

APPENDIX E

INVESTMENTS COMMITTEE

The Committee: Committee shall be composed of a Chair of the Investments Committee and 4 members, selected in a manner set out in Article 3, Section 2 (D) of the Bylaws of the Association, and serving 5-year staggered terms. The Secretary-Treasurer shall be an ex officio, voting member of the Committee. (Adopted by the Board, March 13, 1997)

STATEMENT OF INVESTMENT OBJECTIVES

POLICY AND GUIDELINES

(Adopted by the Board, October 16, 1993;
amended, November 1997)

Preamble

The Louisiana Historical Association (LHA), hereby adopts this Statement of Investment Objectives, Policy and Guidelines (“Statement”) which supersedes and replaces all prior Investment Policy Statement(s).

This statement has been selected by the Board of Directors (“Board”) as the most appropriate policy for achieving the financial objectives as set forth in the Investment Objectives section.

Furthermore, the LHA shall operate under the ‘Prudent Person’ rule, exercising judgment and care, under the circumstances prevailing, which people of ordinary prudence would employ in the management of their own affairs...not in regard to speculation, but to the permanent disposition of their funds, considering both income and safety of capital.

The assets of the LHA shall be held in trust(s) by the fiduciaries approved by the LHA Board of Directors. LHA assets shall be held for the exclusive purpose of providing funding for LHA programs and defraying reasonable expenses of administering the LHA.

The objective of this statement is to provide the LHA with a foundation so that assets of the LHA will be prudently managed and a means of measuring the investment performance of the LHA funds.

This statement is not intended to remain static. It is hoped that the LHA Board will review this statement at least annually and, if deemed advisable, recommend changes. Recommendations should be made to the Secretary-Treasurer and the chair of the Investments Committee.

Investment Objectives

The investment horizon for LHA fund assets is long term. The primary investment objective of the Board is to ensure that current and future obligations are adequately funded in a cost effective manner. In light of this objective, the preservation of capital and the achievement of sufficient total return to the fund for future programs and the offsetting of administrative costs are the primary concern. Additionally, the risk-reward trade-offs reflected in the investment policies selected for implementing these objectives should be derived through a coordinated asset-liability focus.

(1) Preservation of Capital

As payments from the LHA fund are often major sources of revenue for funding future programs, endowments and administrative costs, preservation of capital and the realization of sufficient total return to ensure the ongoing viability of these programs is critical. Preservation of capital encompasses two goals:

Minimizing the risk of loss of principal for the fund as a whole.

Minimizing the erosion of principal value through inflation.

(2) Diversification

The primary means by which capital preservation will be achieved is through *diversification* of the fund's investments. Accordingly, the fund is allocated among asset group with low or negative covariance.¹

Within each asset group, further diversification will be achieved through the systematic allocation to investment management style providing broad exposure to different segments of the domestic fixed income and domestic equity markets or other approved asset classes.

The average volatility level (beta) for the total Fund's U.S. *equity* portfolio should fall within the range of 0.9 to 1.15 of the Standard and Poor's 500 equity index; this is a traditional and reasonable range. The publicly traded bond sector of the portfolio should have a volatility level approximately .8 to 1.15 of any respected bond index that is acceptable.

Further diversification may be achieved by investing up to 5 percent of the total investment fund in international equities.

¹ Covariance, defined generally as the different asset classes to the same market or economic stimuli, may be illustrated by the fact that, in periods of high inflation, stocks may perform better than bonds.

Target Asset Mix

In keeping with the investment objective outlined in this document, it is recommended that the LHA fund have an asset mix as follows:

Asset Category	Minimum	Target	Maximum
Domestic or International Equities	20%	30%	40%
Domestic Fixed-Income	60%	60%	80%
Cash	0%	5 – 10%	20%

This asset mix policy is based on the fundamental objectives of the LHA fund. Over time, asset categories and percentages may be changed or added for greater exposure to different asset categories.

Rebalancing Guidelines

Because markets do not move in concert, actual allocations will deviate around the recommended target. On a quarterly basis, actual allocations will be compared to targets. Ranges will be set up around the targets; rebalancing will take place whenever the outer limits of those target ranges are reached. Continual rebalancing of the fund's assets will ensure that the investment objectives embodied in the asset allocation policy are maintained and will also enable the fund to achieve long-term enhancement from the dollar cost averaging process.

