate and arrange for brokerage and custodial services.
- f) Prepare a quarterly performance report including performance attribution on all the Nation's Investment Managers, funds, and total assets, including a check on the Investment Managers' guideline compliance and adherence to investment style and discipline.
- g) Handle special projects at the request of the Investment Committee.
- h) Handle certain other matters, primarily reporting, as described elsewhere in this Policy, the Sub-Policies and the Asset Class Guidelines.
- i) Report proxy votes as needed to the Investment Committee.

**4.9 Duties of the Financial Advisor.** The Nation's financial advisor (the "Financial Advisor") must be independent of the Investment Consultant, all Investment Managers and Custodians, with no conflicts of interest with any current or prospective service providers to the Nation. The Financial Advisor's duties shall include, but not be limited to, the following:

- a) Make recommendations to the Controller, the Investment Committee, and the B&F Committee regarding direct and specialized investments.
- b) Handle special projects at the request of the Office of the Controller, the Investment Committee, and the B&F Committee.

**4.10 Appointment and Duties of Special Counsel.** The Controller may recommend to the Attorney General of the Navajo Nation Department of Justice (the "Attorney General") engagement of special counsel ("Special Counsel") with specialized expertise with respect to investment matters, including private equity, alternative investments, restructuring, hedging and mergers and acquisitions, to advise the Nation on investment matters. Duties of Special Counsel shall be established in an attorney contract negotiated and executed by the Attorney General pursuant to the Attorney General's authority and duties set forth in 2 N.N.C. § 1963.B. Duties of Special Counsel may include, but shall not be limited to, the following:

- a) Advise the Office of the Controller, the Investment Committee, and the B&F Committee on legal matters concerning investment policy and investment opportunities, including both direct and passive investments.
- b) Assist the Nation in the selection of advisors, consultants, managers and other service providers, including the preparation of requests for proposals and the evaluation of proposals.
- c) Assist the Nation in the negotiation of fee arrangements and contract terms, including dispute resolution, jurisdiction, governing law, protection of confidential information and intellectual property and other agreement provisions, consistent with the laws and policies of the Nation.
- d) Handle special projects at the request of the Office of the Controller, the Investment Committee, the B&F Committee, and the Department of Justice.

## **Section 5. Asset Allocation Guidelines and Rebalancing Policy**

The target asset allocation guidelines and time parameters for achieving target allocations are outlined in the Sub-Policy established for each separate fund. Such Sub-Policies shall be approved by the B&F Committee upon recommendation by the Investment Committee.

## **Section 6. Cash Holdings**

It is the policy of the Nation for equity Investment Managers to be fully invested at all times, except in anticipation of large withdrawals. Equity Investment Managers should maintain less than five percent (5%) of their portfolios in cash equivalents. Fixed income Investment Managers can maintain higher cash balances (e.g., as bar-bell strategies necessitate this exposure to cash). This Section does not apply to cash Investment Managers.

## **Section 7. Commingled Investments**

**7.1 Definition of Commingled Investments.** “Commingled Investments” refer to investment vehicles in which there is a pooling of funds from multiple clients managed by an Investment Manager as one account for diversification and cost benefits and, therefore, Investment Managers cannot tailor the portfolio to suit client-specific guidelines. Commingled Investments may be used for investment in approved asset classes with the Investment Committee taking into consideration fees, investment minimums, liquidity and other investment-related factors when reviewing investment vehicle options. Commingled Investments may be structured as limited partnerships, limited liability companies, private Real Estate Investment Trusts (“REITs”), trusts, partnerships, joint ventures, corporations or other investment vehicles. Commingled Investments include mutual funds, hedge funds, commingled investment funds, private equity funds, unit trusts, exchange traded funds, portable alpha funds, venture capital funds and other types of commingled investment vehicles.

### **7.2 Commingled Investments Criteria.**

- a) No single investment of the Nation’s funds shall be made in any Commingled Investment that would contain more than ten percent (10%) of the Nation’s total portfolio valued at market at the time of such investment, unless otherwise recommended by the Investment Committee and approved by the B&F Committee.
- b) With the approval of the Investment Committee, the Nation may invest in any Commingled Investment as long as it is either (i) registered under the Securities Act of 1933 and/or the Investment Company Act of 1940, as amended, and has qualified under applicable state registration requirements or (ii) is exempt from such federal and state registration.
- c) Any mutual fund must be purchased at the current net asset value of such mutual fund.
- d) The Investment Manager for a Commingled Investment shall have demonstrated a favorable record of at least three years in managing institutional assets in the particular investment strategy relating to such Commingled Investment; provided, that shorter-term histories will be considered for entire portfolio management teams that have portable favorable records from predecessor firms of at least three years in managing institutional assets in the particular investment strategy relating to such Commingled Investment.

- 7.3 Commingled Investments Exception.** Commingled Investments may provide lower costs and better diversification than can be obtained with a separately managed account pursuing the same investment objectives. However, Commingled Investments cannot customize investment policies and guidelines to the specific needs of individual clients. The Investment Committee may determine to accept the policies of Commingled Investments in order to achieve such lower costs and diversification benefits. Therefore, Commingled Investments and the related Investment Managers and their respective affiliates recommended by the Investment Committee and approved by the B&F Committee shall be exempt from the policies and restrictions specified in this Policy (other than those set forth in this Section 7), and the related Investment Managers and their respective affiliates will have full discretion over the portfolio management decisions subject to the guidelines established by the respective organizational and related documents and offering documents of the Commingled Investments and the contracts with the related Investment Managers and their respective affiliates. Proxy votes for securities held by Commingled Investments shall be exercised by the related Investment Managers.

## **Section 8. Permissible Investments**

- 8.1 Asset Category Definitions.** Investments must be of institutional quality and well diversified. Investment Managers must exercise prudence in all matters and invest solely for the benefit of the Nation.

- a) Domestic Equity - Common and Preferred Stocks. The emphasis of the common stock portfolio will be on high quality companies, which offer above-average returns as a protection against inflation. Securities should be publicly traded at a level sufficient to insure liquidity of the holdings without significant adverse effects on price due to rapid sale. In certain circumstances, securities may be purchased in an initial public offering ("IPO") for companies and in sectors where it is reasonably anticipated that there is a high likelihood that there will be an active secondary market for the securities to insure liquidity of the holdings without significant adverse effects on the price due to rapid sale.
- b) International Equity - International equity managers concentrate on identifying companies or countries or both that offer competitive valuation levels and potential for capital appreciation. The countries will be developed and emerging markets and generally represented by the MSCI All Country World (Ex. US) Index.
- c) Fixed-Income - The primary role of the fixed-income portfolio is to provide a stable investment return and to generate income while diversifying the investment assets. In addition, the role of fixed-income is to provide a deflationary hedge. The fixed-income asset class will typically include the following security types and the permissible investments for this asset class are further detailed in the Appendix:
  - i) Bonds, notes or other obligations of the United States government, its agencies, government-sponsored enterprises, corporations, or instrumentalities for which the credit of the United States government is pledged for the payment of the principal and interest.
  - ii) Bonds, notes, or other obligations issued by a Native Nation or a state, or by their respective political subdivisions, that have received an investment grade bond rating.

