

## INVESTMENT POLICY

LTA S& P 6A3

### **Introduction**

The purpose of this policy statement is to set forth the guidelines and objectives for the management of investment funds held by the Natural Land Institute (“NLI”). The Investment Manager should adhere to the guidelines set forth in this statement, but the policy should not be construed to be so rigid that it becomes impractical. Any variance to policy must be reported to the NLI Treasurer and subsequently to the NLI Board of Trustees.

### **Investment Objective**

The long-term goal of the investment management of NLI Investment Funds is to produce returns sufficient to produce average annual returns equal or exceeding the rate of inflation, plus provide for an annual distribution at a rate established by NLI plus cover investment costs. The investment approach shall be disciplined and consistent over time and among asset classes.

### **General**

NLI possesses endowment and restricted investment funds (“funds”) from which it intends to support its mission over the long term through distributions from such funds’ gains and earnings. Experience teaches that risk, though measured, must be assumed in order to achieve appropriate gains and earnings. Today’s prudent investors manage so as to maximize available gains, given acceptable levels of risk within a portfolio’s time horizon. Decisions should be made based on historical and forward-looking returns while applying experience and judgement to this process.

“Risk” is usually defined by the propensity of an “asset class” to vary in its market value or price over some measure of time. The experience of modern markets is that they tend to “revert-to-their-norm” given an ample time frame. Securities that serve to dampen risk, or price volatility, are said to be “risk control assets.”

Varying the mix of the two “risk-return” components, that is risk and risk control assets, can result in knowledgeably producing expected long-term returns within acceptable levels of overall portfolio risk or price volatility. Data and experience have shown that risk may be further dampened by diversifying portfolio assets across an array of markets and individual securities, and by investing in broad market index funds (“indexing”), this latter made up of a large number of individual securities and set to defined and widely

known market segments. And by indexing, management and administrative costs can be more easily minimized, thereby contributing to overall achieved returns.

Generally, returns are greatest when investing funds in growth securities (“risk assets”), which assets are subject to varying amounts of markets “price-volatility”. Studies show risk, or price volatility, can be managed when investing a measured proportion of funds in “risk control assets” and by the introduction of an additional variety of approaches. These approaches include: 1) balancing risk with risk control assets in determined proportions; 2) extending the investment time horizon to the long-term when appropriate; 3) diversifying across a variety of asset classes; 4) diversifying across an ample number of securities’ issuers; 5) avoiding “active management” in highly efficient markets; and 6) within established limits, active management can contribute to growth by weighting above or below target or strategic levels based on market valuation estimates.

### **Investment Policy**

The Investment Policy of the Natural Land Institute is to posture its Funds with a long-term perspective within the Asset Allocation Guidelines provided herein. These Guidelines set forth the allocation to Risk and Risk Control Assets, including target or a “strategic” long-term period of at least the full business or market cycle of 10 years and more, within lower and upper “tactical” or 12-month short-term limits, using well diversified securities and instruments across a broad array of markets, emphasizing a portfolio core of low-cost passively indexed funds supplemented by managed funds where believed to capture additional returns from market inefficiencies. Allocations shall not exceed upper or lower tactical guideline limits without express NLI approval through its Treasurer or its Finance Committee, which approval shall be subsequently made in writing and reported to the Board.

### **Portfolio Composition**

NLI investment funds, or investment “assets,” shall consist of high-quality mutual funds, Exchange Traded Funds or individual securities and be broadly diversified at all times. The three basic asset classes in which the NLI assets may be invested are equities, fixed income, and money market mutual funds or cash equivalent securities. The assets allocated to each class shall range within the Asset Allocation Guidelines and Restrictions described below, except that in extraordinary circumstances, as determined by the Investment Manager, greater proportions may be allocated to money market investments resulting in possible under-allocation to fixed income and/or equity assets, such under-allocation being subject to Investment Policy reporting requirements. Where allocated assets exceed the ranges provided in the Asset Allocation Guidelines below, due to market volatility, such allocation shall be rebalanced at least quarterly.

