



Investment Policy Statement

General Fund
National Presidents Scholarship Endowment Fund
Spirit of Youth Fund
HC Small Fund
Paid Up For Life Fund

July 2013

EXECUTIVE SUMMARY

Time Horizon:	Greater than 10 years
Modeled Return:	7.5% (4.5% over the CPI of 3%)
Modeled Loss (or Lowest 1 Year Gain):	-20%
Rebalancing Trigger:	Asset Target Allocation is +/- 5%
Asset Allocation:	

Asset Class and Style Allocation	Target Allocation
2% Cash and Equivalents:	2%
55% Equities	
Domestic Large-Cap Equity:	
Core	16%
Growth	7%
Value	7%
Domestic Small/Mid-Cap Equity:	
Growth	5%
Value	6%
International Equity:	
Core, Emerging	14%
28% Fixed Income:	
Core, Absolute, Foreign	28%
15% Alternative Investments:	
Hedge Fund, Real Estate, Timber/ Other	15%

PURPOSE

The purpose of this Investment Policy Statement (IPS) is to assist the national organization of the American Legion Auxiliary (Client) and Valeo Financial Advisors, LLC (Advisor) in effectively supervising, monitoring and evaluating the investment of the Client's Portfolio (Portfolio). The Portfolio consists of five separate investment pools: the General Fund, Helen Colby Small Fund, Spirit of Youth Fund, the National Presidents' Scholarship Endowment Fund, and the Paid Up For Life Fund (PUFL). The Client's investment program is defined in the various sections of the IPS by:

- Stating in a written document the Client's attitudes, expectations, objectives and guidelines for the investment of all assets.
- Setting forth an investment structure for managing the Client's Portfolio. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon.
- Encouraging effective communications between the Client and the Advisor.
- Establishing formal criteria to select, monitor, evaluate and compare the performance of money managers on a regular basis.
- Complying with all applicable fiduciary, prudence and due diligence requirements experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international political entities that may impact the Client's assets.

BACKGROUND

This IPS has been prepared for the American Legion Auxiliary (“Client”), nationally headquartered in Indianapolis, Indiana. The following description provides a summary of background information for each of the separate pools.

The General Fund: The purpose of the General fund pool of assets is to provide long term financial reserves to assure the longevity of the American Legion Auxiliary. Annually the General Fund is expected to have substantial deposits and withdrawals resulting from the timing of expected revenues and expenses.

National Presidents’ Scholarship Endowment Fund: The purpose of the National Presidents’ Scholarship Endowment Fund pool of assets is to generate and maximize funds available for the national scholarships awarded from this fund over the long term. Annually the National Presidents’ Scholarship Endowment Fund is expected to have deposits of donor permanently endowed contributions and withdrawals representing granting of awarded scholarships as outlined in the National Presidents’ Scholarship Endowment Fund Spending Policy (please see Appendix B).

Spirit of Youth Fund: The purpose of the Spirit of Youth Fund pool of assets is to generate and maximize funds available for college scholarships nationally awarded to Junior Auxiliary Members by the American Legion Auxiliary.

Helen Colby Small Fund: The purpose of the Helen Colby Small Fund pool of assets is to provide long term financial reserves to supplement the national granting of Auxiliary Emergency funds by the American Legion Auxiliary.

Paid Up For Life Fund (PUFL): The purpose of the Paid Up For Life Fund pool of assets is to generate and maximize funds available for Paid Up For Life distributions. Annually the Paid Up For Life Fund is expected to have deposits of lifetime membership dues and withdrawals representing allocable distributions of Paid Up For Life member dues to American Legion Auxiliary Departments, Units, and the National Organization. Additionally, the Paid Up For Life Fund is expected to pay out an administrative fee to the American Legion Auxiliary for National Headquarters’ administration of the Paid Up For Life Trust activity.

STATEMENT OF OBJECTIVES

This IPS describes the prudent investment process the Advisor deems appropriate for the Client's situation. The Client desires to maximize returns within prudent levels of risk and to meet the following stated financial goals:

Objectives to all pools:

- Outpace inflation over time.
- Invest in a diversified portfolio utilizing cash, fixed income and equity investments.
- Maximize total returns in line with the stated risk tolerance
- Allow for the portfolio to make budgeted periodic distributions, as needed.