- iii) Bonds, notes, commercial paper or other obligations of any corporation organized and operating within the United States.
- iv) Debt obligations of non-United States governmental or quasi-governmental entities, that may be denominated in foreign currencies; obligations, including but not limited to bonds, notes or commercial paper with an investment grade rating of any corporation organized outside of the United States. Currency transactions, including spot or cash basis currency transactions, forward contracts and buying or selling options or futures on foreign currencies, shall be permitted for the purposes of hedging foreign currency risk.
- v) Collateralized obligations, including but not limited to mortgages, held in trust that: (1) are publicly traded and are registered by the SEC or other Self Regulatory Organization (“SRO”) and (2) have underlying collateral that is either an obligation of the United States government or has received an investment grade rating from a nationally recognized rating agency.
- d) Diversified Inflation Strategies (“DIS”). The investment objective of DIS is to provide total returns and capital appreciation exceeding inflation by a premium (e.g. CPI + 5%) as measured by the appropriate custom inflation index. The primary role of the DIS allocation is to hedge against the erosion of asset values due to inflation and to diversify portfolio risks. The DIS asset class may include but is not limited to master limited partnerships (“MLPs”), royalty trusts, infrastructure, treasury inflation protected securities (“TIPS”), real estate/REITs, natural resources, commodities, and currencies and can be implemented either through diversified multi-asset strategies or as separate standalone allocations using individual asset class types.
- e) Absolute Return/Global Tactical Asset Allocation (“GTAA”) – Absolute Return and GTAA strategies are designed to provide returns similar to publicly traded equities but with significantly lower volatility. Additionally, these strategies should exhibit low correlations to the traditional asset classes in the portfolio. Investments in Absolute Return and GTAA strategies can be made via fund of fund, direct investments, and mutual fund vehicles. The Absolute Return/GTAA asset class may include but is not limited to strategy types including event driven, long/short equity, long/short credit, distressed, risk-parity, directional/tactical (including global macro and managed futures inclusive of commodities and currency) and relative value.
- f) Cash Equivalents. Cash equivalents are interest bearing securities that maximize liquidity and safety of principal. The following types of cash equivalents are eligible for investment:
  - i) Certificates of Deposit (“CDs”) that are one hundred percent (100%) federally insured or collateralized with government or government agency securities with a market value of at least one hundred and two percent (102%) of the face value of the certificate. Preference placement in CDs may be granted to those financial institutions that are supportive of the Nation’s fiscal objectives (e.g., loans, lease/purchase agreements, check cashing fee waivers, etc.);
  - ii) United States Treasury Bills;
  - iii) Repurchase Agreements acquired under an Investment Committee-approved master agreement;



- iv) Commercial Paper of the highest three grades as rated by a nationally recognized rating agency; and
- v) Commercial Bank Trust Department commingled liquidity funds specifically approved by the Investment Committee.

Maturities should be short enough that funds can be quickly liquidated with no loss of principal.

- g) Real Estate. The real estate investment objectives are to provide the client with total return, capital appreciation, protection against inflation risk, and consistent returns as measured by the appropriate real estate index. External investment management firms that have demonstrated a favorable record in managing real estate portfolios will actively manage Nation funds invested in real estate. The primary role of the real estate portfolio is to generate income while diversifying the investment assets. The real estate asset class may include but is not limited to the following:
  - i) Core Real Estate – Commingled pools and Real Estate Investment Trusts (REITs) appropriate for institutional investors including diversification by property type and geographic location.
  - ii) Non-Core Real Estate – Investments in value-added and mezzanine debt.
  - iii) First-lien mortgages and other debt instruments, and direct real estate equity/outright ownership.

This Section 8.1(g) shall not apply to the Navajo Nation Land Acquisition Trust Fund.

- h) Private Equity. The investment objectives of Private Equity are to provide the Nation with total return, capital appreciation, and protection against inflation risk with an expected return premium above public equity markets as measured by an internal rate of return (“IRR”) based on the S&P 500 (e.g., S&P 500 + 5%). A diverse array of strategies that provide either return enhancement or diversification benefits shall be sought across multiple vintage years. Such strategies, accessed through fund of fund, co-investment, or direct partnership vehicles, may include but are not limited to leveraged buyouts, secondaries, distressed debt, venture capital, special situations, and other opportunistic strategies.
- i) Direct Investments.
  - i) Direct investment of Nation funds in emerging growth, pre IPO and other non-public companies through various investment structures (e.g., a partnership or joint venture), either equity or debt based, is permitted subject to investment and operational due diligence by the Investment Committee or its designee. The Nation shall not invest in a direct investment that has a projected annual rate of return of less than the five (5) year average rate of return of the Master Trust portfolio, gross of fees, except as to the direct investments addressed in Section 8.1(i)(ii) below, rates shall be as negotiated, but at no less than the ten (10) year average rate of return of the Master Trust portfolio. The average rate of return of the Master Trust portfolio shall be set at the rate set forth in the most recent quarterly report provided by the Investment Consultant.

- ii) Direct investment of Nation funds in any entity or enterprise owned in whole or part by the Nation is permitted subject to investment and operational due diligence by the Investment Committee or its designee. Direct investment in any entity or enterprise owned in whole or part by the Nation shall be evaluated consistent with the above Section 2.1 (Investment Objectives and Priorities), including but not limited to, the overall benefit to the Nation of such investment, the promotion of tribal economic development, the promotion of tribal self-sufficiency and self-governance, the creation of jobs for enrolled members of the Nation, and the promotion of health, education, safety, and welfare of enrolled members of the Nation.
- j) **Accretive Investments.** Accretive investment of Navajo Nation funds may include, without limitation, equity and debt investments in real estate, business expansions, financing, and land. The Investment Committee may invest with co-investors and operating partners specific to any Accretive Investment. Annual rate of return targets for Accretive Investments shall be priced using an industry-standard index used to price similar commercial transactions. The Investment Committee may consider an Accretive Investment that falls below the annual return target if such Accretive Investment is likely to achieve significant benefits to the Navajo Nation's economic, social, political, environmental, and community goals to maximize positive impact to the Navajo Nation while providing capital appreciation, protection against inflation risk, risk diversification and consistent returns, according to the Accretive Sub-Policy.
- k) **Other Investments.** Other investments, including entertainment investments and professional sports franchises, subject to the limitations of Section 11 below.
- l) **High Yield Investments.** Notwithstanding anything to the contrary in this Section 8, investments which offer potential for higher returns and price appreciation, including but not limited to investments in early stage companies, real estate development projects and other ventures where there are substantial upside returns but also greater risks; provided that such investments shall not be made in the Nation, an enterprise of the Nation or any affiliates thereof, and the aggregate purchase amount of such investments shall not exceed in the aggregate 1% of the assets in the Master Trust at the time of investment.

## **Section 9. Prohibited Investments**

The following investments are prohibited in separately managed account situations (i.e., not Commingled Investments). Should a prohibited transaction occur it should be reported immediately to the Controller, who will report it at the next Investment Committee meeting where the Investment Committee will decide how to proceed.

- 9.1 Self-Dealing Transactions.** Investment Managers shall not purchase or hold any security or other investment that is issued by a corporation with which the Investment Manager's firm has any type of ownership relationship.
- 9.2 Individual CD's and Time Deposits.** Individual CDs and Time Deposits shall not exceed applicable Federal Depository Insurance Corporation ("FDIC") deposit insurance limits unless they are one hundred percent (100%) collateralized by eligible securities or fully covered by a surety bond.

- 9.3 Letter Stock.** Letter stock and other unregistered equity securities are prohibited. For the avoidance of doubt, memberships in limited liability companies, partnership interests, corporations or other ownership in connection with hedge funds, venture capital, private equity, other Commingled Investments and real estate investments are not prohibited.
- 9.4 Litigation with the Nation.** The Nation prefers not to invest in a company with which it is involved in litigation or a major contractual dispute.
- 9.5 General Prohibitions.** No investment may be made in any enterprise of the Nation for the purpose of allowing that enterprise to make a direct or indirect investment in any entity or project that is not wholly owned and managed by the Nation or an enterprise of the Nation.

#### **Section 10. Derivatives Policy**

Investment Managers shall not purchase securities on margin, sell short, use individual stock options, puts, calls or trade in futures contracts, unless specified in the investment management agreement entered into by the Nation and the Investment Manager.

#### **Section 11. Concentration and Diversification Guidelines Pertaining to the Overall Investment Program**

- a) Not more than five percent (5%) of the outstanding shares of any public corporation shall be owned by the Nation.
- b) An investment in privately held companies or joint ventures, including entertainment investments and professional sports franchises, may not exceed ten percent (10%) of the Master Trust portfolio valued at market at the time of the investment.

#### **Section 12. Collateralization**

This Section 12 applies solely to the Controller's cash management activities on behalf of the Nation.

