

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

23RD NAVAJO NATION COUNCIL - Third Year, 2017

AN ACTION

RELATING TO BUDGET AND FINANCE COMMITTEE; APPROVING THE
AMENDMENT OF THE NAVAJO NATION MASTER INVESTMENT POLICY TO
CLARIFY AMBIGUOUS LANGUAGE

BE IT ENACTED:

SECTION ONE. AUTHORITY

- A. The Budget and Finance Committee, established as a standing committee of the Navajo Nation Council, shall exercise oversight authority including but not limited to budget, finance, investment, bonds, contracting, insurance, audits, accounting, taxes, loans, for the purpose to coordinate, oversee(,) regulate the fiscal, financial, investment, contracting and audit policies of the Navajo Nation. 2 N.N.C. § 300(A), (C)(1).

SECTION TWO. FINDINGS

- A. In exercising its authority under 2 N.N.C. Section 300(C)(1), the Budget and Finance Committee has adopted the Navajo Nation Master Investment Policies to provide investment management personnel with policy guidance for investing the Navajo Nation's financial resources. The Budget and Finance Committee has final authority to review, reaffirm, modify and approve the Policy on the recommendation of the Navajo Nation Investment Committee.
- B. Pursuant to Section 1.1, Section 4.3(a), Section 4.8(a) and Section 22 of the Policy, the Navajo Nation Investment Committee, upon the advice of its investment consultant, may recommend modifications to the Policy for approval and adoption by the Budget and Finance Committee.
- C. The Navajo Nation Investment Committee, by Resolution No. NNICAU-02-18, recommends the approval and adoption of the

amended Investment Policy, Section 7. Pooled/Commingled Investments, 7.2, Mutual Fund Investments/Commingled Funds(a)(b) to eliminate certain ambiguities in the Policy. See Investment Committee Resolution No. NNICAU-02-18 attached as **Exhibit A**.


- D. The Budget and Finance Committee, upon the recommendation of the Investment Committee and the Investment Consultant, has reviewed the amended Investment Policy, Pooled/Commingled Investments and has determined that it is in the best interests of the Navajo Nation to amend the Master Investment Policies as reflected in the recommended amended policy. Attached to **Exhibit A**.

SECTION THREE. APPROVAL

- A. The Budget and Finance Committee approves the amended Policy related to Pooled/Commingled Investments, 7.2(a)(b), in its entirety as set forth in **Exhibit A** attached hereto.
- B. The amended Master Investment Policies, Pooled/Commingled Investments, 7.2(a)(b) shall become effective immediately upon adoption of this Resolution by the Budget and Finance Committee.

CERTIFICATION

I hereby certify that the foregoing resolution was duly considered by the Budget and Finance Committee of the Navajo Nation Council at a duly called meeting held at Window Rock, Navajo Nation (Arizona), at which a quorum was present and that the same was passed by a vote of 3 in favor and 0 opposed, this 5th day of December, 2017.



Seth Damon, Chairperson
Budget and Finance Committee

Motion: Honorable Tom T. Chee
Second: Honorable Tuchoney Slim, Jr.

THE NAVAJO NATION

MASTER INVESTMENT POLICIES

Section 1. Introduction and Scope

- 1.1 Introduction.** The Master Investment Policy and Procedures (the “Policy”) and the corresponding Sub-Policies covering specific funds (defined below in Section 20) 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 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.** 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.

Accounts are classified into funds pursuant to GAAP in accordance with specified activities and objectives. The Nation’s existing funds include the following funds organized in the following four (4) fund classifications (the “Fund Classifications”):

GENERAL FUND

SPECIAL REVENUE FUNDS

Grant Fund
 Chapter Government Nation Building Fund (1982 Claims Fund and 1986 Claims Fund)
 Navajo Dam Escrow Fund
 Scholarship Fund (Navajo Engineering and Construction Trust Fund for Scholarships and Financial Assistance and the Diné Higher Education Grant Fund)
 Navajo Rehabilitation Trust Fund
 Navajo Tourism Fund
 Land Acquisition Fund
 Environmental Protection Agency Fund
 Navajo Trust Fund (Phoenix Indian School)
 Tax Suspense Funds
 Oil and Gas Development Special Revenue Fund
 Navajo Forestation Fund
 Local Governance Trust Fund
 Capital Outlay Match Funding Special Revenue Fund
 Sales Tax Trust Fund
 Navajo Nation Road Fund

FIDUCIARY FUNDS

Pension Trust Funds:

- Retirement Fund
- Deferred Retirement Fund
- Nihibeeso Retirement Fund

Nonexpendable Trust Funds:

- Navajo Nation Permanent Fund
- Handicapped Services Trust Fund
- Vocational Education Trust Fund
- Senior Citizens Services Trust Fund
- Navajo Preparatory School, Inc. Trust Fund
- Navajo Nation Veterans Trust Fund
- Síhasin Fund

PROPRIETARY FUNDS

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

The administrative responsibility for the retirement accounts (i.e., the defined benefit, the 401(k) and the deferred compensation plans) 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) 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 if appropriate. The Controller shall assign the appropriate Fund Classification for new funds in accordance with generally accepted accounting principles ("GAAP").
- 1.4 Pooling of Funds.** Each Fund Classification will be managed as an individual pool to take advantage of economies of scale when making investment purchases and to simplify the investment process, unless comingling 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 will be managed separately (e.g., Retirement 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 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 (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.”

