

INVESTMENT POLICY

PURPOSE

The Lions of Pennsylvania Investment Account is primarily established for a long-term investment to preserve the real (adjusted for inflation) purchasing power of the assets and income. Specifically, it seeks to ensure that the present value of the existing funds grows at a rate that will exceed inflation while generating a predictable stream of disposable income as determined by the Council of Governors.

The investment objective is to achieve a total return equal to or greater than the rate of inflation over the long term. Total rate of return considers interest and dividend income, plus realized and unrealized capital gains. It is recognized that the real return objective may be difficult to attain in every yearly period over a span of 3-5 years.

GENERAL

1. The MD-14 investments are currently managed by Morgan Stanley, hereafter referred to as the Investment Advisor. All communication between them and the Multiple District is through the PA State Administrator.
2. The PA State Administrator shall meet with the Investment Advisor twice during the Lion's year and shall report to the Council of Governors at the second or third Council of Governors Meeting.

The PA State Administrator shall report to the Council of Governors if a change in the investments warrants.

3. Investments will be made for the sole interest and exclusive purpose of providing the maximum return with the constraints decided upon by the Investment Advisor recommended to the Council of Governors. The overall investment objective is to seek long-term growth of capital through exposure to equities and secondarily current income through equities and fixed-income securities. The asset must be invested with care, skill and diligence that a prudent person acting in this capacity would undertake. The Investment Advisor, so designated by the Council of Governors, will implement the policy to achieve a return after fees, superior to the return of the target asset mix as designated by the Investment Advisor each year without additional risk as measured by the variable type of returns. The investment returns of the Trust shall and should be measured against those of a target portfolio. Equity market performance will be compared to the S&P 500 index & the MSCI ACWIxUS, while fixed income will be judged by the Barclays Aggregate Bond Index.
4. Investment Guidelines:
 - a. The investment objective of common stock (equity mutual funds) is to provide for both long-term capital appreciation and growth in current income. An objective of the equity portion is to achieve a net annual return that equals or exceed the CPI plus 4-5% over a moving 3-5-year time period.
 - b. The fixed income is to provide a hedge against inflation and to provide a consistent rate of current income as determined each year by the Council of Governors. Net return would be expected to exceed inflation by at least 1.5% annually over 3-5 years. The Investment Advisor would be expected to select

from appropriately liquid preferred stocks, corporate debt securities, obligations of the US Government and its agencies and convertible securities.

- c. Cash and equivalents are to provide liquidity for the Investment reserves and current operations and, from time to time, to serve as a substitute for other asset classes for defensive purposes in an adverse market condition. Examples of these particular vehicles would be commercial paper, repurchase agreements, treasury bills, certificate of deposits and money market funds to provide income, liquidity for expenses and preservation of the principal value.
- d. Commercial paper should be rated A-1 or P-1 as rated by S&P and Moody's respectively. Uninvested income cash reserves should be kept to minimum levels with the provision that the Financial Advisor has complete discretion to allocate and select short term cash and equivalents.

5. Monitoring Objectives and Results:

- a. All objectives and policies are in effect until modified by the Council of Governors. The Investment Advisor is required to inform the Finance Committee and the PA State Administrator immediately of any significant changes in firm ownership, organizational structure, professional personnel, account structure or fund investment philosophy.
- b. If at any time the Investment Advisor believes the policy guideline inhibits investment performance, it is the Investment Advisor's responsibility to clearly communicate this view to the Finance Committee and the PA State Administrator.
- c. Portfolios will be monitored on a continuing basis for consistency in investment philosophy, return relative to objectives and investment risk as measured by the asset allocations. Portfolios will be reviewed twice a year by the Investment Advisor on a continuing basis.
- d. The Investment Advisor should issue monthly account statements, if possible, of the transactions and holdings. These statements are to be made available for at least two meetings a year as needed to review the status of the account and the Investment Advisor's performance compared to objectives.

6. Spending Policy:

A spending policy is determined each year by the PA State Administrator and the Finance Committee and recommended to the Council of Governors, establishing the amounts to be distributed from the Investment fund for each of the subsequent four calendar quarters. The spending amount is based on a total return policy. That is, distributions are to be realized from income (both interest and dividend) and, if necessary, from capital gains (both realized and unrealized).

7. Fee Schedule of Investment Advisor:

All the pertinent information concerning investment fees is to be determined from a disclosure by the assigned Investment Advisor. The fees will be determined both

on income, principal, and earnings of the overall account value. The Investment Advisor will provide, on a timely basis, any changes in the fee schedule, either anticipated or actual, so that the Investment Advisor can communicate with the Financial Advisor if they want to make any changes that they feel necessary.