In accordance with the GFOA-recommended Practice on the Collateralization of Public Deposits, full collateralization will be required on non-negotiable CDs. Repurchase agreements shall be consistent with the GFOA-Recommended Practice on Repurchase Agreements.

For deposit type instruments investments managed internally, adequate collateral over the FDIC Insurance limit must be obtained to protect the assets of the Nation. Acceptable collateral is limited to U.S. Treasury and agency securities. The minimum acceptable limit is one hundred and two percent (102%) of assets.

#### **Section 13. Safekeeping/Custody**

The Controller, with notification to the B&F Committee, shall contract with an authorized safekeeping agent(s) for safekeeping securities owned by the Nation as part of its investment portfolio or held as collateral to secure CDs or repurchase agreements. All securities transactions shall be conducted on a delivery versus payment basis to the Controller's safekeeping bank or to the Office of the Controller. The Office of the Controller, custodian, or safekeeping agent(s) shall have custody of all securities purchased or held and all evidence of deposits and investments.

To protect against potential fraud and embezzlement, the assets of the Nation shall be secured through third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party

institutions. Collateralized securities such as repurchase agreements shall be purchased using the delivery versus payment procedure. Unless prevailing practices or economic circumstances dictate otherwise, ownership shall be protected through third-party custodial safekeeping. The independent auditor shall review safekeeping procedures annually. The independent auditor shall conduct periodic audits of safekeeping and custodial systems.

#### **Section 14. Voting of Proxies**

To the extent that investments include ownership rights, such as the voting of proxies, such ownership rights shall be exercised according to the vehicle type:

- 14.1 Separately Managed Accounts.** Proxy votes for securities held in separately managed accounts shall be exercised by the Investment Manager as it deems appropriate taking into account the interests of the Nation. The Investment Committee reserves its right to exercise its proxy rights when it so chooses. Each Investment Manager shall keep accurate written records as to the exercise of such ownership rights, whether exercised by the Investment Manager or by the Investment Committee, and shall report in writing to the Investment Committee or Office of the Controller upon request.
- 14.2 Commingled Investments.** For proxy votes issued by Commingled Investments to the Nation, the Investment Consultant will provide voting guidance and recommendations to the Nation upon request. For the avoidance of doubt, proxy votes for securities held by Commingled Investments shall be exercised by the related Investment Managers as set forth in Section 7 above.

#### **Section 15. Securities Lending**

A securities lending program may be implemented by the master Custodian or an outside independent securities lending agent. The belief is that this program will provide additional income without incurring additional risk. For all securities lent, liquid financial assets of the highest quality will be held as collateral in amounts equal to or greater than the value of securities lent. Cash, U.S. Treasury Bills and Notes, and A-1 or P-1 rated Commercial Paper are acceptable collateral.

Supervision of the lending program by the Investment Committee shall include:

- a) Procedures to review the creditworthiness of all borrowers;
- b) Requirements for full collateralization of all loans;
- c) Other methods and procedures required by the Investment Committee for securing the lending program.

#### **Section 16. Commission Recapture Program**

The Office of the Controller assisted by the Investment Consultant shall monitor the commission recapture and discount brokerage programs to insure that Investment Managers provide the best effort to meet their commission recapture guidelines. The quality of execution should never be jeopardized.

Investment Managers may utilize brokers who provide the best net trade (discount brokerage) for their transactions.



The Office of the Controller assisted by the Investment Consultant shall report, at least annually, to the Investment Committee and the B&F Committee the Investment Managers' adherence to the commission recapture guidelines.

### **Section 17. Trades and Exchanges**

Investment Managers and the Office of the Controller may sell or exchange securities in the course of daily management of specific funds. Such trades may be executed to raise cash, to shift maturity, to change asset mix, to enhance yield, and to improve quality. The goal of all such trades is to maximize portfolio performance while minimizing risk.

- a) The Office of the Controller and all Investment Managers will take advantage of security swap opportunities to improve portfolio yield.
- b) To account for market fluctuations and volatility, the Office of the Controller or its agent (independent pricing agent) will mark to market all securities at least monthly. If a significant market event takes place during the month that impacts the value of the portfolio, the Office of the Controller or its agent will mark the portfolio to market to determine the impact on the portfolio.

The Controller shall determine the market value of all securities in the portfolio on at least a quarterly basis. These values shall be obtained from a reputable and independent source and the Investment Consultant shall make a report to the Investment Committee at least quarterly. The report shall include the market value and unrealized gain or loss of the securities in the portfolio.

### **Section 18. Procedures for Selecting and Reviewing Investment Managers**

- 18.1 Review Process.** The Nation's investments shall be managed by professional Investment Managers except to the extent the Investment Committee specifically delegates investment authority for cash management portfolios to the Office of the Controller. When it is decided that an Investment Manager(s) is to be hired, the Investment Consultant shall solicit qualified proposals in compliance with the Navajo Nation Business Opportunity Act, 5 N.N.C. §201 *et seq.* (the "Business Opportunity Act"). The Controller and Investment Consultant will select at least two finalists to make an oral presentation to the Investment Committee. The Investment Committee will evaluate the finalists and select the Investment Manager(s) best suited to meet the Nation's investment needs. Evaluation factors will include the finalists' one-year, five-year and ten-year performance record and the associated risks taken to achieve the returns, the quality and stability of the investment personnel of each company, adherence to philosophy/style, and the fees charged by each company.
- 18.2** The B&F Committee shall approve the Investment Manager(s) selected by the Investment Committee. When presenting the selected Investment Manager(s) to the B&F Committee for approval, the Investment Committee shall include a summary of the finalists not selected and the evaluation factors and ranking utilized in the selection process. A contract with the Investment Manager(s) selected by the Investment Committee and approved by the B&F Committee will be executed pursuant to applicable Nation contract approval procedures.
- 18.3** If the Investment Committee recommends, subject to the approval of the B&F Committee, terminating an existing Investment Manager(s) prior to completion of the contract approval and execution process for the replacement Investment Manager(s), the Investment Committee, with guidance from the Investment Consultant, shall determine how assets

currently under management by the Investment Manager(s) to be terminated will be liquidated, if necessary, and invested on a temporary basis. If available, a passive, benchmark tracking investment strategy with similar investment exposure to that of the terminated Investment Manager(s) shall be used for short-term investment purposes. If a passive, benchmark tracking investment strategy with similar investment exposure to that of the terminated Investment Manager(s) is unavailable, the Investment Committee, with guidance from the Investment Consultant, shall recommend, subject to the approval of the B&F Committee, using either (i) another existing Investment Manager(s) within the same asset class (or sub-asset class) or (ii) an alternative solution for short-term investment purposes, in each case so long as the recommended approach remains consistent with total fund and asset class risk expectations for the applicable assets. If the Investment Committee determines, with guidance from the Investment Consultant, that no reasonably acceptable alternatives exist for short-term investment, the Investment Committee may recommend, subject to the approval of the B&F Committee, liquidating the applicable assets, if necessary, and holding such assets in cash prior to the completion of the contract approval and execution process for the replacement Investment Manager(s).

**18.4 Selection Criteria for Investment Managers.** Criteria will be established for each Investment Manager search undertaken by the Nation and will be tailored to the Nation's needs and priorities. In general, eligible Investment Managers will possess attributes including, but not limited to, the following:

- a) The firm, or the principal of the firm, must be experienced in managing money for institutional clients, family offices or other sophisticated investors in the asset class/product category/investment style specified by the Nation and its Investment Consultant.
- b) The firm must be (i) an SEC Registered Investment Advisor under the Investment Advisers Act of 1940, as amended, a "commodity pool operator" under the CEA, a commodity trading advisor under the CEA and/or a member of the NFA, as applicable, unless exempted by applicable laws, rules and regulations from being required to register thereunder or be a member thereof due to its status as a regulated entity (i.e., certain banks), (ii) in current good standing with respective regulators with no recent material compliance or disciplinary violations, and (iii) not involved in any material ongoing or pending litigation with current or former clients of the firm.
- c) The firm must have a minimum five-year history (three-year for small cap stocks) with the desired investment style and demonstrated continuity of key personnel, and must offer a reasonable fee schedule; shorter-term histories will be considered for entire portfolio management teams that have portable track records from predecessor firms.
- d) The firm must display a record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and retaining clients.
- e) The firm must have an asset base sufficient to accommodate the Nation's portfolio. In general, managers should have at least \$500 million of discretionary institutional assets under management, and the aggregate amount of the Nation's portfolio under management by the firm should make up no more than ten percent (10%) of the firm's total assets under management.

