

**Milwaukee Society of Plastics Engineers Education Foundation  
Investment Policy Statement.  
(Updated 4/28/2013)**

***PURPOSE***

To provide the Board of Directors of Foundation with a philosophy and strategy for investing the Foundation's assets. This philosophy and strategy will be specific enough to meet the Foundation's objectives of funding scholarships and other projects as specified in the bylaws, but sufficiently flexible to allow for changing economic and market conditions. The assets of the plan are \$855,000 currently invested in various fixed income securities and equity index funds in an account at E-Trade Securities.

***OBJECTIVE***

To achieve an investment return consistent with an asset allocation model set forth in this document. This allocation was determined by the Board of Directors responses to the Investor Profile Questionnaire, which determines investment objectives, time horizon, liquidity needs and risk tolerance. The objective is to achieve an average rate of return of the consumer price index plus 5% for the aggregate investments in the portfolio over an evaluation period of five years. According to the by-laws the Foundation is required to distribute a dollar amount up to but not to exceed 5% of the net assets of the Foundation each year. 5% is the estimated rate of return of the portfolio. Therefore, the Foundation is not spending any of its assets, only the income generated.

***TIME HORIZON***

At this time the Board of Directors believe that this Foundation will continue in perpetuity. Although the risk of capital loss does exist, the historical asset class return data suggests that the risk of principal loss can be minimized with the long term investment mix employed under this Investment Policy Statement.

***RISK TOLERANCE***

The Board of Directors believes that the foundation should be a moderate risk taker in the investment of its assets and the risk score on the standard risk assessment questioner. This placed them in the moderate category. Recognizing that higher returns involve some volatility, there is a willingness to tolerate a 0% to 7% decline in the value of the portfolio in a given year. The portfolio will be managed in a manner consistent with these objectives and with a goal to minimize principal fluctuations. Financial research

has demonstrated that diversification of assets in a disciplined asset allocation strategy minimizes risk.

***ASSET ALLOCATION***

The portfolio of the Education Foundation shall be allocated in a manner consistent with the Board of Directors responses to the aforementioned questionnaire as follows so as to achieve the objectives of the Foundation.

	Target Allocation	Acceptable Range
Cash	2%	2%-12%
Fixed Income		54%-74%
Inter. Bond	50%	
High Yield	14%	
Common Stocks		24%-44%
Lg. Cap Value	13%	
Lg. Cap. Growth	13%	
Sm. Cap. Value	4%	
Sm. Cap. Growth	4%	
Total	100%	

Neither this Investment Policy Statement nor the Asset Allocation Strategy shall be construed as offering a guarantee as to future performance. For the common stock portion of the portfolio actively managed mutual funds will be used. Since at any given time there will be a variance in the actual weightings actual returns can be higher or lower than those presented.

***APPROXIMATED FUTURE RETURNS***

	1 year	3 year	5 year
Maximum for Period	25.9%	19.0%	15.3%
Estimated Average	8.1%	8.1%	7.8%
Minimum for Period	-8.6%	-2.5%	0.8%

The projected range of average annual returns for your asset mix is shown over the projection period. There is a 98% chance of realizing a return which is greater than the possible low return, and there is a 2% chance of exceeding the possible high return. The range of average returns narrows over longer time periods and for more conservative asset mixes. The projections are based on the historical index data proprietary assumptions about future asset class performance, and in no way guarantee the actual future performance of your portfolio.

### ***ASSUMPTIONS USED TO CALCULATE EXPECTED RETURNS***

<u>Asset Class</u>	<u>Index Proxy</u>	<u>Return</u>	<u>Risk</u>	<u>Yield</u>
Cash Equivalents	FED 3-Mo T-Bill (A)	3.75%	2.00	3.75%
Inter-Term Bond	SOLB Treas/Agy 1-10y	6.25%	6.00	6.25%
High Yield Bonds	RIRB High Yield Bond	9.75%	16.00	10.00%
Large Value Stocks	WILS Large Value	10.25%	13.25	2.50%
Large Growth Stocks	WILS Large Growth	11.25%	16.25	1.75%
Small Value Stocks	WILS Small Value	11.75%	18.25	2.25%
Small Growth Stocks	WILS Small Growth	12.75%	22.25	1.50%
Inflation	CPI-U All Items	3.00		

### ***REBALANCING/TARGET ALLOCATION ADJUSTMENT***

To remain consistent with the asset allocation guidelines established within the model the portfolio will be reviewed on a quarterly basis by the Board of Directors. At this time, the assets will be rebalanced to the target allocation ranges or at least within the acceptable range dependent on market and economic conditions.