For diversification purposes, no individual security may exceed 2% of the total investment assets except those of the U.S. Government or those having the direct or implied guarantee of the U.S. Government. Investment in Mutual Funds and Exchange

Traded Funds shall be limited to those that are diversified such that the largest holding of such a fund shall not exceed 10% of the fund's total assets, excepting issues of the U.S. Government or issues having the direct or implied guarantee of the U.S. Government.

The market value of securities in the portfolio shall be determined using the most recent pricing information available from the funds' custodian. Such securities and their values shall be reported from time-to-time to the Board at its regular meetings as part of its on-going financial reporting package.

### 1. **Equity Securities**

The purpose of the equity component is to primarily provide for growth. The targeted allocation of assets to this equity component may vary from time-to-time within the range provided in the Asset Allocation Guidelines in the attached Appendix depending upon the relative attraction of equities versus other asset categories and market conditions as determined by the Investment Manager. The Equity Portfolio may include high quality All-Cap, Large-Cap, Mid-Cap, Small-Cap, and International Developed and Emerging stock components.

### 2. **Fixed Income Securities** (maturities over one year)

The purpose of this fixed income component—consisting of debt securities having maturities in excess of 1 year at the time of their purchase—is to reduce the risk level of the portfolio and to provide a consistent income stream to the portfolio. Mutual funds or exchange traded funds may include U.S. Treasury, Agency, Corporate, Asset Backed, Mortgage Backed and International issues. This Fixed Income component may also hold direct issues of U.S. Treasury and Agency securities, as well as bank term CD's.

The quality of Fixed Income securities shall be of Investment Grade on their purchase, or High Yield, within the limitations provided in the Asset Allocation Guidelines contained in the attached Appendix or are otherwise approved by the Finance Committee and subsequently reported to the Board. Investment grade is defined as those ratings of BBB or Baa and above, that is of the four highest rating levels as determined by the traditional rating agencies. High Yield is defined as those ratings below Investment Grade. It is recognized that some mutual funds are managed by advisors known to invest in investment grade securities, although their prospectus provides the possibility of a small percentage below that grade; such funds may be purchased where such advisor is known by the Investment Manager to emphasize quality and such funds shall be considered "investment grade".

### 3. **Money Market Investments** (maturities under one year)

NLI investment assets may be invested in high quality, short term and highly liquid money market instruments or mutual funds having a maturity of less than one year at the time of purchase. The purpose of this component is to provide a temporary investment for available cash. High quality shall be defined as U.S. Governments, Agencies or those securities rated A2/P2 or better. Investments may also be made in local bank deposit accounts and CD's, subject to limits of no more than that covered by FDIC Insurance.

#### **Asset Allocation Guidelines**

Generally, the Asset Allocation Guidelines expressed as traditional categories are Equities 70% and Fixed Income 30%. When expressed by propensity for volatility they are equivalently Risk Assets 76% and Risk Control Assets 24%. For more detailed targets and policy ranges of asset classes, see attached Appendix and Note below. The Asset Allocation Guideline targets are intended to be long-term or strategic with little variance over the years.

Note: Asset Allocation Guidelines for Reserve Fund investments applicable only to Long-Term portion "available for investment" as prescribed by Reserve Fund Policy adopted August 14, 2008, or subsequently amended thereafter.

#### **Prohibited Transactions**

The "pledge" of Investment Assets is prohibited without approval of the Board. Hedge Fund, Venture Capital, Private Equity, Short-Selling or Excess-Leverage Fund investments are prohibited holdings.

#### **Investment Management**

The responsibility for the investments of NLI investment assets is that of the Board of Trustees as delegated to the Treasurer and the NLI Finance Committee ("Committee"). The Finance Committee can further delegate the day-to-day management of such investments to an Investment Manager ("Manager"), under written contract, who is herein authorized to carry out individual investment transactions, subject to the restrictions found in this Policy.