- f) The firm must demonstrate adherence to the investment style sought by the Nation, and adherence to the firm's stated investment discipline.
- g) The firm's fees should be competitive with industry standards for the product category.
- h) The firm must comply with the "Duties of the Investment Managers" outlined in Section 4.6 above and conform to CFA Institute standards for performance reporting.

**18.5 Criteria for Investment Manager Termination.** The Nation reserves the right to terminate an Investment Manager. Grounds for termination may include, but are not limited to, the following:

- a) Failure to comply with the guidelines agreed upon for the management of the Nation's funds, including holding restricted securities and conducting prohibited transactions.
- b) Failure to achieve performance objectives specified in the Investment Manager's guidelines. Managers who fall into the bottom quartile on the Nation's consultant peer universe for three consecutive quarters will be placed on a "watch list." The watch list is not an automatic termination, but a red flag for the Nation's Investment Consultant, the Controller, and the Investment Committee alerting them to conduct further due diligence to understand the underperformance. The Investment Committee will have the discretion at any time to take an Investment Manager off the watch list once they are comfortable that the Investment Manager's problems have been resolved.
- c) Significant deviation from the Investment Manager's stated investment philosophy, style, or process.
- d) Loss of key personnel or significant ownership changes that create instability in an organization.
- e) Evidence of illegal or unethical behavior by the Investment Manager's firm.
- f) Lack of willingness to cooperate with reasonable requests by the Nation or the Nation's Investment Consultant for information, meetings, or materials.
- g) Loss of confidence by the Investment Committee, the Controller, or the Nation's Investment Consultant.
- h) A change in the Nation's asset allocation program which necessitates a shift of assets to another asset class or style.

The presence of any one or a combination of these factors will be carefully reviewed by the Controller, the Investment Committee, and the Nation's Investment Consultant, but will not necessarily result in an automatic termination.

**18.6 Performance Monitoring.** The Controller shall monitor monthly statements and receive quarterly, audited performance reports from the Investment Consultant. The Investment Consultant shall monitor at least quarterly the track record of each Investment Manager under contract to determine whether or not that Investment Manager is performing up to the standard required by the benchmark of performance specified in the Investment Manager's contract and shall report those findings to the Investment Committee. If at any time the standard required is not being met, the Controller with the assistance of the Investment Consultant shall make a report of that fact to the Investment

Committee and give a recommendation to the Investment Committee. The Investment Committee will then determine what action will be taken by the Controller.

- 18.7 Manager Alerts.** Investment Managers are to provide the Investment Committee and the Investment Consultant with written notice of any material changes in their respective firms (i.e., change in personnel, ownership and policy, etc.).
- 18.8 Termination.** The recommendation to terminate an Investment Manager shall be by majority vote of the Investment Committee present at the meeting, subject to the approval of the B&F Committee.

### **Section 19. Navajo Preference**

- 19.1 Adherence to Navajo Nation Laws, Rules and Regulations.** All Parties shall comply with all applicable laws, rules and regulations of the Nation, including, without limitation, the Navajo Preference in Employment Act (the "Preference in Employment Act"), 15 N.N.C. § 601 *et seq.*, and the Business Opportunity Act. The terms and provisions of the Preference in Employment Act and the Business Opportunity Act are specifically incorporated herein, and become a part of this Policy; and breach by any Party of any terms and provisions of such laws shall constitute a breach of this Policy and provide grounds for the suspension or termination or other remedy as specified in the Preference in Employment Act, the Business Opportunity Act, or this Policy.
- 19.2 Navajo/Native American Promotion Policy.** It is the policy of the Nation to support and promote the growth and development of Navajo or other Native American owned and controlled firms in accordance with the Preference in Employment Act and to the degree permitted by applicable federal laws.
- 19.3 Identification of Qualified Navajo/Native American Firms.** The Investment Consultant shall make reasonable efforts to identify and bring to the attention of the Investment Committee and the B&F Committee qualified Navajo and other qualified Native American owned and controlled investment management and brokerage firms. The phrase "owned and controlled" shall be defined by 5 N.N.C. § 202.J of the Business Opportunity Act and shall not include "fronts" as defined in 5 N.N.C. § 202.F of the Business Opportunity Act. The phrase "qualified" as it applies to Investment Managers shall be defined by this Policy, including, but not limited to, Sections 18.1 and 18.2 of this Policy and shall include desired rates of return. The phrase "qualified" as it applies to brokerage firms shall incorporate the standards set forth by the GFOA and shall include participation in commission recapture programs, if appropriate.
- 19.4 Qualified Navajo/Native American Investment Managers Preference.** The Investment Committee and the B&F Committee shall give preference to qualified Navajo and other qualified Native American owned and controlled investment management firms, whenever such qualified firms are available, when selecting new or successor investment managers. Such preference is not intended to and shall not dilute or negate adherence to this Policy, including but not limited to the Investment Objectives and Priorities identified in Section 2.1 of this Policy. Consistent with 5 N.N.C. § 201.D of the Business Opportunity Act, such preference is not intended to require the selection of unqualified Navajo or other unqualified Native American investment managers.
- 19.5 Qualified Navajo/Native American Brokerage Firm Preference.** The Investment Managers, current and future, shall make reasonable efforts to direct, under the restrictions identified below, a minimum of twenty percent (20%) of the transactional execution of the Nation's investment funds to qualified Navajo and other qualified Native American owned and controlled brokerage firms identified by the Investment Consultant under Section 19.3 above, whenever such qualified firms



are available. Such direction or preference should never jeopardize the quality of execution. Such direction or preference is also not intended to and shall not dilute or negate adherence to this Policy, including, but not limited to, the Investment Objectives and Priorities identified in Section 2.1 of this Policy and the Duties of the Investment Manager identified in Section 4.6 of this Policy. Consistent with 5 N.N.C. § 201.D of the Business Opportunity Act, such preference is not intended to require the selection of unqualified Navajo or other unqualified Native American brokerage firms.

- 19.6 Compliance.** The lack of substantial compliance with Sections 19.1 through 19.5 above shall be grounds for termination. The Investment Committee, with the assistance of the Investment Consultant, shall report annually to the B&F Committee on compliance by the Parties with the provisions of Sections 19.1 through 19.5 above.

## **Section 20. Sub-Policies**

The Investment Committee, along with the Investment Consultant, will develop specific investment policies (“Sub-Policies”) for each fund, which will include any unique or specific investment objectives for a particular fund; its asset allocation to cash, bonds and stocks; any specific investment restrictions; the fund spending policy; and the investment expectations for the fund.

The investment objectives, asset allocation guidelines, and other specific investment information will be covered for each fund within the Nation’s investment program under the Sub-Policies, and modifications to the Sub-Policies and asset class guidelines must be recommended by the Investment Committee and approved by the B&F Committee.

## **Section 21. Asset Class Guidelines**

The Investment Committee, along with the Investment Consultant and other appropriate advisors as needed, will develop specific investment guidelines for each asset class or investment (“Asset Class Guidelines”), which will include objectives, general guidelines, diversification, return expectations, and prohibited practices. Specific investment guidelines for asset classes are included in the Appendix and shall be approved by the B&F Committee upon recommendation by the Investment Committee.