General Fund:

Provide support for the national general operating budget of the American Legion Auxiliary.

National Presidents' Scholarship Endowment Fund:

Provide a sustainable level of income to support the American Legion Auxiliary's national scholarships awarded from this fund while also striving to preserve the real (inflation adjusted) purchasing power of the National Presidents' Scholarship Endowment Fund.

Spirit of Youth:

Provide a sustainable level of income to support the American Legion Auxiliary's national college scholarships awarded to Junior Auxiliary Members while also striving to preserve the real (inflation adjusted) purchasing power of the Spirit of Youth Fund.

Helen Colby Small Fund:

Provide a sustainable level of income to supplement the national granting of Auxiliary Emergency Funds by the American Legion Auxiliary while also striving to preserve the real (inflation adjusted) purchasing power of the Helen Colby Small Fund.

Paid Up For Life (PUFL):

Provide a sustainable level of income to support the allocable distribution of lifetime membership dues and administrative fee while also striving to preserve the real (inflation adjusted) purchasing power of the Paid Up For Life Fund.

Spending Policy

The General Fund, Helen Colby Small Fund, and Paid Up For Life Fund do not have established and mandated spending policies other than those mentioned in the Objectives section above.

National Presidents' Scholarship Endowment Fund:

The available distribution for each fiscal year beginning October 1 shall be limited to an amount determined by applying a 5% rate to the three year rolling average market value for the period ending the preceding May 31. The calculation shall be done annually (please see Appendix B).

Spirit of Youth Fund:

By National Executive Committee resolution, funds expended shall not exceed 30% of the fund.

Time Horizon

The investment guidelines are based upon an investment horizon of greater than 10 years; therefore interim fluctuations should be viewed with appropriate perspective. Short-term liquidity requirements are anticipated to be minimal.

Risk Tolerances

The Client recognizes and acknowledges some risk must be assumed in order to achieve long-term investment objectives, and there are uncertainties and complexities associated with contemporary investment markets.

In establishing the risk tolerances for this IPS, the Client's ability to withstand short and intermediate term variability was considered. The Client's prospects for the future, current financial condition and several other factors suggest collectively some interim fluctuations in market value and rates of return may be tolerated in order to achieve the longer-term objectives.

Expected Return

In general, the Client would like the assets to earn at least a targeted return of 4.5% over inflation (Consumer Price Index) over time. It is understood that this level of return will require superior manager performance to: (1) retain principal value; and, (2) purchasing power. Furthermore, it is understood that market conditions will cause the expected returns to vary over shorter periods of time.

Asset Class Preferences

The Client understands long-term investment performance, in large part, is primarily a function of asset class mix. The Client has reviewed the long-term performance characteristics of the broad asset classes, focusing on balancing the risks and rewards.

History shows while interest-generating investments, such as bond portfolios, have the advantage of relative stability of principal value, they provide little opportunity for real long-term capital growth due to their susceptibility to inflation. On the other hand, equity investments, such as common stocks, clearly have a significantly higher expected return but have the disadvantage of much greater year-by-year variability of return. From an investment decision-making point of view, this year-by-year variability may be worth accepting, provided the time horizon for the equity portion of the portfolio is sufficiently long (seven years or greater).

The Client has considered traditional asset classes for inclusion in the target allocation, and has decided not to place any limitations/restrictions on the portfolio. In addition, the portfolio may allocate a portion of the portfolio to less liquid investments which could be defined as “alternative investments”. As always, the committee will take careful consideration to taxes, fees and net performance before implementing any investments strategy.

Rebalancing of Target Allocation

The percentage allocation to each asset class may vary as much as plus or minus 5% depending upon market conditions. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the target asset allocation of the Portfolio on a semi-annual basis.

If the Advisor judges cash flows to be insufficient to bring the Portfolio within the target allocation ranges, the Client shall decide whether to effect transactions to bring the target allocation within the threshold ranges.

