#### IOWA NATURAL HERITAGE FOUNDATION

STATEMENT OF INVESTMENT POLICY

Originally adopted August 19, 1993

Amended October 24, 1997

Amended December 15, 2005

Prepared:

Date

Iowa Natural Heritage Foundation

**STATEMENT OF INVESTMENT POLICY**

1. **PURPOSE**

The Iowa Natural Heritage Foundation Investment Committee (the “Committee”) has developed a Statement of Investment Policy (the “Policy”) in order to establish investment objectives and guidelines for the management and monitoring of investments utilized within the Iowa Natural Heritage Foundation Portfolio (the “Portfolio”). This Policy was also approved by the Board of Directors on December 15, 2005.

The Policy contained herein is intended to be a guide for the Committee and the Investment Manager (the “Manager”), if any is hired.

1. **BACKGROUND**

The Portfolio Assets (the “Assets”) are exempt from federal income taxes under IRC Section 501(c)(3).

1. **DISCRETIONARY AUTHORITY**

The Committee may grant the Manager full discretion to buy, sell, invest and reinvest the Assets consistent with the policy and guidelines set forth in this document. Investments will be limited to marketable securities including common and preferred stocks, convertible securities, government, municipal and corporate bonds, mutual and collective investment funds, and short-term money market instruments.

1. **OBJECTIVE**

The Committee has established a long-term return objective (the “Objective”) for the Portfolio of \_\_\_ percent to be achieved through a combination of income and capital appreciation, in a manner consistent with the fiduciary standards and with sound investment practices. Accordingly, the Manager will exercise the care, skill, prudence and diligence in the management of the Assets.

It is expected that there will be some periods within which the Objective cannot be met because of general market conditions, hyperinflation or other factors unrelated to disciplined, long-term investment judgment. To avoid encouraging short-term investment changes by the Manager to meet the stated Objective each year, the Committee has established a Policy benchmark (the “Benchmark”) for the purpose of measuring the relative performance of the Manager in managing the Assets (see sections V and VI).

1. **INVESTMENT PERFORMANCE**

Investment performance will be measured quarterly, but it is not expected that Portfolio performance will meet or exceed the Benchmark each quarter or year. However, it is expected that the Portfolio will meet or exceed the Benchmark, over a Full Market Cycle (a “Cycle”). A Cycle, for this purpose, is considered to be a period of three to five years. The Market (the “Market”) for the Portfolio is set by the Benchmark as defined by the underlying target weightings of each index within the Benchmark, as stated in section VI. In addition, the performance of each investment fund utilized within the overall Portfolio should be competitive over a Cycle with its established benchmark based on investment objective, investment style and market capitalization. The measurement of investment performance will take into consideration the following:

**Return Objective**

The minimum average annual return objective for the Portfolio, measured over a Cycle, shall be to generate a return that meets or exceeds that of the Benchmark. Accordingly, the Manager is accountable for the returns of the Portfolio and each of the underlying investment funds.

**Risk Parameters**

The Portfolio should experience risk (volatility and variability of returns) comparable to that of the Benchmark as measured over a Cycle. Accordingly, the Manager is accountable for the risk of the Portfolio and each of the underlying investment funds.

# ASSET ALLOCATION

**Asset Mix**

The Manager has the discretion to vary the ratio of stocks, bonds or cash within the parameters set forth below to maximize total return commensurate with potential risk. If asset allocations fall outside the parameters expressed below, the Manager will re-balance the portfolio to bring it within the allocation limits expressed below within one (1) calendar quarter. Allocations should not remain outside the stated maximums and minimums without written approval from the Committee.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Maximum %** | **Minimum %** | **Benchmark Targets** |
| **STOCKS** | **60%** | **40%** | **50%** |
| Domestic Large Cap | 55% | 20% | 35.0% S&P 500 |
| Domestic Small Cap | 16% | 2% | 7.5% Russell 2000 |
| Foreign Equity | 15% | 2% | 7.5% MSCI EAFE |
| **FIXED INCOME** | **60%** | **40%** | **50%** |
| Fixed Income | 60% | 40% | 50.0% Lehman Aggregate Bond |
| **CASH** | **3%** | **0%** | **0%** |
| Cash | 3% | 0% | 0.0% 91-Day US Treasury Bill |

### Asset Classes

## Short-Term Investments

Short-term investments are primarily intended to provide conservative, highly marketable securities for the liquidity needs of the Plan, such as disbursements, and future long-term investment. Short-term investments include high quality debt securities that offer low risk, such as money market funds, U.S. government and agency obligations, commercial paper, certificates of deposit and repurchase agreements. The investment objective of the short-term investment segment is to seek to produce a return, net of fees, that exceeds, over rolling three and five-year periods, the Salomon Brothers 91-Day U.S. Treasury Bill Index.

