

Appendix A

OST Investment Policy
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**OFFICE OF TRUST FUNDS MANAGEMENT (OTFM)
OFFICE OF SPECIAL TRUSTEE FOR AMERICAN INDIANS
INVESTMENT POLICY**

This investment policy is intended to establish the criteria by which OTFM will manage the tribal, individual Indian monies, and special funds entrusted to it for investment. Specifically, the policy statement will address:

- I. Investment Responsibilities and Authorities
- II. Investment Objectives
- III. Acceptable Portfolio Investments and Practices
- IV. Unacceptable Portfolio Investments and Practices
- V. Operating Policies
- VI. Provision for Exceptions

I. INVESTMENT RESPONSIBILITIES AND AUTHORITIES

Responsibility and authority for the investment of Indian trust funds rests with the Secretary of the Interior by virtue of 25 U.S.C. 162a. Public Law 103-412 (the American Indian Trust Fund Management Reform Act of 1994) creates the Office of Special Trustee for American Indians, headed by a Special Trustee, who is to "ensure proper and efficient discharge of the Secretary's trust responsibilities to Indian tribes and individual Indians."

- A. An OTFM Management Board (Board) has been appointed by the Special Trustee. As part of its duties, the Board is responsible for establishing operating policy, as enumerated in the body of this policy, which will ensure that investments are maintained in a proper and prudent mix and maturity distribution, represent sound extensions of credit, and are appropriate assets with regard to legal requirements and needs of the Indian beneficiaries involved. The Board will meet as frequently as necessary and will be accountable to the Special Trustee.
- B. The Special Trustee has delegated management of OTFM to the Director, and the investment functions are carried out through the subordinates defined for that purpose within the organization.

Specifically, subordinate to the Director, OTFM, is the Chief, Division of Trust Funds Services, who is responsible for supervision of the Branch of Investments.

The Special Trustee recognizes that management of the numerous investment portfolios requires day-to-day attention and decision-making authority; and, accordingly, appoints the

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following to act as investment officers for OTFM: Chief, Branch of Investments, Supervisory Trust Funds Investment Specialist, and the Tribal Trust Funds Investment Specialists/portfolio managers within the Branch of Trust Funds Investments.

The investment officers are authorized to buy and sell securities within legal and policy guidelines, establish relationships with approved broker-dealers, recommend policy and amendments thereto, as well as take any other appropriate action deemed necessary and prudent. In accepting this authority, the investment officers must make every effort to remain in compliance with this policy and with the objectives and strategies developed and adopted by the Board.

Although this policy enumerates the acceptable types of investment grade securities which may be held by OTFM, and grants the investment officers the authority to buy and sell these securities, the decision making process regarding investment strategies and market timing activities rests with the Board. In other words, while authority for purchase or sale of a specific security lies with the investment officer, the conceptual decision to buy or sell within certain product parameters must be first approved by the Board. To facilitate the proper management of the many trust portfolios managed by OTFM, the investment officers have the authority to call/request meetings of the Board through the Division Chief whenever necessary, whether by actual meeting, or by telephone contact.

II. INVESTMENT OBJECTIVES

The investment activities of OTFM will be conducted to achieve the following primary objectives:

- A. **Quality:** The investment portfolios will be comprised of securities exhibiting Baa (Moody's rating) or better quality in conformity with the legal requirements cited in the memorandum prepared by the Office of the Solicitor, dated May 24, 1989, which is attached and is incorporated as part of this policy, and also in terms of safety of principal, minimization of market risk and overall risk diversification.
- B. **Liquidity:** Within the guidelines of each tribal and special fund portfolio use and distribution plan, an adequate percentage of the portfolio should be maintained in liquid, short-term investments that can be converted to cash, if necessary, in order to meet the tribal disbursement requirements. The Individual Indian Money (IIM) portfolio shall maintain a \$10 -15 million cash/U. S. Treasury "Overnighter" position to provide for routine and unexpected withdrawals of funds. Furthermore, since all cash demands cannot be anticipated, the portfolios shall consist largely of securities with active secondary markets. Thinly traded securities should be held to a maximum of 5% of the market value of a portfolio, and used only in larger, permanent principal accounts as income enhancements for the portfolio.
- C. **Rate of Return:** Of major importance in all of the OTFM managed portfolios is an acceptable rate of return over the long term without compromising the other stated objectives of quality and liquidity. The specific portfolios should be structured to achieve

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at least a market-average rate of return throughout economic cycles, taking into account the specific tribe's risk constraints and the cash flow requirements dictated by its use and distribution plans and/or budget forecasts. Whenever possible, and consistent with risk limitations as defined herein and prudent investment principles, investment officers shall seek to augment returns above the market average rate of return.