DUTIES AND RESPONSIBILITIES

Investment Advisor

The Client has retained an objective, third-party Advisor to assist the Client in managing the investments. The Advisor will be responsible for guiding the Client through a disciplined investment process. As a fiduciary to the Client, the primary responsibilities of the Advisor are:

1. Prepare and maintain this investment policy statement.
2. Provide sufficient asset classes with different and distinct risk/return profiles so the Client can prudently diversify the Portfolio.
3. Prudently select investment options.
4. Control and account for all investment expenses.
5. Monitor and supervise all service vendors and investment options.
6. Avoid prohibited transactions and conflicts of interest.
7. Provide a periodic summary or “scorecard” of items outlined in **Investment Performance Evaluation and Performance Objectives**

Investment Managers

As distinguished from the Advisor, who is responsible for managing the investment process, investment managers are responsible for making investment decisions (security selection and price decisions). The specific duties and responsibilities of each investment manager are:

I. Mutual Fund

Security guidelines for mutual funds are determined by the constraints outlined within each mutual fund’s specific prospectus. The Client recognizes that the use of mutual funds limits their ability to outline specific security guidelines for each mutual fund. Also, the Client acknowledges that mutual funds often shift the underlying asset classes and investment styles utilized.

II. Separately Managed Account (SMA)

In some instances a separate account manager may be utilized. Any separate account manager that is utilized will be held responsible for adhering to the specific guidelines that are outlined within this investment policy statement. Prior to final approval of any separate account manager, the manager will review and accept the IPS.

III. Alternative Asset Classes

The Committee may elect to invest in non-traditional asset classes. This asset class is meant to further diversify the portfolio to improve relative risk adjusted returns. Asset classes such as Timber, Private Equity, Real Estate, Hedge funds and other classes may be

considered. Any investment in these types of investments will be positioned as a minority piece of the total portfolio and long term in nature.

Custodian

Custodians are responsible for the safekeeping of the Portfolio's assets. The specific duties and responsibilities of the custodian are:

1. Maintain separate accounts by legal registration.
2. Value the holdings.
3. Collect all income and dividends owed to the Portfolio.
4. Settle all transactions (buy-sell orders) initiated by the Investment Manager.
5. Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall portfolio since the previous report.

INVESTMENT MANAGER SELECTION

Investment Performance Evaluation

The following standards will be used to evaluate the investment managers. Several important comments about these standards are noted below:

- The time period for assessment will generally be rolling five-year periods. Interim or shorter term fluctuations in results will be viewed with the appropriate perspective.
- The client understands that at varying points in time, individual investment managers may not generate a performance that achieves all standards concurrently.
- No individual standard will be more important than another. Instead, all standards will be considered in aggregate.
- Evaluation of investment managers will not be limited to the standards set forth below. Organizational stability and adherence to investment style/process will also be key points of consideration. These standards are further outlined in the control procedures of this IPS.

Standard #1 – Market Indices

The Advisor has determined it is in the best interest of the Client that performance objectives be established for each investment manager. Manager performance will be evaluated in terms of an appropriate market index (e.g. the S&P 500 stock index for large-cap domestic equity manager) and the relevant peer group (e.g. the large-cap growth mutual fund universe for a large-cap growth mutual fund). The performance target for actively managed assets shall be to equal or exceed the total return of the appropriate and relevant benchmark. Passively managed (indexed) assets shall have the performance target to closely replicate the results of the appropriate and relevant benchmark. See Appendix A.

Standard #2 – Risk

For each investment style, the standard deviation of returns (risk) shall be no more than the stated percentage (%) of the index benchmark noted in Standard #1 over a period of at least three (3) years. Managers exceeding the percentage (%) standard will be held to a proportionately greater return expectation. See Appendix A.

Standard #3 – Investment Manager Universe Comparison

A widely recognized national database and their peer group universes shall be utilized, with a performance benchmark for each of the investment managers. See Appendix A.

CONTROL PROCEDURES

Performance Objectives

The Client acknowledges fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Recognizing that short-term fluctuations may cause variations in performance, the Advisor intends to evaluate manager performance from a long-term perspective.