Fees, if any, shall be paid from assets and shall be only those that are reasonable and customary as determined under and as governed by the Natural Land Institute's "Guidelines For Quality Based Selection Process For Vendors And Professional Services," which "Vendor Guidelines" were adopted December 13, 2001 by the Board of Trustees.

The Investment Manager will meet at least annually with the NLI Finance Committee regarding portfolio composition, restrictions, and performance results. Reporting should be for agreed periods compared to appropriate benchmarks over comparative periods. Financial reports will be provided to the Finance Committee each calendar quarter and to the Treasurer, this latter as requested. The Manager will comply with all applicable federal and state laws, rules, and regulations.

### **Risk Management**

Consistent with investment strategies that desire an element of capital appreciation, it is acknowledged that there will be periods of moderate volatility and short-term capital losses. To minimize portfolio risk, the Finance Committee has placed limits on the amount of risk exposure that can be utilized as part of the investment strategy. Furthermore, the Finance Committee, through the language in this document, has placed restrictions on the concentration of individual securities, concentration of securities held within a mutual fund and the quality of fixed income securities held in the portfolio, in an effort to control risk.

This policy will be reviewed periodically.

### **Conflicts of Interest**

All investment activities and transactions shall be for the benefit of the NLI. Such activities and transactions shall adhere to the NLI Conflict of Interest Policy contained in the “Vendor Guidelines” (referenced above) and which is: “Members of the staff, Board of Trustees and committees shall not take advantage of their positions to profit financially from the actions of the Natural Land Institute and shall exercise care to prevent an actual or apparent conflict of interest. If the staff, Board of Trustees, or a committee is considering an action that would financially benefit a member, a member’s relative or the member’s business, that member must reveal the conflict and must refrain from both participation in the discussion and the vote on the action. The abstention of that member shall be noted in the minutes of the meeting.”

### **Administrative**

All investment assets of NLI will be held in the name of the Natural Land Institute. All transfers to and from accounts established to hold such assets shall only be under the direction of the NLI President, Treasurer, Executive Director or the Assistant Director and only into such accounts in the name of the Natural Land Institute that have been approved by the Board. Such transfers may be only made from NLI transaction accounts, or to NLI transaction accounts which are subject to NLI dual controls.

Investment assets will be held in custody account approved by the Board wherein purchases and sales may be transacted, and may be invested “Fund Direct”—which funds

are subject to the requirements of this Investment Policy—and bank deposit accounts as specified in this Policy under Portfolio Composition Part 3, Money Market Investments.

The standards for the accounting of Investment Assets include the following:

1. All Investment Assets shall be accounted for as being “Available for Sale.”
2. At such time as the market value of an Investment Asset cannot be determined according to Policy, such asset shall be deemed “Impaired” and subsequently reported to the Treasurer, President and Executive Director for determination in consultation with the NLI Auditor, which shall be subsequently reported to the Finance Committee and the Board.

### **Specifically Designated Funds**

The Finance Committee has made available a specially designated fund to facilitate contributions to the endowment, which upon the specific request of the donors, are to be invested in a manner that does not promote degradation of the environment. The following “Green Endowment Guidelines” describe the purpose of this fund and will be overseen by the Finance Committee in accordance with this Investment Policy Statement.

### **Green Endowment Guidelines**

#### **Statement of Fiduciary Responsibility**

We begin the Green Endowment investment policy section by recognizing that our responsibility does not end with maximizing return and minimizing risk.

We believe that efforts to mitigate environmental degradation, and promote healthy communities will be successful to the extent that these concerns are brought from the margins to the center of investment decision-making.

We recognize that addressing such concerns while pursuing financial objectives is an imperfect process. However, we believe that the development of sustainable corporate practices and, through them, a healthier economy, depends upon the recognition of these concerns by management, directors, employees, and investors of company issued securities. Within our organization, this means reducing the dissonance between our overall mission and how our endowment assets are invested.

In furtherance of these beliefs, we have made available a Green Fund: a permanent fund, which will be managed as a specifically designated investment asset or assets.