Sector and security selection, portfolio structure and timing of purchases and sales are delegated to the Investment Manager subject to the Investment Manager’s contract. Transactions that involve a broker acting as a “principal” and “agent” where such broker or dealer is also the Investment Manager who is making the transaction are prohibited. For separately managed accounts, transactions shall be executed on the basis of “best price and execution” for the sole benefit of the Nation. As described in and as limited by Section 7 above, for Commingled Investments, the related Investment Managers and their respective affiliates will have full discretion over the portfolio management decisions taking into consideration the guidelines established by the respective organizational and related documents and fund offering documents and the contracts with the related Investment Managers and their respective affiliates. Any material violation of these Asset Class Guidelines is to be corrected immediately upon discovery and reported to the Investment Consultant and the Investment Committee in a timely manner.

## **Section 22. Amendments**

This Policy may be amended as necessary from time to time upon recommendation by the Investment Committee and approval by the B&F Committee.



## **Appendix A**

### **Large Capitalization Domestic Equity**

#### **STATEMENT OF INVESTMENT OBJECTIVES, GUIDELINES AND PROCEDURES**

**A. Investment Objectives.** The investment objectives of the large cap domestic equity portfolio are to provide TNN with total return, capital appreciation, protection against inflation risk and consistent returns as measured by the appropriate benchmark. The funds will be actively managed by active external investment management firms that have a demonstrated favorable record in managing institutional equity portfolios. TNN shall employ diversification by investment style; value, core, and growth. The large cap domestic equity allocation is managed by several investment managers, and investment benchmark and peer universes are detailed in Section F of the guidelines.

**B. Portfolio Characteristics and Guidelines**

- Investment in any one corporation shall not exceed 5% of the equity portfolio at the time of purchase, and will be sold to prevent the percentage from exceeding 7% at market valuation.
- Investment in any one corporation will not exceed 5% of the outstanding shares of that corporation.
- A single manager may not have more than 2.5 times the respective index weighting of their individual portfolio in any one industry category, i.e. if technology represents 15% of the S&P 500 Index, an investment manager cannot hold more than 37.5% of their portfolio in technology.
- No manager can invest more than 40% of their portfolio in any one industry sector as defined by the Global Industry Classification Standard (GICS).
- Investment in foreign domiciled companies will not exceed 15% of the portfolio at market value.

**C. Performance Objectives.** Performance will be monitored on a monthly basis, and long-term performance will be reviewed on a quarterly basis. The measurement period for complete evaluation will typically be trailing three-year periods and a complete market cycle, to be represented by a five-year trailing period. Market cycles are defined to include both a rising and a declining market environment. Therefore, investment managers' minimum period of evaluation shall be three to five years.

The performance objectives of the large capitalization domestic equity allocation are:

- Outperform the respective style benchmark (i.e. Russell 1000 Value Index), net of fees, over a market cycle, typically represented by three- and five-year time periods;

- Rank above the 50<sup>th</sup> percentile of a nationally recognized peer universe consisting of large capitalization managers possessing a similar style over a market cycle, typically represented by three- and five-year time periods;
- Outperform inflation plus a premium (net of fees), represented by CPI plus 600 basis points per annum over a market cycle;
- Passively managed investments will perform in-line with the appropriate benchmark (gross of fees)..

**D. Investment Guidelines.** Common stocks, preferred stocks and convertible stocks as defined in the Master Investment Policy. Also allowed are investments in securities issued by non-U.S. companies traded on U.S. exchanges (American Depositary Receipts), as well as REITs (real estate investment trusts).

**E. Investment Restrictions.**

- **Prohibited Investments** - TNN funds will not invest in options, futures, commodities, venture capital funds, private placement debt securities, floating rate securities, letter stock, natural resource properties or equity securities not traded on a national exchange, except as specifically approved by the Investment Committee.
- **Prohibited Investments** - TNN prefers not to invest in a company with which it is involved in litigation or a major contractual dispute.
- **Prohibited Transactions** - Investment managers cannot buy or hold securities within which they have an ownership relationship with.
- **Derivatives Restrictions** - Investments in derivatives shall be unleveraged investments. No derivatives are permitted whose values are tied to another security or whose value fluctuates as a multiple of any underlying security. Futures, forwards and options are permitted only if they are used in a defensive hedging manner, i.e. to control the volatility of a currency.

**F. Current Investment Benchmarks**

<b>Mandate</b>	<b>Benchmark</b>	<b>Peer Universe</b>
Value	Russell 1000 Value Index	U.S. Large Cap Value Equity
Core	Russell 1000 Index / S&P 500 Index	U.S. Large Cap Core Equity
Growth	Russell 1000 Growth Index	U.S. Large Cap Growth Equity



Acknowledged By:

\_\_\_\_\_  
Investment Manager

Date: \_\_\_\_\_

\_\_\_\_\_  
The Navajo Nation  
Investment Committee

Date: \_\_\_\_\_

\_\_\_\_\_  
The Navajo Nation  
Budget & Finance Committee

Date: \_\_\_\_\_

## **Appendix B**

### **Non-U.S. Equity**

#### **STATEMENT OF INVESTMENT OBJECTIVES, GUIDELINES AND PROCEDURES**

**A. Investment Objectives.** The objectives of the international equity portfolio are to provide TNN with total return, capital appreciation, and provide risk diversification, while providing consistent returns as measured by the appropriate benchmark.. The international equity allocation is managed by several investment managers, and investment benchmark and peer universes are detailed in Section F of the guidelines.

**B. Portfolio Characteristics and Guidelines**

- Investment in any one corporation shall not exceed 5% of the equity portfolio at the time of purchase, and will be sold to prevent the percentage from exceeding 7% at market valuation.
- Investment in any one corporation will not exceed 5% of the outstanding shares of that corporation.
- A single manager may not have more than two times the market weight of the two largest EAFE markets; no more than 25% of the portfolio in other major markets; and no more than 15% of the portfolio market value in any other individual country.
- No manager can invest more than 40% of their portfolio in any one industry sector as defined by the Global Industry Classification Standard (GICS).
- Normally, no more than 5% of the portfolio market value can be allocated to cash.

**C. Performance Objectives.** Performance will be monitored on a monthly basis, and long-term performance will be reviewed on a quarterly basis. The measurement period for complete evaluation will typically be trailing three-year periods and a complete market cycle, to be represented by a five-year trailing period. Market cycles are defined to include both a rising and a declining market environment. Therefore, a minimum period of evaluation shall be three to five years.

The performance objectives of the international equity allocation are:

- Outperform the respective benchmark (i.e. MSCI EAFE Index), net of fees, over a market cycle, typically represented by three- and five-year time periods;
- 
- Rank above the 50<sup>th</sup> percentile of a nationally recognized peer universe consisting of international equity managers possessing a similar style over a market cycle, typically represented by three- and five-year time periods; Passively managed investments will perform in-line with the appropriate benchmark (gross of fees).

**D. Investment Guidelines.** The portfolio assets may be invested in any equity or equity-related investment in a non-US company, including marketable foreign securities, convertible securities, warrants, rights and American Depositary Receipts (ADRs), in foreign currencies or in US dollars.

Foreign currency contracts are permitted for defensively hedging the market value of securities or an aggregation of securities held, proposed to be held or sold, or relating to foreign currency exchange rates. The total exposure of all hedges shall not exceed 100% of the total portfolio value, at market. The manager shall not short the currency of any country in which there is no underlying security exposure.

Investments in derivatives other than for the purpose of defensively hedging currency shall be prohibited.