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

Section 4. Delegation of Authority

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 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 the investment policies of the Nation, *Id.* at § 300.C.1, and places a duty on the B&F Committee 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 or modify 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;
- c) The Auditor General;
- d) A Presidential Appointee;
- e) The Chairman of the B&F Committee; and
- f) An additional B&F Committee 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 Policy, Sub-Policies, and Asset Class Guidelines.
- 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 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 private equity and venture capital.
- f) Receive quarterly reports from the Investment Consultant regarding the performance of investment managers and receive periodic reports from individual investment managers.
- g) Receive quarterly 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 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 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 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 and the corresponding asset class guidelines and shall 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 a Securities and Exchange Commission ("SEC") Registered Investment Advisor under the 1940 Act, and 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 custodian's (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 investment consultant (the “Investment Consultant”) must be independent of all 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 reaffirmation and modification of these Policies on an annual basis.
- b) Assist the Nation in the selection of qualified investment managers, and assist in the oversight of existing 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 and Sub-Policies and Asset Class Guidelines.
- i) Report proxy votes as needed to the Investment Committee.

4.9 Duties of the Financial Advisor. The financial advisor (the “Financial Advisor”) must be independent of the Investment Consultant, all 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. Pooled/Commingled Investments

7.1 Definition of Commingled Investments. Commingled investments refer to investment instruments where there is a pooling of securities owned by multiple clients for diversification and cost benefits and, therefore, investment managers cannot tailor the portfolio to suit client-specific guidelines.

7.2 Mutual Fund Investments/Commingled Funds.

- a) No single investment of the Nation's funds shall be made in any mutual funds or ~~pooled institution portfolios~~ other 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 ~~in restricted investments~~.
- b) With the approval of the Investment Committee, the Nation may invest in any diversified mutual fund or 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), as long as it is either (i) registered under

the Securities Act of 1933 and/or 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. Any diversified 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 vehicle fund will be the operative policy and the guidelines set forth in this Policy shall not control.

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 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, royalty trusts, infrastructure, treasury inflation protected securities (“TIPS”), real estate/REITs, natural resources, commodities, and currencies.
- e) Hedge Funds/Global Tactical Asset Allocation (“GTAA”) – Hedge fund 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 and GTAA strategies can be made via fund of fund, direct investments, and mutual fund vehicles. The hedge fund/GTAA asset class may include but is not limited to strategy types including long/short equity, long/short credit, distressed, risk-parity, macro, 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 Land Acquisition 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. 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 in any year of less than the ten (10) year average rate of return of the Master Trust portfolio.
- j) Other Investments. Other investments, including entertainment investments and professional sports franchises, subject to the limitations of Section 11 below.
- 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 account situations (i.e., not mutual or commingled funds). 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 in limited liability companies, partnership interests, corporations or other ownership in connection with hedge funds, venture capital, private equity, 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.

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

- a) Not more than two and one half percent (2.5%) 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 at the time of the investment.

Section 12. Collateralization

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 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(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 Manager shall keep accurate written records as to the exercise of such ownership rights 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 will provide voting guidance and recommendations to the Nation upon request.

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 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 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.
 - 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 a least \$500 million of discretionary institutional assets under management, and the Nation's portfolio should make up no more than ten percent (10%) of the firm's total asset base.
 - 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 4.6 and conform to AIMR standards for performance reporting.

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.

18.5 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.

- 18.6 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.).
- 18.7 Termination.** The decision to terminate an Investment Manager shall be by majority vote of the Investment Committee present at the meeting.

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 unqualified Navajo or other unqualified Native American brokerage firms.

- 19.6 Compliance.** The lack of substantial compliance with Sections 19.1 through 19.5 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 must be approved by the Investment Committee to go into effect.

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, transactions shall be executed on the basis of "best price and execution" for the sole benefit of the Nation. Investment Managers of commingled funds, limited partnerships, or mutual funds will have full discretion over the portfolio management decisions taking into consideration the guidelines established by the funds' respective partnership agreements and fund prospectuses. 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.

ACKNOWLEDGED BY:

Date: _____

The Navajo Nation Investment Committee

Date: _____

Policy last updated:

- _____, 2015