### ***PERMITTED/EXCLUDED INVESTMENT CATEGORIES***

#### **A. Permitted**

1. Cash and cash equivalent, including money market funds.
2. Fixed Income-Intermediate term only (1-10 years)
  - a. Corporate
  - b. U.S. Government
  - c. Bank Certificates of Deposit
3. Open End Mutual funds or ETFs that invest in Common Stocks of U.S. Based Companies

#### **B. Excluded**

1. Real Estate
2. Equipment Leasing
3. Natural Resources/Precious Metals
4. Venture Capital
5. Private Placement

## ***SELECTION/RETENTION CRITERIA***

- A. Cash and cash equivalents to be money funds
  - 1. Investment track record of no less than three years
  - 2. The fund's average annualized yield, net of fund level expenses, over a three year period will be no less than 0.5% below that of the average of all other funds with similar investment objectives
  
- B. Common Stock Mutual Funds and ETFs (Open End Only)
  - 1. Investment track record of no less than three years.
  - 2. The fund's average annualized returns net of fund level expenses, over at least a three year period, will be no less than 20% below the average return of its respective peer group.
  - 3. The fund will incur investment risk (as measured by standard deviation) no more than 20% above its respective peer group.
  
- C. Fixed Income Investments
  - 1. Maturities limited to 1 to 10 years, Intermediate term.
  - 2. No more than 10% in any one issue.
  - 3. Credit quality as determined by asset allocation model.
  - 4. Credit quality monitored on an ongoing basis and adjustments made accordingly.

Both the money fund and common stock funds will be reviewed on a quarterly basis by the Board of Directors. In the event that the funds violate the above criteria they will be placed in a probationary status for a period not to exceed 12 months. During that period the Board of Directors will make a decision as to whether replacement of the fund is necessary.

## ***INVESTMENT MONITORING AND CONTROL PROCEDURES***

### Reports

- 1. E-Trade Securities shall provide the Investor with a report no less than monthly that lists all assets held by the Investor, values for each asset and all transactions affecting assets within the portfolio, including additions and withdrawals.
  
- 2. Investor shall receive no less frequently than on a quarterly basis and within 30 days within the end of each such quarter the following management reports:
  - a. Portfolio performance results over the last quarter, year, 3 years and 5 years.
  - b. Performance results of each individual manager for the same periods.
  - c. Performance results of comparative benchmarks for the same periods.
  - d. End of quarter status regarding asset allocation - current versus policy.

## ***DUTIES AND RESPONSIBILITIES***

E-Trade Securities shall be responsible for:

1. Advising the Investor (Board of Directors) as to selection and allocation of asset categories.
2. Identifying specific assets and investment managers within each asset category.
3. Providing the Investor with the current prospectus for each investment proposed for the portfolio.
4. Monitoring the performance of all selected assets.
5. Recommending changes to any of the above.
6. Periodically reviewing the suitability of the investments for the Investor.
7. Being available to meet with the Investor at least twice each year, and being available at such other times within reason as the Investor requests.
8. Preparing and presenting appropriate reports.

The Investor must provide E-Trade Securities with all relevant information on financial condition, net worth, and risk tolerances and must notify E-Trade Securities promptly of any changes to this information. The Investor should read and understand the information contained in the prospectus of each investment in the Portfolio

Adopted by The Board of Directors of the Milwaukee Society of Plastic Engineers  
Education Foundation this \_\_\_\_\_ day of \_\_\_\_\_, 2013

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