**E. Investment Restrictions.**

- Prohibited Investments - TNN funds will not invest in options, futures, commodities, venture capital funds, private placement debt securities, floating rate securities, letter stock, natural resource properties or equity securities not traded on a national exchange, except as specifically approved by the Investment Committee.
- Prohibited Investments - TNN prefers not to invest in a company with which it is involved in litigation or a major contractual dispute.
- .
- Prohibited Transactions - Investment managers cannot buy or hold securities within which they have an ownership relationship with.
- Derivatives Restrictions - Investments in derivatives shall be unleveraged investments. No derivatives are permitted whose values are tied to another security or whose value fluctuates as a multiple of any underlying security. Futures, forwards and options are permitted only if they are used in a defensive hedging manner, i.e. to control the volatility of a currency

**F. Current Investment Benchmarks**

Mandate	Benchmark	Peer Universe
Broad International Core (Passive)	Spliced Total International Stock Index	International Core Equity
Broad International Core (Active)	MSCI ACW Ex US Index	International Core Equity
Developed Core	MSCI EAFE Index	International Core Equity

Acknowledged By:

\_\_\_\_\_  
Investment Manager

Date: \_\_\_\_\_

\_\_\_\_\_  
The Navajo Nation  
Investment Committee

Date: \_\_\_\_\_

\_\_\_\_\_  
The Navajo Nation  
Budget & Finance Committee

Date: \_\_\_\_\_

## **Appendix C**

### **Small/Mid (“SMID”) Capitalization Domestic Equity** **STATEMENT OF INVESTMENT OBJECTIVES, GUIDELINES AND PROCEDURES**

**A. Investment Objectives.** The investment objectives of the SMID cap domestic equity managers are to provide TNN with total return, capital appreciation, protection against inflation risk and consistent returns as measured by the appropriate benchmark. The funds will be actively managed by active external investment management firms that have a demonstrated favorable record in managing institutional equity portfolios.. TNN shall employ diversification by investment style; value, core, and growth. The SMID cap domestic equity allocation is managed by several investment managers, and investment benchmark and peer universes are detailed in Section F of the guidelines..

**B. Portfolio Characteristics and Guidelines**

- Investment in any one corporation shall not exceed 5% of the equity portfolio at the time of purchase, and will be sold to prevent the percentage from exceeding 7% at market valuation.
- Investment in any one corporation will not exceed 5% of the outstanding shares of that corporation.
- A single manager may not have more than 2.5 times the respective index weighting of their individual portfolio in any one industry category, i.e., if technology represents 15% of the Russell 2000, an investment manager cannot hold more than 37.5% of their portfolio in technology.
- No manager can invest more than 40% of their portfolio in any one industry sector as defined by the Global Industry Classification Standard (GICS).
- Investment in foreign domiciled companies will not exceed 15% of the portfolio at market value.

**C. Performance Objectives.** Performance will be monitored on a monthly basis, and long-term performance will be reviewed on a quarterly basis. The measurement period for complete evaluation will typically be trailing three-year periods and complete a market cycle, to be represented by a five-year trailing period. Market cycles are defined to include both a rising and a declining market environment. Therefore, investment managers' minimum period of evaluation shall be typically three to five years.

The performance objectives of the SMID capitalization domestic equity are:



- Outperform the respective style benchmark (i.e. Russell 2500 Growth Index), net of fees, over a market cycle, typically represented by three- and five-year time periods;  
Rank above the 50<sup>th</sup> percentile of a nationally recognized peer universe consisting of SMID capitalization managers possessing a similar style over a market cycle, typically represented by three- and five-year time periods;

**D. Investment Guidelines.** Common stocks, preferred stocks and convertible stocks as defined in the Master Investment Policy. Also allowed are investments in securities issued by non-U.S. companies traded on U.S. exchanges (American Depositary Receipts), as well as REITs (real estate investment trusts).

**E. Investment Restrictions.**

- Prohibited Investments - TNN funds will not invest in options, futures, commodities, venture capital funds, private placement debt securities, floating rate securities, letter stock, natural resource properties or equity securities not traded on a national exchange, except as specifically approved by the Investment Committee.
- Prohibited Investments - TNN prefers not to invest in a company with which it is involved in litigation or a major contractual dispute.
- Prohibited Transactions - Investment managers cannot buy or hold securities with which they have an ownership relationship.

Derivatives Restrictions - Investments in derivatives shall be unleveraged investments. No derivatives are permitted whose values are tied to another security or whose value fluctuates as a multiple of any underlying security. Futures, forwards and options are permitted only if they are used in a defensive hedging manner, i.e. to control the volatility of a currency.

**F. Current Investment Benchmarks**

Mandate	Benchmark	Peer Universe
Value	Russell 2500 Value Index	U.S. SMID Cap Value Equity
Growth	Russell 2500 Growth Index	U.S. SMID Cap Growth Equity

Acknowledged By:

\_\_\_\_\_  
Investment Manager

Date: \_\_\_\_\_

\_\_\_\_\_  
The Navajo Nation  
Investment Committee

Date: \_\_\_\_\_

\_\_\_\_\_  
The Navajo Nation  
Budget & Finance Committee

Date: \_\_\_\_\_

## **Appendix D**

### **Fixed-Income- Core / Core-Plus**

#### **STATEMENT OF INVESTMENT OBJECTIVES, GUIDELINES AND PROCEDURES**

**A. Investment Objectives.** The investment objectives are to provide a stable income, safety of capital and consistent returns above the fixed income market as measured by the Barclays Aggregate Bond Index. The investment manager shall not take large duration bets, but rather will add value through issue selection, yield curve structure, convexity and sector rotation. The core/core plus fixed income allocation is managed by several investment managers, and investment benchmarks are detailed in Section H of the guidelines.

**B. Investment Guidelines**

The following investment guidelines apply to the investment managers. Additional parameters within these guidelines, including benchmark characteristic constraints, may be further defined within the investment managers' contract with significantly tighter constraints for the risks described below.

These Investment and Operational Guidelines ("Guidelines") are not intended to cover every foreseeable situation. If, at any time, these Guidelines do not adequately cover an investment opportunity, the investment manager shall contact TNN for additional investment direction or to ask TNN whether an amendment to the Guidelines is appropriate

**C. Investment Risk. The following risks will be managed according to the following constraints:**

- 1) **Interest Rate Risk** will be controlled through duration management. Duration must be maintained within +/- 2 years of the Barclay's Aggregate Index on an option-adjusted or effective basis.
- 2) **Yield Curve Risk** will be managed through close monitoring of key rate durations versus the Barclay's Aggregate Index at a portfolio level and within portfolio components.
- 3) **Convexity Risk** will be managed through option-adjusted and scenario analyses.
- 4) **Sector Risk** will be managed through maximum category /sector limits as set forth below. Sector and subsector ranges may be further defined within the manager's contract.
  - (a) Non-U.S. dollar securities. Maximum of 25%; maximum of 25% of non-U.S. dollar unhedged.

- (b) Emerging Market Securities. Maximum of 15%.
  - (c) Extended Sector Allocations. Maximum of 30% in U.S. and non-U.S. non-investment grade securities and emerging market debt combined.
  - (d) Derivatives.
    - 1. TBA's will be covered with cash or cash equivalents (investment grade securities with duration of less than one year).
    - 2. Futures are allowed only if the underlying security is an authorized investment pursuant to the guidelines.
    - 3. Interest Rate Futures and FX Forward Currency Contracts shall not be used to leverage the portfolio and cash equivalents shall be held equal to the notional amount, net of the margin required, of any long positions in the futures market.
  - (e) Commingled Vehicles. Maximum of 15% in commingled vehicles.
- 5) Credit Risk will be controlled by requiring minimum credit ratings as outlined below. Credit risk will be actively managed through rigorous credit analysis. A downgrade of a security which creates a violation in the guidelines will require that the manager communicate the incident to TNN immediately and sell the security as soon as commercially reasonable unless the manager determines that, based on market conditions, a temporary delay is expected to provide a better return to TNN and obtains TNN approval to do so. In such instance, the manager must provide TNN supporting justification for that recommendation and a reasonable exit strategy.

The following are the minimum credit quality constraints:

- (a) At least 70% of the portfolio shall be invested in fixed-income securities with a quality rating of investment grade by the nationally recognized statistical rating organizations (NRSRO), such as Moody's, Standard & Poor's, or Fitch with no rating below investment grade.
- (b) The portfolio shall maintain a minimum weighted average credit quality of A- (S&P or Fitch) or A3 (Moody's). Where ratings differ among rating agencies, the middle of the Moody's, Standard & Poor's and Fitch ratings will be used to determine compliance with quality guidelines, so long as all three ratings exist. If two ratings are provided, the lower (more conservative) rating shall be used. If only one rating is provided, that rating shall be used.
- (c) The minimum credit quality of securities purchased for the portfolio shall be B3 by Moody's rating system/ B- by S&P or Fitch rating system. Non-investment grade securities rated less than Baa3 (Moody's) or BBB- (S&P or Fitch) shall not exceed 30% of the portfolio
- (d) Securitized: All securitized product must be rated investment grade and the weighted average credit quality must be AA- (S&P or Fitch)/Aa3 (Moody's). Exceptions to credit quality constraints for

individual residential mortgage backed securities may be authorized in manager's mandate with maximum limits defined.