Total Fund Performance Benchmarks

Total fund performance and investment manager performance will be judged using, among other things, the following indices:

Asset Class	
Domestic Equities	Standard and Poor's 500 Index
Domestic Fixed-Income	Salomon Brother's Broad Investment Grade Bond Index

Performance Objectives for the Fund

CPI + 3.0% Recognizing that inflation is a driving force behind the fund's ability to meet future obligations it is important that performance be measured relative to the rate of inflation. Over a period of one complete market cycle (3-5 years), the fund should be expected to earn approximately 3.0% over the Consumer Price Index.

Customized Index Over shorter periods of time (5 year moving average), total fund performance is expected to out-perform an indexed portfolio comprised of 30% Standard & Poor's 500 Index plus 70% Salomon Brothers Broad Investment Grade Index.

Domestic Equity Performance Objectives

1. Achieve a rate of return, which meets or exceeds the Standard & Poor's 500 Index over a full market cycle (5 years).
2. Achieve a positive risk adjusted performance when compared to the Standard & Poor's 500 Index over a full market cycles (5 years).
3. Achieve performance results, which would rank in the top 50% of the relevant style benchmark.

Domestic Fixed Income Performance Objectives

1. Earn an average annual return from income and capital appreciation, which meets or exceeds the Salomon Brothers Broad Investment Grade Bond Index over a complete market cycle (5 years).
2. Achieve positive risk adjusted performance when compared to the Solomon Brothers Broad Investment Grade Bond Index over a full market cycle (5 years).
3. Achieve performance results that would rank in the top 50% of the relevant style benchmark.

Investment Review

Should an investment or investment manager fail to meet the investment performance objectives outlined relative to peers (top 50%) consistently during any six (6) quarters, the investment or

manager will be placed under review (more than 3 quarters in any 6 quarter period). Reviews should consist of the following:

Scrutiny of the investment process and philosophy.

Explanation of substandard performance to the satisfaction of the LHA Board.

Two additional quarters to bring the investment performance up to standard without modifying the stated investment style.

Failure to comply with conditions resulting from review will be grounds for the Board to terminate the investment under review.

INVESTMENT POLICIES AND GUIDELINES

Investments shall be of a prudent nature.

Investments shall be consistent with generally accepted investment practices.

The Investments Committee must acknowledge in writing their obligations as fiduciaries responsible for the investment of LHA fund assets.

Subject to the guidelines included in this Statement, the Investments Committee shall have full discretion.

The LHA Board has discretion to appoint and replace members of the Investments Committee.

The chair of the Investments Committee will be expected to review the present and future cash flow requirements with the LHA Board at least annually to respond to any liquidity needs the LHA may have.

The LHA Board will meet with the chair of Investments Committee at least annually, or, when requested, to review fund investment returns and the market environment.

INVESTMENT GUIDELINES FOR EACH ASSET CLASS:

Domestic Equity Securities

The equity portion of the Fund's assets shall be invested in marketable equity securities or equity mutual funds. The following policies and acceptable instruments are to be adhered to:

Stocks or stock mutual funds should be selected for their expected return over a 3 – 5 year period.

Stock or stock mutual fund selection should consider both capital appreciation and dividends (total return).

Stocks must be listed on the New York Stock Exchange, American Stock Exchange, or the NASDAQ and registered with the Securities and Exchange Commission.

Mutual funds must be listed in a major financial publication (i.e. *The Wall Street Journal*).

The maximum investment in any corporation shall not exceed 2% of the outstanding shares of the corporation.

Stock selection shall be limited to those corporations with market capitalizations exceeding \$250 million.

Not more than 20% of the market value of the portfolio may be invested in any single industry group of the Standard & Poor's 500.

Domestic Fixed-Income Securities

The fixed-income portion of the plan's assets shall be invested in marketable, fixed-income securities. The following policies and acceptable instruments shall be strictly adhered to:

Bonds or bond mutual funds should be selected for their expected return over a 3 – 5 year period.

