 <p>MILITARY INTERSTATE CHILDREN'S COMPACT COMMISSION</p>	<p><b>Policy Number</b> <b>2-2020</b></p>
<p><b>Administrative Policy</b> INVESTMENT POLICY</p>	<p><b>Issued:</b> August 20, 2020</p>

## I. Authority

The objective of this policy is to establish investment guidelines by which assets in the form of reserve funds or funds in excess of operating expenses may be invested to ensure the Military Interstate Children's Compact Commission (MIC3) assets are invested in a prudent manner, in order to optimize long term returns at an appropriate level of risk.


Responsibility for investment of the "Fund" rest with the MIC3 Finance Committee, including; the establishment of an overall investment policy, including asset allocating guidelines and a structure of investment managements; the appointment or removal of portfolio managers and other advisors; and monitoring the performance of the Fund.

## II. Applicability

This policy applies to the Interstate Commission on Educational Opportunity for Military Children, also known as the Military Interstate Children's Compact Commission, as defined in the Compact Rules; Chapter 100, SEC.1.101, Subsection I.

## III. Definitions

- a. **"Asset Allocation"** means: the way an investment portfolio is divided among various asset classes, such as cash, investments, bonds, and stocks.
- b. **"Interstate Commission"** means: the Commission that was created under Article IX of this compact.
- c. **"Fund"** means: the primary monetary amount invested by the MIC3 Finance Committee obtained from the Interstate Commission's reserve fund or funds in excess of operating expenses.
- d. **"Market Value"** means: the current price of an asset.
- e. **"Net Return"** means: the gain or loss realized by an investment portfolio.
- f. **"Portfolio"** means: all the securities held by a mutual fund or the total investment holdings of an individual or an institution.
- g. **"Portfolio Manager"** means: the person or organization that makes the day-to-day decisions regarding a portfolio's investments.
- h. **"Principal"** means: the amount of money originally put into an investment.
- i. **"Rate of Return"** means: the net gain or loss on an investment over a specified time period, expressed as a percentage of the investment's initial cost.

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**IV. Return Objectives**

- a. Preservation of principal
- b. To achieve a net rate of return of a minimum 3% per year based on a 3-year moving average.
- c. This is to be considered and managed as a balanced portfolio

While the primary objective is to add value through prudent management. The nature of the requirements may change over time, and accordingly the objectives will be reviewed by the Finance Committee annually while considering the MIC3's level of assets and purpose.

**V. Guidelines**

**a. Investment Philosophy – Asset Allocation**

The Finance Committee believes that it should be the function of the portfolio manager to allocate the portfolio's assets among common stocks, bonds, and cash reserves. Accordingly, it is the guidance of the Finance Committee that the asset mix of the portfolio should be 60% equity and 40% fixed. The portfolio shall be rebalanced at such time as the equity percentage drops below 55% or exceeds 65%.


**b. Preservation of Principal**

It is the intention of the Finance Committee to preserve the principal in the long-term investment portfolio. It is understood that there will be months and quarters when a negative rate of return will be experienced. The Executive Director or their designee is expected to notify the Finance Committee Chair at any time the portfolio exceeds a negative net return in excess of 10% in any fiscal year.

**c. Types of Assets**

In order to provide the portfolio manager with the freedom to invest in various types of assets, the following items are expressly approved for investment purposes:

- Common Stock
- Preferred Stock

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- U.S. Government Securities
- Convertible Securities
- Bonds with an “BBB” or higher rating by Moody’s or Standard & Poor’s
- Mutual Funds
- Money Market Funds
- Covered Call Options
- Dollar Denominated ADR’s
- Zero Coupon Bonds

**d. Prohibited Transactions**

All assets selected for inclusion in the portfolio must have a readily ascertainable market value and must be readily marketable.

The following types of assets or transactions are expressly prohibited:


- Selling Short
- Commodities
- Letter Stock
- Options (other than covered call options)
- Non-traditional or new forms of securities, i.e.; Index Options, Future Contracts, etc.
- Tax-Exempt Securities

**e. Diversification of Equity Securities**

The equity portion of the portfolio should be invested in an Index Fund that tracks the performance of the stock market as a whole.

**VI. Fund Management**

The Finance Committee may select professional competent portfolio managers to assist with management and recommendations for fund assets. The Finance Committee may make portfolio manager changes from time to time as they deem in the best interest of the Interstate Commission. The selection of portfolio managers will be made in a prudent manner taking into account their relevant experience, expertise, and ability.

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The Finance Committee may also direct the Executive Director to hold cash equivalents on a short-term basis, either to meet obligations or pending allocation to an investment account.

**VII. Valuation of Investments**

Most investments will be valued at their market value when that is available from regular public trading but not less than quarterly.

If the market valuation of an investment is not available, then a fair value shall be supplied by the portfolio manager at each quarter end. A reasonable methodology should be applied consistently over time.

**VIII. Monitoring**

The Finance Committee will annually review and discuss:

- The portfolio managers, or their designated representative, will meet with the Finance Committee on at least an annual basis to review their progress in meeting the investment objectives of this policy. In addition, the Finance Committee may be asked to make formal presentation to the Interstate Commission.
- Current economic outlook and investment plans
- Asset mix of the invested funds and take action necessary to comply with desired asset allocation guidelines
- Rate of return

**IX. Fund Expenditures**

Each year, the Finance Committee will review the portfolio and make a recommendation to the Executive Committee (EXCOM).

The dollar amount and timing of any distribution(s) from the Fund will be left up to the EXCOM based on recommendations from the Finance Committee and the Executive Director. The EXCOM, on behalf of the Interstate Commission, is authorized to withdraw up to 5% of the total market value of the Fund annually (market value to be determined as of the last business day of the preceding year) for the organization's operating purposes, to include replenishment of the Operating Reserve Fund balance.