III. ACCEPTABLE PORTFOLIO INVESTMENTS AND PRACTICES

Securities/investments considered acceptable when purchased within these guidelines are:

- A. **Money Market Instruments:** Money market instruments are short-term investments which normally have a maturity of one year or less and are used for liquidity or a defensive mechanism in a rising rate environment.
1. **U. S. Treasury "Overnighter":** Through the automated accounting/asset management system, all tribal, all special accounts, and the pooled individual Indian monies (IIM) account balances not invested in a specific security are "swept" and invested in the U. S. Treasury "Overnighter". This investment yields approximately the quoted "Fed Funds" rate, and interest earned is accrued daily, compounded, and posted to the account once each month. It is equivalent to the highest yielding money market funds available in the private sector and is a premier short-term value for the Indian accounts. There is no credit or liquidity risk in this investment, and no limit is imposed on amounts to be placed in each portfolio. Yield considerations within the current rate environment, together with the prescribed use and distribution plan and/or budget for the specific account involved should dictate amounts allowed to remain in this highly liquid investment medium.
 2. **Discount Securities (with maturities under 365 days):** These instruments are short term debt obligations issued by the U. S. Treasury, an agency of the government, or a government sponsored entity at less than face amount.
 - a) U. S. Treasury Bills
 - b) Federal Farm Credit Banks Consolidated System
 - c) Federal Home Loan Banks
 - d) Federal Home Loan Mortgage Corporation
 - e) Federal National Mortgage Association
 3. **Time Deposits:** Any and all time deposits in domestic institutions must be limited to amounts, including anticipated interest to be earned for the time of the deposit, fully insured by the Federal Deposit Insurance Corporation, or collateralized by the depository in amounts equal to or exceeding 110% of the amount of the deposit. Collateral must be pledged in accordance with Treasury Circular 176 and be held for

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safeguarding by a Federal Reserve Bank, with safeguarding receipts issued by them stating that the described collateral is pledged to OIFM. Pledged securities are to be evaluated monthly by OIFM staff for proper valuation coverage and reported to the Chief, Branch of Investments for review and approval.

Time deposits will be placed only in federally or state chartered commercial banks or savings and loan associations, which participate in Federal Deposit Insurance Corporation. No funds will be placed with any credit union.

Such time deposits shall not have a maturity exceeding 365 days.

B. U.S. Treasury Securities: Investments in this category include Treasury bills, Treasury notes, and Treasury bonds and may be purchased in any block size and maturity to 15 years except with permission of the Board. These securities may be purchased in the open market or directly from the U.S. Treasury in the non-marketable form.

C. Federal Agency Securities: Acceptable Federal agency and government sponsored entity obligations include:

- 1. Federal Farm Credit Banks Consolidated System (FFCB)
- 2. Federal Home Loan Banks (FHLB)
- 3. Federal Home Loan Mortgage Corporation (FHLMC)
- 4. Federal National Mortgage Association (FNMA)
- 5. Financing Corporation (FICO)
- 6. Government National Mortgage Association (GNMA)
- 7. Private Export Funding Corporation (PEFCO)
- 8. Small Business Administration (SBA)
- 9. Student Loan Marketing Association (SLMA)
- 10. Tennessee Valley Authority (TVA)

These securities may be purchased in any amount with maturities no longer than 15 years without Board approval, but consideration should be given to total return and the relative spread over Treasuries when investment decisions in these securities are made.

D. Federal Agency Mortgage-Backed Securities: Acceptable Federal agency mortgage-backed securities include:

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1. Federal National Mortgage Association (FNMA)
2. Federal Home Loan Mortgage Corporation (FHLMC)
3. Government National Mortgage Association (GNMA)

Securities in this category should have stated maturities not to exceed 30 years. At the date of purchase, the average expected life of the security should not exceed 15 years. Prior to any purchase, as well as at least annually, the investment officer will review the following information concerning mortgage-backed securities:

1. Historical performance of the security.
2. Current, past and projected prepayments speeds.
3. Underlying collateral description.
4. Price and yield on purchase date, as well as market value for any given review date.
5. Comparison of the yield and estimated cash flows of the mortgage-backed securities to the cost and maturity of the funding sources.