Fixed-Income Investments

Fixed-income investments are intended to provide a hedge against deflation, a stable component of return and to minimize the overall volatility of the Portfolio. Assets in this segment are comprised primarily of bonds (e.g., corporate, government, asset-backed, mortgage-backed) but may also include commercial paper and U.S. government/agency issues. The investment objective of the fixed-income segment is to seek to produce a return, net of fees, that exceeds, over rolling three and five-year periods, the Lehman Brothers Aggregate Bond Index and the median of an appropriate peer universe of managed funds.

Equity Investments

Equity investments are intended to provide long-term capital growth that exceeds inflation. It is recognized that equity investments carry greater market price variability and risk than other asset classes. To assure prudent diversification and to avoid excessive risk, the equity investments of the Portfolio will adhere to the asset allocation parameters set forth above. The investment objective of each equity segment is noted below:

##### Domestic Large Cap Value

This asset class invests primarily in companies with market capitalizations in excess of $5 billion. Securities in this asset class will normally have a below-average price-to-earnings ratio, price-to-book ratio and earnings growth ratio when compared to a diversified large cap index. The investment objective is to seek to produce a return, net of fees, that exceeds, over rolling three and five-year periods, the Russell 1000 Value Index and the median of an appropriate peer universe of managed funds.

##### Domestic Large Cap Growth

This asset class invests primarily in companies with market capitalizations in excess of $5 billion. Securities in this asset class will normally have above-average price-to-earnings ratio, price-to-book ratio and earnings growth ratio when compared to a diversified large cap index. The investment objective is to seek to produce a return, net of fees, that exceeds, over rolling three and five-year periods, the Russell 1000 Growth Index and the median of an appropriate peer universe of managed funds.

##### Domestic Small Cap

This asset class invests primarily in companies with market capitalizations of $1.5 billion or less. Securities in this asset class will normally have an average price-to-earnings ratio, price-to-book ratio and earnings growth ratio when compared to a diversified small cap index. The investment objective of the small cap blend equity segment is to seek to produce a return, net of fees, that exceeds, over rolling three and five-year periods, the Russell 2000 Index and the median of an appropriate peer universe of managed funds.

##### International

This asset class invests primarily in companies based outside the U.S. and will normally diversify assets among numerous developed markets, such as Australia, Japan, Great Britain, Italy, France and Germany. Limited emerging market exposure is acceptable. The investment objective of the international equity segment is to seek to produce a return, net of fees, that exceeds, over rolling three and five-year periods, the Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE) Index and the median of an appropriate peer universe of managed funds.

**Current Income**

The Committee will advise the Manager when liquidity for expenses is necessary. The Manager must provide sufficient liquidity to meet expenses. Expenses are estimated to range from 4-6% of the asset value per year.

**Other Characteristics of Rate of Return**

In complying with the objectives of the Policy, the Manager will employ a dynamic and flexible approach as called for by changing economic and capital market environments. Fundamental industry, company and credit analysis should be the primary basis for the investment decisions, coupled with sensitivity to both market factors and price.

**Diversification and Investment Quality**

The Manager shall maintain a diversified Portfolio consistent with this Policy at all times. Adequate diversification should include geographic and sector diversity, but also requires limiting concentration in groups of securities subject to a single significant economic, social or political event.

1. **INVESTMENT RESTRICTIONS**

The Committee may restrict specific investments from the Portfolio on grounds other than economic risk and reward. Should the Committee restrict security investments, a list of the prohibited investments will be given to the Manager. This list may be periodically updated.

1. **PORTFOLIO REVIEWS**

Portfolio reviews with the Committee will be held at least annually and sufficiently after the close of the year to have performance measurement results available for review. The materials for this meeting should include, but not be limited to:

* Forward look at the economic and market environment, and the Portfolio’s posture given potential scenarios.
* Investment environment and strategy employed for the most recent year, with particular attention to departures from prior outlook report.
* Performance of the Portfolio and underlying assets classes relative to stated benchmarks, including returns for 1, 3 and 12-months, and 3 and 5-year periods, when available.
* Administrative, procedural or other matters.
* Other items of importance which may occur, such as changes in our working relationship if necessary to comply with pertinent legislation: material changes in the Manager’s organization; investment philosophy or outlook; recommendations concerning any change in policy which the Manager believes should be considered by the Committee.

In addition to a monthly statement, a written quarterly report is required and should include, but not be limited to, the following information:

* Statement of assets in the Manager’s current format.
* Statement of the current asset mix or allocation.
* Quarterly performance measures and benchmark comparisons.
* Statement of transactions in the Asset custodian’s current format.

1. **MISCELLANEOUS**

For the calculation of percentages in one a particular security, market value will be used as the basis unless otherwise indicated.

The Manager will use its own judgment in placing securities transactions with brokerage firms, unless otherwise directed by the Committee. All transactions should be entered into on the basis of best execution. Notwithstanding the above, the Manager is expected to deal with financially strong firms capable of providing a reasonable combination of price, commission and service.

All changes or exceptions to this document will be in writing, signed by the representatives of the Committee and delivered to the Manager.

**AGREED:**

Chair, Investment Committee Date

Chair, Board of Directors Date

Secretary, Board of Directors Date

President Date