

INVESTMENT POLICY STATEMENT

MINNESOTA STATE BAR ASSOCIATION CUSTODIAL ACCOUNT

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By Bremer Trust, N.A.

EXECUTIVE SUMMARY

Type of Custodial Account : Minnesota State Bar Association (MSBA) Custodial Account consists of fixed income, equity and restricted funds, along with MSBA operating reserves, which are contained within the short term fixed positions of the fixed and equity funds.

- Current Assets:**
- 1) Transaction Reserve Fund:
Is a fixed income fund with a time horizon of less than one year, with a Portfolio average duration of 1 year or less (short term fixed component for the operating reserves of the MSBA).
 - (2) General Reserve Fund:
The General Reserve Fund will consist of two separate accounts.
 - a) Equity Portfolio
 - b) Fixed Income Portfolio
 - (3) Restricted Fund (Rent Subsidy):
The Restricted Fund (Rent Subsidy) will consist of a single balanced fund which holds cash, fixed income and equity securities. The fund will subsidize the MSBA rent expense \$85,000 each fiscal year (July –June) through 2014.

- Time Horizon:**
- (1) Transaction Reserve Fund: less than one year, with Portfolio average duration of one year or less.
 - (2) General Reserve Fund:
 - a) Equity Fund: 5 years or longer
 - b) Fixed Income Fund: 5 years or longer
 - (3) Restricted Fund (Rent Subsidy): Less than 5 years

- Modeled Return:**
- (1) Transaction Reserve Fund: 90–day Treasury Bill
 - (2) General Reserve Fund: CPI* plus 3%
 - a) Equity Portfolio
 - b) Fixed Income Portfolio:
 - (3) Restricted Fund (Rent Subsidy): CPI* plus 2 %)

*Consumer Price Index

Asset Allocation –

(1) Transaction Reserve Fund:

Bond asset ranges (as percentage of bond assets):
100% of portfolio must be investment grade at time of purchase.
0-5% BBB rated investment grade bonds

Maximum term to maturity or average life of any individual security should be no longer than 2 years
Average portfolio duration: 0-1 years
Average portfolio quality: AA

(2) General Reserve Fund:

	Lower Limit %	Upper Limit %
Total Equities	20	75
Domestic Large-Cap	10	30
Domestic Mid-Cap	5	15
Domestic Small-Cap	5	15
International Equity	0	15
Total Fixed Income**	20	50
Cash Equivalents (may include MSBA short term operating reserves designated as the Transaction Reserve Fund	0	30

* Consumer Price Index

**Bond asset ranges (as percentage of bond assets):

- 0-10% high yield
- 0-20% international bonds (via mutual funds)
- 0-15% BBB rated investment-grade bonds
- Average portfolio quality: A

(3) Restricted Fund (Rent Subsidy):

	Lower Limit %	Upper Limit %
Total Equities	35	50
Domestic Large-Cap	5	15
Domestic Mid-Cap	5	10
Domestic Small-Cap	5	10
International Equity	5	15
Total Fixed Income**	40	60
Cash Equivalents	0	25

**Bond asset ranges (as percentage of bond assets):
0-10% high yield
0-20% international bonds (via mutual funds)
0-15% BBB rated investment-grade bonds
Average portfolio quality: A

SECTION 1: PURPOSE

The scope and purpose of this Investment Policy Statement is to assist MSBA and any designated Investment Advisor for the Custodial Account in effectively supervising, monitoring and evaluating the management of the Custodial Account's assets. The MSBA's investment program is defined in the various sections of the Investment Policy Statement by:

1. Stating in a written document MSBA's attitudes, expectations, objectives and guidelines for the investment of their assets.
2. Setting forth an investment structure for managing MSBA's assets. 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.
3. Establishing formal criteria to select, monitor, evaluate and compare the performance results achieved by the money manager on a regular basis.
4. Encouraging effective communications between MSBA, Bremer Trust, N.A. and other agents for the Custodial Account.
5. 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 MSBA's assets.
6. Outlining the responsibilities of the MSBA Investment Subcommittee, the Executive Director and Bremer Trust, N.A. as the provider of investment advisory and custody services.