Bonds or bond mutual fund selection should consider both capital appreciation and interest income (total return).

Fixed-Income investments shall be appropriately diversified.

The Investments Committee may engage in "active management", shifting between sectors and maturities.

The Fund may not own more than 10% of any issue.

The Fund may not hold more than 10% at cost of the portfolio in any one *issuer's* securities other than the U.S. Government.

United States Treasury Bill, Bonds, and Notes

Debt instruments of the U.S. Government or its Agencies, including Government National Mortgage Association (GNMA) securities, notes and debentures of Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB) and Federal National Mortgage Association (FNMA).

Corporate debt issues rated the equivalent of AA or better by Moody's Investor's Services, Standard & Poor's, or Fitch Investor's Services, for an overall portfolio average of AA or better.

No security shall be purchased with a final stated maturity greater than ten (10) years from the date of purchase.

The minimum investment in any issue shall be \$5 thousand.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of daily cash balances above the day-to-day needs and funds set aside for portfolio strategy reasons.

Short-term investments may be placed in:

Issues of the U.S. Treasury and federal agencies with maturities of less than two years.

Domestic commercial paper rated A-1 or P-1 by Moody's and/or Standard & Poor's having senior bond ratings of AA or better.

Domestic certificates of deposit shall be limited to an amount so that principal and interest will not exceed the \$1,000,000.00 FDIC or FSLIC insurance at each institution.

Prohibited Transactions

The Investments Committee is prohibited from entering into any transactions which are not authorized by the Policy, or with the consent of the LHA Board.

The purchase of securities on margin is prohibited.

Direct purchases of single family or commercial mortgages are not allowed.

New purchases of foreign bonds (U.S. or non U.S. denominated).

Short sale of securities.

Direct loans or extension lines of credit to any interested party.

Investments in commodities or commodity contracts.

REPORTING REQUIREMENTS

Required Reports

The Investments Committee is required to provide reports to the LHA Board semi-annually. Reports should include the following:

Monthly: Certification of market value.
Certification of performance results.
Brokerage and third party commissions.

Semi-Annually: The Investments Committee's performance
Portfolio characteristics.

Market outlook (narrative)

Reports of the investment funds, Treasury Department, and banks to the Secretary-Treasurer are sufficient for the reports.

The topics to be covered will include the following:

Performance for the past period; standard time periods for each report will be last quarter, year to date, latest 12 months, 3 years, and since inception. Returns should be annualized and calculated on a time-weighted basis for the total portfolio. All returns should include accrued interest and dividends.

Rationale for performance results; discussion of specific portfolio strategy for the quarter, portfolio characteristics, and support for market and economic assumptions.

Changes in the LHA Fund's requirements. Discussion of the Fund's financial status and required modifications to the investment program and strategy if required.

LOUISIANA HISTORICAL ASSOCIATION
SUPPLEMENTAL GUIDELINES FOR
INVESTMENTS COMMITTEE
ADOPTED BY EXECUTIVE COMMITTEE, NOVEMBER 1996
CONFIRMED BY BOARD OF DIRECTORS, MARCH 13, 1997

The following guidelines supplement the guidelines for the Investments Committee as found in "Statement of Investment Objectives, Policy and Guidelines," proposed by Mr. Rodney Craig, then on staff in the State Treasurer's Office, and subsequently adopted by the Board of Directors of the LHA at the Fall Board meeting, October 16, 1993.

Supplemental provisions (adopted by the Executive Committee, November 1996)

1. Confirmation of original guidelines that members of this committee are nominated by the Secretary-Treasurer and approved for service by the LHA Board of Directors.
2. The Investments Committee is designated a standing committee of the Louisiana Historical Association.
3. The Investments Committee will be composed of no less than 3 members nor more than 5 members unless otherwise constituted by the LHA Board of Directors.
4. The Secretary-Treasurer serves as an ad hoc member of the committee, exercising the same rights, privileges, and responsibilities as other members of the committee.
5. The members of the committee (other than the Secretary-Treasurer) shall serve staggered four-year terms. Committee members are eligible for additional terms of service.