

Mesa County Federal Mineral Leasing District

Investment Policy Statement

Approved: *Draft*

I. Scope & Purpose

- a. Define the Investor - This Investment Policy Statement (IPS) governs the investments associated with the Permanent Fund (the Fund) of the Mesa County Federal Mineral Leasing District (MCFMLD).
- b. Define the Structure – The Board of Directors (the Board) shall have oversight responsibility for investment of the assets of the Fund and may delegate investment authority to other staff and/or to external investment advisers who may be retained by the Board.

This Investment Policy Statement sets forth responsibilities for risk measurement, monitoring, and management to be fulfilled by the Board. Additional risk management oversight may be provided by other individuals as the Board may determine from time to time.

II. Governance

- a. Responsibilities for Setting Investment Policy, Executing Investment Decisions, & Monitoring Results of Policy – enabling legal language from Chris
- b. Describe the Process for Reviewing and Updating the IPS – At least once per quarter during a regularly scheduled monthly meeting of the MCFMLD, a portion of the agenda shall be devoted to a review of the IPS, and its appropriateness in the current economic environment. At this time proposed changes will be considered for adoption by the Board.
- c. Process for Engaging & Discharging External Advisors - The Board and its staff, along with any contract expertise they deem necessary will develop an RFP for soliciting offers from qualified firms to engage as the Investment Advisor of the Trust's assets. The Board will then evaluate the responses and interview any candidates that appear capable of complying with the Board's current investment philosophy. After selection the Board will continue to monitor the Investment Advisor's performance to insure that the advisor is fulfilling their mandates within the contractual obligations negotiated between the Trust and the Investment Advisor, including Investment Guidelines that will be incorporated in each investment management contract,

responsibilities of the investment manager, characteristics of the manager's style of investing, performance expectations, compensation, organizational requirements, and reporting and other administrative requirements. The Investment Advisor will be responsible for reporting the current results to the Board on a quarterly basis.

- d. **Describe the Responsibilities of the Board and Staff** - The Board of Directors shall be responsible for (1) Developing policies that are suitable for achieving the strategic objectives set for the Trust by the Board; (2) approving such policies and policy proposals that may be set forth by the staff from time to time; and (3) reviewing and revising policies as required. The Investment Advisor shall be responsible for (1) identifying and engaging outside experts and managers to implement programs intended to satisfy the strategic objectives of the Trust; (2) reviewing the IPS and investment policies and, as required, making recommendations for revisions to the Board; (3) acting on the policy mandates of the Board, including developing and implementing the procedures required to do so; and (4) all other duties designated by the Board.
- e. **Responsibility for Determination of Asset Allocation, Inputs Used, and Criteria for Development of Input Assumptions** - The Asset Allocation Plan for the Trust shall be determined by the Investment Advisor as the appropriate allocation to achieve a target risk profile for the Trust's investment portfolio. The asset allocation shall reflect the Investment Advisor's consideration of expected returns for each asset class, as well as consideration of expected prevailing levels of inflation and interest rates. The Investment Advisor shall consider the expected correlation of asset class returns and expected volatility of returns to determine an asset allocation that aims to maximize the expected returns to the Trust, while staying within the specified risk tolerance of the Trust. Calculations supporting the desired risk target are based on the financial goals of the Trust and are included in Appendix X.
- f. **Responsibility for risk management, monitoring, and reporting.** – The Investment Advisor will monitor the Portfolio's investment performance against the Portfolio's stated investment objectives and report results to the Board of Trustees [quarterly]. The Board of Trustees will formally assess the Portfolio and the performance of its underlying investments as follows:
 - i. The stated risk objectives of the Portfolio.

- ii. The Portfolio's long-term total return objective relative to actual market performance, as determined by a composite benchmark of market indexes.

III. Investment Returns & Risk Objectives

- a. **Investment objective & grant funding policy of the Fund – The** MCFMLD's grant funding policy for the Fund was developed to meet several objectives, namely to: (a) provide a current source of funding for current grants, and, (b) establish and grow a portfolio capable of funding future grants in perpetuity.