- (e) **Municipal Bonds:** Municipal issues must be rated investment grade, at least BBB- (S&P or Fitch) or Baa3 (Moody's) using the middle rating of all three agencies or the lower of two agencies when only two are available.
  - (f) **Non US Dollar Denominated Bonds:** Both the issue and the issuer's national government (if the issuer is not the national government itself) must be rated at least A- (S&P or Fitch) or A3 (Moody's) using the middle rating of all three agencies or the lower of two agencies when only two are available.
  - (g) **High Yield or Non-Investment Grade Corporates:** Corporate issues must be rated at least B- (S&P or Fitch) or B3 (Moody's) with no ratings below B- (S&P or Fitch) or B3 (Moody's).
- 6) **Structure Risk** will be managed through option-adjusted, scenario and prepayment variability analyses.
  - 7) **Reinvestment Risk** will be managed through call risk and cash flow analyses.
  - 8) **Liquidity Risk** will be managed through prudent investment of liquid securities. Issue size of permissible investments will be a consideration and should be sufficiently large enough to provide the liquidity necessary for accumulation and disposition of the securities.
- 9) **Concentration Risk**
- (a) **Issuer risk** will be managed through the following limits.
    - 1. Investments in a single government related issuer (excluding U.S. Treasuries and U.S. Agencies) will not exceed 5% of the total market value of the Core / Core Plus FI and manager mandates.
    - 2. Investments in a single corporate issuer will not exceed 2% of the total market value of the Core / Core Plus FI and manager mandates.
    - 3. For asset-backed, non-agency mortgage-backed and commercial mortgage-backed securities, each separate trust (pool of assets) is defined as a separate issuer and will not exceed 1.5% of the total market value of the Core/ Core Plus FI and manager mandates.

For purposes of these guidelines, the term "issuer" will mean a given entity and its affiliates.

- 10) **Counterparty risk** will be managed through diversification at the mandate level.



Currency Risk. The portfolio may invest in non-dollar securities on a currency hedged or unhedged basis.

**D. Permissible Investments:** The following are permissible investments for the Core Plus FI, subject to credit quality restrictions outlined above.

**U.S. Dollar Denominated Fixed Income Securities:**

- 1) U.S. Government securities: U.S. Treasury, Federal Agency, and government-sponsored enterprise securities
- 2) Supranational securities.
- 3) Municipal bonds
- 4) U.S. residential and commercial mortgage-backed securities either guaranteed by a Federal Agency or meeting the minimum credit ratings of A3 (Moody's) and A- (S&P or Fitch) including, but not limited to, mortgage pass-throughs (including fixed-rate, adjustable rate, TBA's and dollar rolls providing portfolio leverage is not created), and collateralized mortgage obligation tranches of low volatility
- 5) U.S. and non-U.S. corporate debt securities rated at least Caa3 (Moody's) or CCC- (S&P or Fitch), however, not more than 25% of the account may be invested in U.S. and non-U.S. corporate debt securities rated less than Baa3 (Moody's) or BBB- (S&P or Fitch).
- 6) U.S. asset-backed securities (ABS) including, but not limited to, credit cards, autos and home equity.
- 7) Non-convertible preferred stocks.
- 8) U.S. interest rate futures only for the purposes of (1) isolating interest rate risk from currency and credit risk, (2) handling cash flows more efficiently and (3) implementing the contractor's view on the direction of interest rates.
- 9) Money market instruments rated A1/P1.
- 10) 144A securities "with registration to follow". All U.S. dollar denominated and non-U.S. dollar denominated 144A securities combined shall not exceed 25% of the portfolio.

**Non-U.S. Dollar Denominated Fixed Income Securities:**

- 1) Non-dollar fixed income issues permitted for investments are limited to non-U.S. corporate debt securities, including capital securities and emerging market issues, Eurobonds, and sovereign debt issued by those governmental or quasi-governmental entities whose issues are included in commonly used and internationally recognized indices.
- 2) Non-U.S. corporate debt securities rated at least Caa3 (Moody's) or CCC- (S&P or Fitch), however, not more than 25% of the account may be invested in U.S. and non-U.S. corporate debt securities rated less than Baa3 (Moody's) or BBB- (S&P or Fitch)
- 3) Foreign mortgage-backed securities issued by G10 countries rated not less than A3 (Moody's) and A- (S&P or Fitch) and their respective agencies/official entities.

- 4) Non-U.S. interest rate futures for the purposes of (1) isolating interest rate risk from currency and credit risk, (2) handling cash flows more efficiently and (3) implementing the manager's view on the direction of interest rates.
- 5) FX forward currency contracts can be used for hedging, cross hedging, implementing currency positions where efficient and for the purpose of managing currency exposure. The aggregate notional amount of unhedged currency exposure outside the US dollar will not exceed 25% of the portfolio.
- 6) 144A securities "with registration to follow". All U.S. dollar denominated and non-U.S. dollar denominated 144A securities combined shall not exceed 25% of the portfolio.
- 7) Supranational securities.

#### **E. Investment Restrictions.**

- 1) The use of short sales, margin purchases, or leverage is prohibited. Also prohibited are options or future contracts, commodities, direct real estate investments.
- 2) It is the policy of the TNN that investment managers may not use derivatives to leverage the return on TNN's portfolio without the express approval of the Investment Committee. Managers will be required to report on a periodic basis (at least annually) to the Investment Committee on their use of derivatives for any purpose and to assure the Investment Committee of compliance with this policy.

#### **F. Investment Guidelines and Constraints.**

- 1) Portfolio Duration. Plus or minus 2 years of the Barclays Aggregate Bond Index.
- 2) Credit Quality Constraints:
  - a. Non-Investment Grade Securities – 30%
  - b. Non-Investment Grade Corporate Debt – 25%
- 3) Sector Specific Limits:
  - a. Mortgage Backed Issues – 60%
  - b. Corporate Issues – 40%
  - c. Corporate and Mortgage Backed Issues Combined: 80%
  - d. Commercial Mortgage Backed – 5%
- 4) Foreign Issues Limit:
  - a. Non-U.S. Securities (Non-Dollar) – 25%
  - b. 15% Emerging Market Issues
- 5) Issuer Concentration Limit:
  - a. Except for US Government and Agency issues, no more than 5% of the portfolio will be invested in the security of a single issuer.

**G. Performance Objectives.** The measurement period for complete evaluation will typically be trailing three-year periods and complete market cycles, to be represented by a five-year trailing period. Market cycles are defined to include both a rising and a declining market environment. Therefore, a minimum period of evaluation shall be one year and more typically three to five years.

The performance objectives of the portfolio are:

- Core Managers: Outperform the respective index, net of fees, over a market cycle, typically represented by three- and five-year periods.
- Core-Plus Managers: Outperform the respective index, net of fees, over a market cycle, typically represented by three- and five-year periods.
- Rank above the 50th percentile of a nationally recognized peer universe consisting of core or core plus managers possessing a similar style over a market cycle, typically represented by three- and five-year time periods.