- E. **Collateralized Mortgage Obligations:** Collateralized Mortgage Obligations (CMO), which satisfies the criteria established herein, can be considered acceptable investment securities for Indian portfolios. However, no CMO is considered suitable unless the investment officer and the OTFM management fully understand the risks involved. The investment officer is responsible for ensuring that the Trustee of the CMO is qualified to structure and service the CMO. Only CMOs, which are underwritten by a Federal Agency that has already been deemed acceptable for direct purchase under this policy, are eligible for consideration by OTFM.

The stated maturity of the CMO may not exceed 30 years and the average life at the date of purchase cannot exceed 10 years. The underlying collateral can only be issues of Federal agencies that would be acceptable for direct purchase under this policy and/or guaranteed by VA and FHA.

Suitable CMO categories for purchase are limited to:

1. Planned Amortization Class (PAC)
2. Target Amortization Class (TAC)
3. Short Average Life Sequential Pay Tranches (Payoff)
4. Short Average Life Companion Tranches (Support) with Limited Average Life Variability

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(i) Floating-Rate Tranches (Fleater)

- F. **"Holding" versus "Trading":** OTFM intends to manage its Indian trust portfolios in a manner that protects the integrity of the primary function of the portfolio, which is to provide maximum income for the tribes while conforming to prescribed statute of limitations and prudent fiduciary investment principles.

Because OTFM has a small number of investment managers responsible for the investment management of over 1450 separate portfolios, OTFM will purchase securities with the intent to hold each security until maturity, while realizing that sales can and may occur prior to maturity for some of the following reasons:

1. When account review presents obvious opportunity for portfolio enhancement from the reinvestment of sales proceeds into comparable maturities thereby improving yield or quality without adversely affecting overall quality, mix or maturity of the investment portfolio.
2. The need to improve or increase portfolio liquidity.
3. The need to invest the proceeds of a security maturing within one year because of an interest-rate scenario that would be detrimental to the performance of the portfolio if held to maturity before investing, i.e., a rapidly falling interest rate period.
4. A reduced credit rating of the issuing Agency renders the security to be of less than acceptable quality to remain in the portfolio.

The substance of the portfolio activities will demonstrate the fundamental designation of the investment securities as portfolio assets with the intent and ability to hold to maturity. Infrequent investment portfolio restructuring carried out in conjunction with a prudent overall risk-management plan that does not result in a pattern of gains being taken and losses deferred will generally be viewed as an acceptable practice within the context of an investment portfolio.

- G. **In-house Transactions.** Upon occasion, trust accounts require the sale of a security before its maturity to meet unexpected cash needs. The security to be sold may be purchased in another account managed by OTFM provided the following provisions are met:
1. The purchasing account(s) is (are) in need of a like maturity and the security fits the investment strategy established for that (those) account(s).
 2. The marketability and the price of the security to be sold can be readily determined and supported by at least one broker bid, a Bloomberg quote, and/or the current market value indication from the automated trust system.

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3. The basis for the pricing of the transactions is reflected on both the buy and sell tickets or an attached worksheet maintained in the permanent records of the accounts.
4. The block size of the transaction must conform to the requirements of Section IV H of this policy.
5. Prior approval for such transactions will be made by the Chief, Branch of Investments, with subsequent review being made by the Chief, Division of Trust Funds Services and the Director's Office.

IV. UNACCEPTABLE PORTFOLIO INVESTMENTS AND PRACTICES

The following itemized investments and practices are deemed inappropriate and are unacceptable for Indian trust portfolios:

- A. Any corporate stock (common or preferred) of any corporation, or any debt instruments issued by any corporation with exception of Agency corporations approved in Section III of this policy statement.
- B. Even though authorized by 25 U.S.C. 162c, purchases of mutual funds are not acceptable at this time.
- C. The following specific categories of CMOs:
 1. Residuals.
 2. Interest-Only (IO) and Principal-Only (PO) Stripped Mortgage-Backed Securities.
 3. Z Tranche and Jump Z Tranches.
 4. Inverse-Floater and Super-Floater Tranches.
 5. CMOs with an average life over 10 years.
- D. Any zero-coupon (accrual) bond or other type of strip, including stripped mortgage-backed securities *except* short-to-intermediate term (10 years or less) original-issue discount (OID) Treasury and agency securities.
- E. Any form of hedge, options, futures contracts or covered calls.
- F. Any overtrading, adjusted trades or bond swapping, repositioning, repurchase agreements, dollar repurchases, short sales, extended settlements, when-issued securities trading or pair-off transactions in an attempt to speculate in the market.
- G. Delegation of discretionary investment authority to any outside party.
- H. Purchases of a specific security for an account are unacceptable unless it is in marketable block size.