The combination of grant funding, anticipated expenses and allowance for inflation should not exceed the Fund's expected returns during any year. General economic conditions should be considered in setting the grant funding rate.

The combination of factors that affect the long-term grant funding of the Trust, and the expected benefit provided may be explained further in Appendix X.

- b. **The return requirement of the fund.** – To fulfill the MCFMLD's mission over the long-term, the portfolio should seek to maximize the total return of the portfolio given the specified risk target.
- c. **The risk tolerance of the fund.** – The Board considers risk to be a resource to be deployed prudently to achieve the investment and financial objectives of the Fund. The Investment Advisor will establish a risk-measurement process to explicitly account for and manage the Trust's assumption of risk pursuant to section IV.a.i of this IPS. The risk-management process is consistent with the Trust's Grant Funding Policy. The Board of Trustees has approved the risk target (see Appendix X), and subsequent revisions require Board approval; at each quarterly meeting when the Investment Advisor presents the Quarterly Investment Report, a regular agenda item will be to review risk management in general and risk budget variances specifically.
- d. **Investment constraints of the fund.**
 - i. **Liquidity Requirement** - Consistent with the grant funding policy, THE MCFMLD anticipates that it will disburse up to **75%** of incoming grant revenue within the period and up to **50%** of the annual net return after expenses of the Fund. Therefore, at least **10%** percent of the value of the Portfolio should be invested in instruments that can be quickly converted to cash with no significant adverse change in value because of the liquidation required to annually fund grants.

- ii. **Time Horizon** – THE MCFMLD will develop and maintain a long-term forecast based on multiyear projections of grant receipts, grant funding, expenses, and asset growth.
- iii. **Tax concerns** – THE MCFMLD is a tax-exempt entity. Therefore, taxes do not need to be taken into consideration during the portfolio management process.
- iv. **Legal and Regulatory Factors** - **To be added by Chris**
- v. **Unique Circumstances** –
 - 1. **Investment restrictions** – The MCFMLD’s policy is that all investment decisions shall be made for the exclusive benefit of the MCFMLD’s current and /or future beneficiaries and that other considerations that are ancillary to the primary objective of benefit to beneficiaries shall not be entertained as part of the investment process.
 - 2. **Proxy-voting policy** - The Investment Advisor is charged with the responsibility of monitoring and voting proxies in a way that is consistent with the Advisor’s proxy voting policy and in keeping with the Federal Mineral Leasing Districts objective that all investment decisions shall be made for the exclusive benefit of the MCFMLD’s current and future beneficiaries.
 - 3. **Leverage & use of derivatives** - The Portfolio will not use any form of leverage, including the use of derivatives contracts to replicate leveraged positions. Leverage is defined as a level in excess of capital invested in that asset or exposure to any asset in excess of the market value appreciation of the asset.

A limited use of derivatives is allowed for investment diversification and / or risk management.

IV. Operations & Management

a. Measurement & monitoring of risk

- i. **Performance and reporting** - The Investment Advisor is responsible for preparing quarterly reports of asset class and total portfolio performance for the Board. These reports should include: (1) A history of transactions over the period. (2) The asset allocation of portfolio. (3) The total return of the portfolio and each asset class. (4) The benchmark return for each asset class. (3) A generally

accepted metric for evaluating risk over time (i.e. rolling 12-month Standard Deviation). (5) A summary of all holdings. (6) And the advisory fees over the period.

Appendix X – Risk Target

The Board of THE MCFMLD acknowledges the direct correlation between investment returns and the risk taken to achieve those returns. Therefore the Board desires to seek a balance between maximizing annual returns with the tolerance of total unrealized losses in any given year, by directing the Investment Advisor of the Fund to establish the annual risk tolerance for unrealized losses to be less than **15%**.

In order to maximize annual returns while adhering to the aforementioned risk tolerance limit for unrealized losses, the Board approves the following asset allocations for the Fund:

<u>Asset Class</u>	<u>Expected Annual Return</u>	<u>Portfolio Allocation</u>
S&P 500 Index Fund	7.0%	50%
S/T U.S. Treasuries	1.5%	25%
L/T U.S. Treasuries	2.5%	25%
Total Annualized Return	3.5%	