The NLI Finance Committee may either direct the Investment Manager to invest Green Funds into a specified mutual or ETF fund, or after careful study and consultation, request Manager to invest such Green Funds.

## **Green Funds Investment Policy**

All guidelines and objectives set forth in NLI's Investment Policy shall apply to the Green Funds, with the following exceptions:

### **Investment Screening**

The purpose of the Green Funds is to offer an alternative to donors who wish to ensure that their donations are not invested in companies whose actions and/or policies have adverse effects on the environment. In furtherance of this goal, all Green Fund investments shall be subject to environmental screening in addition to traditional financial analysis. All Green Fund investments must be deemed acceptable under both criteria in order to be included in the fund.

The impact of screening on financial returns is a subject of on-going analysis, both internally, with respect to the NLI's own investment performance, and externally, with respect to the green investment movement as a whole. The Finance Committee will continue to monitor, assess, and seek to improve its understanding of the relationships that may exist between financial returns and the impact of environmental screening on our mission.

The Finance Committee will monitor the performance of Green Fund investments on a quarterly basis. Year-to-date and cumulative performance will be assessed in terms of the Green Fund as against NLI's other investment funds, in comparison to the relevant indexes. Other issues to be reviewed include adherence to the NLI's screens and values; transactions and transaction costs; market capitalization, portfolio balancing, holdings overlap among accounts; and systematic risk (beta) and standard deviation (sigma) for each portfolio.

### **Environmental Screening Criteria**

In evaluating the environmental suitability of an investment, the following characteristics should be considered, but not limited to:

- demonstrated Board and management commitment to environmental issues, including an environmental policy statement;
- demonstrated support for strong public environmental policies;
- environmental accountability to all stakeholders, including employees, consumers, and the communities in which they are located;
- a commitment to environmental justice;
- products, processes, and services that have a direct and positive environmental impact;
- efforts in the manufacture, processing or marketing of food that are consistent with sustainable agriculture;

- a record of regulatory compliance;
- a record of waste and toxic emission reduction toward a goal of zero emissions, including commitment to reuse and recycling;
- a commitment to sustainable use of natural resources;
- R & D funding for new processes and materials that minimize environmental impact.

We will not invest in companies:

- whose policies and/or practices have unreasonably negative environmental impacts.

**APPROVED:**

*Natural Land Institute*

By: \_\_\_\_\_

As Its: \_\_\_\_\_

Dated this \_\_\_\_ day of \_\_\_\_\_

**ACKNOWLEDGED:**

*The Northern Trust Company*

By: \_\_\_\_\_

As Its: \_\_\_\_\_

Dated this \_\_\_\_ day of \_\_\_\_\_

**APPENDIX**

**INVESTMENT SERVICES AGREEMENT EXHIBIT**  
**&**  
**ASSET ALLOCATION GUIDELINES AND**  
**INVESTMENT PERFORMANCE BENCHMARKS**  
**& OBJECTIVES**

Effective December 12, 2019, the following Asset Allocation Guidelines and Investment Performance Benchmarks & Objectives will apply to the management by Northern Trust of Account # TBD (“Account”), until such time as the undersigned revise this document on behalf of Natural Land Institute (“NLI”) in the manner described below.

**ASSET ALLOCATION GUIDELINES**

These Asset Allocation Guidelines describe the risk and return parameters the Natural Land Institute has determined best meet its objectives. NLI understands that other strategic allocations, representing varying levels of risk and return, are available.

As used in these guidelines - “Target Level” means the strategic asset allocation mix that Northern Trust is expected to maintain under normal Account circumstances and market conditions; “long-term” means a period not less than five years; “volatility” means large positive or negative returns in short time periods; and “cash” refers to cash equivalents (or funds including cash equivalents) having maturities of one year or less.

We understand that any asset classes or ranges identified are guidelines. Asset allocations within the Account may differ from the ranges outlined below depending on Account circumstances, NLI directions and market conditions, but will remain within established tactical ranges unless otherwise approved by NLI as provided by Policy. Investments within the equity, alternatives, fixed income and cash categories may vary. Additions or withdrawals will affect the Account’s asset allocation as will market volatility. Therefore, a reasonable amount of time will be required to rebalance the Account’s asset allocation consistent with these Asset Allocation Guidelines.