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OPERATING POLICIES

A. Securities Dealers (see Exhibit A for Approved Dealers):

1. Guidelines for Selection: OTFM may do business with any Primary Dealer (Federal Reserve Reporting U. S. Government Dealer) so designated by the Federal Reserve.

All other securities dealers with whom OTFM desires to do business must be reviewed and approved at least annually by the Board. The review and selection process must include:

- 1) A review of the financial capacity of each dealer to determine credit worthiness. This would include, as appropriate, a review of current financial and other credit information.
- 2) An inquiry into the general reputation of a dealer, which may include contact with current customers.
- 3) A review of any formal enforcement actions against a dealer, its affiliates or associated personnel.
- 4) An inquiry, as appropriate, into the background, experience and expertise of a particular sales representative.

2. Management Guidelines: To facilitate the management of relationships with securities dealers and to improve control, the Board has approved the following:

Employees of OTFM who are directly involved in purchasing and selling securities for Indian trust portfolios are prohibited from engaging in personal securities transactions with the same securities firm(s) used by OTFM without specific approval of the Board and periodic review.

3. Reporting: A summary of total transactions entered into with dealers is reported on a monthly basis and reviewed by the Committee.

B. Securities Safeguarding (Revised 03/06/77): Securities held for Indian trust portfolios shall be held by the U. S. Treasury when purchased directly from them, or held by the Barclays Trust Company when purchased in the open market.

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VI. DIVISION FOR EXCEPTIONS

NO EXCEPTIONS CAN BE MADE WITHOUT PRIOR APPROVAL OF THE BOARD.

All investment activities predating the adoption of this policy and not in conformance with its various sections will not be considered as exceptions; however, OTFM management will make a concerted effort to bring the investment activities into compliance with the various guidelines and provisions of this policy as quickly as possible subject to produce no effect on the value of the portfolio(s) involved.

This policy is intended to be flexible to deal with rapidly changing conditions; therefore, it can be amended by vote of the members of the Board and the Special Trustee.

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EXHIBIT A

Approved Securities Dealers

I. List of the Primary Government Securities Dealers Reporting to the Market Reports Division of the Federal Reserve Bank of New York.

ABN AMI J, Incorporated
BMO Nesbitt Burns Corporation
BNP Paribas Securities Corporation
Bank of American Securities, LLC
Bank One Capital Markets, Inc.
Barclays Capital, Inc.
Bear, Stearns & Company, Inc.
CIBC World Markets Corporation
Credit Suisse First Boston Corporation
Daiwa Securities America, Inc.
Deutsche Bank Alex. Brown, Inc.
Dresdner Kleinwort Wasserstein Securities, LLC
Fuji Securities, Inc.
Goldman, Sachs & Co.
Greenwich Capital Markets, Inc.
HSBC Securities (USA), Inc.
J.P. Morgan Securities, Inc.
Lehman Brothers, Inc.
Merrill Lynch Government Securities, Inc.
Morgan Stanley & Company, Inc.
Nomura Securities International, Inc.
Salomon Smith Barney, Inc.
Zions First National Bank

II. List of Internationally Approved Securities Dealers

A.G. Edwards & Sons, Inc.	Duluth, GA
Amberst Securities	Austin, TX
BNY Capital Markets, Inc.	Roseland, NJ
BOSC, Inc.	Little Rock, AR
Brookstreet Securities Corporation	Irving, CA
Dain Rauscher Investment Services	New York, NY
Duncan - Williams, Inc.	Memphis, TN
First Tennessee Capital Markets	Chicago, IL
ING/Financial Northeastern Securities, Inc.	Fairfield, NJ
Raymond James Financial Services, Inc.	Seattle, WA
Service Asset Management	Dallas, TX
Shay Financial Services, Inc.	Irving, TX

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