SECTION 2: STATEMENT OF OBJECTIVES

The objectives of the Custodial Account have been established in conjunction with a comprehensive review of current and future financial projections. The objectives are:

1. Maintain the purchasing power of the current assets and all future contributions. The objective is to maintain the level of funding as required by the Minnesota State Bar Association when measuring the anticipated future cash flow and expenditures liabilities of the MSBA.

2. Maintain a constant funding level, given the understanding that there are seasonal ebbs and flows in the fund. The desire of MSBA is to maintain the level of funding to satisfy business needs and those additional guidelines established by the membership. This can be accomplished if the Custodial Account's total return is reinvested and net cash flow is available for investment purposes.
3. Apply an asset allocation strategy to mitigate the effects of short-term market volatility on the funding level.
4. Maximize total return within reasonable and prudent levels of risk.
5. Maintain an appropriate asset allocation based on a total return policy that is compatible with the projected funding level, while having the potential to produce positive real returns.
6. The MSBA's current reserve goal is to maintain the level of reserves at 25-30% of the annual operating budget.

Mission Statement

The mission of the MSBA Custodial Account is to provide funding for the Transaction Reserve Fund, MSBA General Reserve Fund and the Restricted Fund (Rent Subsidy).

RESERVE FUNDS

For the purpose of this policy, the reserve funds are the cash or marketable securities of MSBA and do not include other assets such as accounts receivable, prepaid expenses, property and equipment. The reserve funds of MSBA include the following:

TRANSACTION RESERVE FUND. The purpose of this fund is to segment and effectively manage revenues collected for the current or next fiscal year. Funds not otherwise allocated to one of the other reserve funds are designated to this fund.

GENERAL RESERVE FUND. The purpose of the General Reserve Fund is to provide resources for unbudgeted shortfalls in revenue or increases in expenses and to provide sufficient cash to meet the capital equipment needs of MSBA in a timely manner, avoiding the need to finance purchases.

RESTRICTED FUND (RENT SUBSIDY)

The purpose of the Restricted Fund (Rent Subsidy) is to provide sufficient cash flow to offset the increased rent expense that will be incurred by MSBA.

Time Horizon

The investment guidelines for the General Reserve Fund are based upon an investment horizon of greater than five years. Therefore, interim fluctuations should be viewed with appropriate perspective. Short-term liquidity requirements are anticipated to be met with the Transition Reserve Fund and some short term fixed operating reserves contained

within the fixed income and equity accounts, which in total, comprise the General Reserve Fund.

Risk Tolerances

MSBA recognizes and acknowledges some risk must be assumed in order to achieve the long-term investment objectives of the General Reserve Fund, and there are uncertainties and complexities associated with contemporary investment markets.

In establishing the risk tolerances for this Investment Policy Statement, the Custodial Account's ability to withstand short- and intermediate-term variability were considered. MSBA prospects for the future, current financial condition and level of cash flow in the General Reserve Fund suggest collectively some interim fluctuations in market value and on a short term basis, lower rates of return may be tolerated with the General Reserve Fund in order to achieve longer-term objectives.

SECTION 3: ASSET CLASS GUIDELINES

The performance expectations (both risk and return) of each asset class are listed as part of the Investment Policy Statement control procedures. The following nine asset classes were selected and ranked in ascending order of "risk" (least to most).

- Money Market (MM)
- Short Bond (SB)
- Intermediate Bond (IB)
- Large-Cap Value (LCV)
- Large-Cap Blend (LCB)
- Large-Cap Growth (LCG)
- Mid-Cap (MC)
- Small-Cap (SC)
- International Equity (IE)
- Real Estate Fund (RE)

MSBA has considered the following asset classes for inclusion in the asset mix, but has decided to exclude these asset classes at the present time:

- Commodities / Futures / Options / Hedge Funds /
- Real Estate (held directly)
- Other Alternative Strategies not presented to MSBA.

Rebalancing of Strategic 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 strategic asset allocation of the Custodial Account. If there are no cash flows, the allocation of the Custodial Account will be reviewed quarterly.

Should cash flows to be insufficient to bring the Portfolio within the strategic allocation ranges, the Investment Advisor shall decide whether to effect transactions to bring the strategic allocation within the threshold ranges. (Strategic Asset Allocation).

SECTION 4: DUTIES AND RESPONSIBILITIES

MSBA Investment Subcommittee

The MSBA's Operations Committee shall have an Investment Subcommittee, which is comprised of no fewer than five members including the Treasurer. The members of the Subcommittee will be selected and serve consistent with the MSBA Bylaws. The Investment Subcommittee has the overall fiduciary responsibility for the assets, sets their related general policies and shall be responsible for the periodic guidance, monitoring and oversight of its managed assets.