Northern Trust may rely on these Asset Allocation Guidelines for any other accounts or portfolios over which the Natural Land Institute has signing or investment authority if NLI fails to provide Northern Trust with separate asset allocation guidelines for such accounts or portfolios. Thus, the asset allocation described in these Asset Allocation Guidelines may be attributable to a given account or portfolio, or aggregated across accounts or portfolios, depending on Northern Trust’s or NLI’s circumstances.

Should any statements herein conflict with those in the Investment Policy Statement, to which this Appendix is attached, said Investment Policy Statement shall prevail.

**APPENDIX**  
**Asset Allocation Ranges & Targets**

	<u>STRATEGIC or TARGET</u>		<u>TACTICAL</u>	
	<u>TRADITIONAL</u> CLASSES:	<u>RISK</u> CLASSES:	Lower Limit	Upper Limit
	<u>EQUITIES</u>	<u>RISK ASSETS</u>		
U.S. Equity	44%	44%	35%	55%
International Developed Market Equity	15.5%	15.5%	5.5%	25.5%
International Emerging Market Equity	8%	8%	0%	20%
High Yield Bonds		4%	0%	10%
Real Estate & Infrastructure		2%	0%	6%
Natural Resources & Commodities	2.5%	2.5%	0%	5%
<b>Class Total</b>	<u>70.0%</u>	<u>76.0%</u>	65%	85%
	<u>FIXED INCOME</u> <u>&amp; CASH EQUIV.</u>	<u>RISK CONTROL</u>		
U.S.: Investment Grade Bonds	22%	22%	10%	35%
: High Yield Bonds	4%			
Real Estate & Infrastructure	2%			
Inflation Protected Bonds	1%	1%	0%	15%
Cash	1%	1%	0%	30%
<b>Class Total</b>	<u>30%</u>	<u>24%</u>	15%	35%

**Long-Term Performance Objective**

The long-term performance goal is to equal or exceed the average CPI-plus management fees-and distribution rate. Actual annual performance, with projected capital market assumptions, shall be reviewed annually ongoing. For the coming year:

<u>Total Return = Dist. Rate + CPI + Fees</u>	
Approved Distribution Rate	4%
CPI Assumption	2.0%
Estimated Management & Fund Fees	<u>.8%</u>
<b>Total Performance Objective</b>	<u>6.8%</u>

## INVESTMENT PERFORMANCE BENCHMARKS

The performance review of Northern Trust at the asset class level will evaluate asset class performance versus the following benchmarks:

### **U.S. Equity:**

Russell 3000  
Russell 1000

Russell 2000

### **International Developed & Emerging Market Equity:**

MSCI ACWI ex-US  
MSCI EAFE

MSCI Emerging Markets

### **High Yield Bonds:**

Merrill Lynch US High Yield BB-B Bond  
Credit Suisse Levered Loan

### **Real Estate & Infrastructure:**

FTSE EPRA/NAREIT Global Real Estate  
S&P Global Infrastructure

### **Natural Resources & Commodities:**

Dow Jones – UBS Commodity

### **U.S. Investment Grade Bonds:**

Barclays US Aggregate Bond

### **Inflation Protected Bonds:**

Barclays US TIPS

### **Cash:**

90 Day US Treasury Bill

These Asset Allocation Guidelines and Investment Performance Benchmarks will continue to apply to the Northern Trust management of the Account until the Natural Land Institute changes them, and Northern Trust acknowledges the change, in a signed and dated writing.

**APPROVED:**

Dated this \_\_\_\_ day of \_\_\_\_\_

*Natural Land Institute*

By: \_\_\_\_\_

As Its: \_\_\_\_\_

**ACKNOWLEDGED:**

*The Northern Trust Company*

By: \_\_\_\_\_

As Its: \_\_\_\_\_