#### **H. Current Investment Benchmarks**

<b>Mandate</b>	<b>Benchmark</b>	<b>Peer Universe</b>
Core	Barclays U.S. Aggregate Bond Index	U.S. Broad Market Core Fixed Income
Core Plus	Barclays U.S. Aggregate Bond Index	U.S. Core Plus Fixed Income

Acknowledged By:

\_\_\_\_\_  
Investment Manager

Date: \_\_\_\_\_

\_\_\_\_\_  
The Navajo Nation  
Investment Committee

Date: \_\_\_\_\_

\_\_\_\_\_  
The Navajo Nation  
Budget & Finance Committee

Date: \_\_\_\_\_

## Appendix E

### Low Duration Fixed Income

#### STATEMENT OF INVESTMENT OBJECTIVES, GUIDELINES AND PROCEDURES

**A. Investment Objectives.** The investment objectives of the low duration fixed income portfolio are to provide a stable income, safety of capital and consistent returns above the fixed income market as measured by the Barclays U.S. 1-5 Year Government/Credit Index. The investment managers shall not take large duration bets, but rather will add value through issue selection, yield curve structure, convexity and sector rotation. The low duration fixed income allocation is managed by several investment managers, and investment benchmark and peer universes are detailed in Section F of the guidelines.

#### **B. Portfolio Characteristics and Guidelines**

Portfolio Duration	Plus or minus 20% of the Barclays U.S. 1-5 Year Government/Credit Index
Issuer Concentration	Except for US Government and Agency issues, no more than 5% of the portfolio will be invested in the security of a single issuer.
Average Credit Quality	AA or better
Investment in Below Investment Grade	Not Allowed
Investment in Non-US Securities	Maximum of 10% of portfolio at market

**C. Performance Objectives.** Performance will be monitored on a monthly basis, and long-term performance will be reviewed on a quarterly basis. The measurement period for complete evaluation will typically be trailing three-year periods and a complete market cycle, to be represented by a five-year trailing period. Market cycles are defined to include both a rising and a declining market environment. Therefore, a minimum period of evaluation shall be three to five years.

The performance objectives of the low duration fixed income allocation are:

- Exceed the Barclays U.S. 1-5 Year Government/Credit Index, net of fees, over a market cycle, typically represented by three- and five-year time periods;
- Rank above the 50<sup>th</sup> percentile of a nationally recognized peer universe consisting of low duration fixed income managers over a market cycle, typically represented by three- and five-year time periods.

**D. Investment Guidelines.** The portfolio assets may be invested in fixed income securities issued by U.S. corporations, U.S. government or its agencies or instrumentalities, which are traded on a National Securities Exchange or are otherwise readily marketable, mortgage and asset backed securities. Commercial mortgage backed securities are permitted, but shall comprise no more than 5% of the portfolio market value.

**E. Investment Restrictions.**

- The use of short sales, margin purchases, or leverage is prohibited. Also prohibited are options or future contracts, commodities, direct real estate investments. Investment in mortgage interest only (IO) and principal only (PO) securities or their derivations are prohibited. Prohibited Investments - TNN prefers not to invest in a company with which it is involved in litigation or a major contractual dispute.
- Prohibited Transactions - Investment managers cannot buy or hold securities within which they have an ownership relationship with.
- Derivatives Restrictions - Investments in derivatives shall be unleveraged investments. No derivatives are permitted whose values are tied to another security or whose value fluctuates as a multiple of any underlying security. Futures, forwards and options are permitted only if they are used in a defensive hedging manner, i.e. to control the volatility of a currency

**F. Current Investment Benchmarks**

Mandate	Benchmark	Peer Universe
Low Duration Fixed Income	Barclays U.S. Gov't/Credit 1-5 Year Bond Index	U.S. Short Duration Fixed Income

Acknowledged By:

\_\_\_\_\_  
Investment Manager

Date: \_\_\_\_\_

\_\_\_\_\_  
The Navajo Nation  
Investment Committee

Date: \_\_\_\_\_

\_\_\_\_\_  
The Navajo Nation  
Budget & Finance Committee

Date: \_\_\_\_\_



## Appendix F

### Core Real Estate

#### STATEMENT OF INVESTMENT OBJECTIVES, GUIDELINES AND PROCEDURES

**A. Investment Objectives.** The investment objectives of the core real estate portfolio are to provide total return, capital appreciation, protection against inflation risk and consistent returns as measured against the appropriate benchmark. The primary role of the real estate portfolio is to generate income while diversifying the investment assets by investing in commingled real estate funds that offer broad geographical diversification utilizing a wide range of property types. The core real estate allocation is managed by several investment managers, and investment benchmarks are detailed in Section D of the guidelines.

**B. Performance Objectives.** The measurement period for complete evaluation will typically be trailing three-year periods and a complete market cycle- as represented by a trailing five-year period. Market cycles are defined to include both a rising and a declining market environment. Therefore, a minimum period of evaluation shall be three to five years.

The performance objectives of the core real estate allocation are:

- Outperform the NCREIF ODCE Index, net of fees, over a market cycle, typically represented by three- and five-year periods.

**C. Investment Guidelines.** Delineated in commingled fund investment policy or prospectus.

#### **D. Current Investment Benchmarks**

Mandate	Benchmark
Core Real Estate	NCREIF ODCE Index (Asset Weighted Average)

Acknowledged By:

\_\_\_\_\_  
Investment Manager

Date: \_\_\_\_\_

\_\_\_\_\_  
The Navajo Nation  
Investment Committee

Date: \_\_\_\_\_

\_\_\_\_\_  
The Navajo Nation  
Budget & Finance Committee

Date: \_\_\_\_\_

## Appendix G

### **Absolute Return and Global Tactical Asset Allocation (“GTAA”)** STATEMENT OF INVESTMENT OBJECTIVES, GUIDELINES AND PROCEDURES

**A. Investment Objectives.** The investment objectives of the absolute return/GTAA portfolio are to provide positive absolute returns, with low correlation to the equity and fixed income markets, with an emphasis on mandate flexibility and manager skill as opposed to maintaining a consistent mandate or market exposure. The primary role of the absolute return and GTAA allocation is to increase the expected return while reducing overall volatility. The absolute return and GTAA allocation is managed by several investment managers, and investment benchmarks are detailed in Section D of the guidelines.

**B. Performance Objectives.** The measurement period for complete evaluation will typically be trailing three-year periods and complete market cycles, to be represented by a five-year trailing period. Market cycles are defined to include both a rising and a declining market environment. Therefore, a minimum period of evaluation shall be three to five years.

The performance objectives of the absolute return/GTAA allocation are:

- Outperform (net of fees) the return of a custom benchmark specific to the underlying product and/or strategy over a market cycle, typically represented by three- and five-year periods.

**C. Investment Guidelines.** Acceptable investments for absolute return and GTAA strategies may include, but are not limited to, multiple equity and fixed income asset and sub-asset classes such as government bonds, real estate investment trusts, inflation-linked bonds, master limited partnerships, floating rate notes, foreign sovereign debt, emerging market equity, and cash. Investment managers are given full discretion to tactically allocate capital within the portfolios to generate alpha.

**D. Current Investment Benchmarks**

<b>Mandate</b>	<b>Benchmark</b>
GTAA	All Asset Custom Index / Consumer Price Index + 5%
GTAA	Westwood Custom Index

Acknowledged By:

\_\_\_\_\_  
Investment Manager

Date: \_\_\_\_\_

\_\_\_\_\_  
The Navajo Nation  
Investment Committee

Date: \_\_\_\_\_

\_\_\_\_\_  
The Navajo Nation  
Budget & Finance Committee

Date: \_\_\_\_\_

## BUDGET AND FINANCE COMMITTEE

18 December 2018

Regular Meeting

### VOTE TALLY SHEET:

#### Legislation No. 0387-18:

An Action Relating to Budget and Finance Committee; Approving and Adopting the Amended and Restated Navajo Nation Master Investment Policy Sponsored by Tom T. Chee, Council Delegate

*Motion: Jimmy Yellowhair*

*Second: Lee Jack, Sr.*

*Vote: 4-0, Pro Tem Chairman not voting*

#### Vote Tally:

Seth A. Damon	yay	
Jimmy Yellowhair	yay	
Tom T. Chee	yay	
Lee Jack, Sr.	yay	
Leonard Tsosie		
Tuchoney Slim, Jr.		

**Absent:** *Leonard Tsosie*

  
Tuchoney Slim, Jr., Pro Tem Chairman  
Budget & Finance Committee

  
Peggy Nakai, Legislative Advisor  
Budget & Finance Committee