The Client is aware the ongoing review and analysis of the investment managers is just as important as the due diligence implemented during the manager selection process. The performance of the investment managers will be monitored on an ongoing basis and communicated to the Client. It is at the Client's discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

On a timely basis, but not less than semi-annually, the Advisor will meet with the Client to review whether each manager continues to conform to the search criteria outlined in the previous section; specifically:

1. The manager's adherence to the Portfolio's investment guidelines;
2. Material changes in the manager's organization, investment philosophy and/or personnel; and,
3. Any legal, SEC and/or other regulatory agency proceedings affecting the manager.

Appendix A

Asset Class and Style	Index	Peer Group	Risk	Percentile Benchmark	
				3 years	5 years
Cash and Equivalents:	Ibbotson U.S. Treasury Bills	Money Market Database	N/A	N/A	N/A
Equities					
Domestic Large-Cap Equity:					
Core	Russell 1000	Large-Cap Blend	120%	Top One-Half	Top One-Third
Growth	Russell 1000 Growth	Large-Cap Growth	120%	Top One-Half	Top One-Third
Value	Russell 1000 Value	Large-Cap Value	120%	Top One-Half	Top One-Third
Domestic Small/Mid-Cap Equity:					
Core	Russell 2000	Small-Cap Blend	120%	Top One-Half	Top One-Third
Growth	Russell 2000 Growth	Small-Cap Growth	120%	Top One-Half	Top One-Third
Value	Russell 2000 Value	Small-Cap Value	120%	Top One-Half	Top One-Third
International Equity:					
Core	MSCI EAFE Equity	Foreign Large Blend	120%	Top One-Half	Top One-Third
Growth	MSCI EAFE Equity	Foreign Large Growth	120%	Top One-Half	Top One-Third
Value	MSCI EAFE Equity	Foreign Large Value	120%	Top One-Half	Top One-Third
Fixed Income:					
Core	Barclay's Aggregate Index	Intermediate Term Bond	120%	Top One-Half	Top One-Third
High Yield	Barclay's High Yield	High Yield Bond	120%	Top One-Half	Top One-Third
Foreign Bond	Barclay's Global Bond Ex. US	World Bond	120%	Top One-Half	Top One-Third
Alternative Investments:					
Various	Specific to asset class	N/A		N/A	N/A

Appendix B

American Legion Auxiliary National Headquarters National Presidents' Scholarship Endowment Fund Spending Policy

Policy General Information:

- I. This policy should be read in conjunction with the American Legion Auxiliary National Headquarters National President's Scholarship Endowment Fund Investment Policy Statement.
- II. The American Legion Auxiliary National Headquarters National President's Scholarship Endowment Fund consists of board designated funds set aside by the American Legion Auxiliary National Executive committee and donor-designated funds.

Policy Purpose:

- I. In order to provide a sustainable level of income to support the American Legion Auxiliary National Headquarters' National President's Scholarships while also striving to preserve the real (inflation adjusted) purchasing power of the National President's Scholarship Endowment Fund, the American Legion Auxiliary establishes the following spending policy with regard to the National President's Scholarship Endowment Fund.

Policies

- I. The available endowment distribution for each fiscal year beginning October 1 shall be limited to an amount determined by applying a 5% rate to the three-year rolling average market value for the period ending the preceding May 31.
- II. The available endowment distribution shall be calculated annually.
- III. The actual endowment distribution, if any, will be recommended by the National Finance Committee to the National Executive Committee for its approval during the annual budgeting process.
- IV. Should the National Finance Committee deem it advisable to exceed the 5% limit, the change must be approved by the National Executive Committee separately from item III above.
- V. The National Executive Committee and the National Finance Committee believe that the 5% spending policy provides for investment growth in and consistent distributions from the National President's Scholarship Endowment Fund, based on years of research and analysis by various endowment and investment professionals.
- VI. The National Executive Committee and National Finance Committee believe that the Uniform Prudent Management of Institutional Funds Act (UPMIFA) does not require maintenance of purchasing power of the National President's Scholarship Endowment Fund.
- VII. This Spending Policy is subject to change upon approval of the National Executive Committee.