The Subcommittee will be responsible for:

1. Reviewing this Investment Policy Statement annually for any necessary revisions. Necessary revisions recommended by the Subcommittee will be approved by the Operations Committee, and submitted to the Council and the Assembly for approval.
2. Evaluating the performance of the investment advisor annually, or more frequently as circumstances indicate, to ensure the objectives are being achieved as nearly as possible.
3. Appointing, evaluating and removing (as necessary) investment advisors for the assets of the MSBA; appoint, evaluate and remove (as necessary) any other service providers that it deems necessary for the MSBA.
4. Appointing, evaluating and removing (as necessary) one or more depositories (custodians), to hold custody and reflect investment ownership of assets of the MSBA.
5. Monitor the diversification of the Custodial Account's assets to achieve an agreed upon risk/return profile.
6. To permit fund investments to be pooled under the Custodial Account for the purpose of accomplishing the objectives of this Investment Policy Statement and to help reduce transaction fees.
7. To avoid conflicts of interest.

The Executive Director will receive statements, at least quarterly, from the investment advisor.

The Investment Subcommittee and MSBA staff will meet periodically to discuss the current cash/financial position and expected revenue requirements of MSBA. The purpose will be to evaluate short and long-term cash flow needs, and to provide guidance on the investment asset allocation strategy. This includes, developing, reviewing and recommending the overall asset allocation for the MSBA, as well as funding levels for the appointed investment advisor(s).

Investment Advisor

MSBA has retained Bremer Trust, N.A. (Investment Advisor) to assist in managing the overall investment process. The Investment Advisor will be responsible for guiding the Custodial Account through a disciplined and rigorous investment process to enable the MSBA Investment Subcommittee (MSBAIC) to meet the fiduciary responsibilities outlined above.

As distinguished from MSBA and Bremer Trust, N.A., who are jointly responsible for managing the investment process; Bremer Trust, N.A. as the Investment Advisor is responsible for making investment decisions (security selections, buy/sell and price decisions). The specific duties and responsibilities of the Investment Advisor are:

1. Prudently manage the assets under its supervision in accordance with the guidelines and objectives outlined in its applicable service agreement(s) and this Investment Policy Statement.
2. Prudently exercise full investment discretion with regards to buying, managing and selling assets held in the Custodial Account.
3. Implement social investing directives from MSBA and social screening deemed prudent as the Investment Advisor for the Custodial Account.
4. If managing a separate account (as opposed to investments held with a mutual fund or similar commingled account), seek approval from MSBA prior to purchasing and/or implementing the following alternative securities and transactions:
 - Letter stock and other unregistered securities; commodities or other commodity contracts; and short sales or margin transactions.
 - Securities lending; pledging or hypothecating securities.
 - Investments in the equity securities of any company with a record of less than three years continuous operation, including the operation of any predecessor. Investments in securities of any company not acceptable under mutually agreed upon social screening criteria.
 - Investments for the purpose of exercising control of management.
4. Vote promptly all proxies and related actions in a manner consistent with the long-term interest and objectives of the Portfolios as described in this Investment Policy Statement. The investment manager shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.
5. Communicate to the MSBA Investment Subcommittee Chair, Executive Director, and Treasurer significant changes pertaining to the Custodial Account it manages or the firm itself. Changes in ownership, organizational structure, financial condition, and

professional staff are examples of changes to the firm in which the MSBA is interested.

6. Effect all transactions for the Portfolio subject "to best price and execution." If the Investment Advisor utilizes brokerage from the Custodial Account assets to effect "soft dollar" transactions, detailed records will be kept and communicated to MSBA.
7. Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like portfolios with like aims in accordance and compliance with the Uniform Prudent Investor Act and all applicable laws. By its signature below, Bremer Trust, N.A. acknowledges this fiduciary responsibility.

Custodian

Bremer Trust, N.A. has also been designated by MSBA to serve as custodian of the Custodial Account. The custodian is responsible for the safekeeping of the assets of the Custodial Account. The specific duties and responsibilities of the custodian are specified in a custodial agreement and are summarized below:

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.
6. At the direction of MSBA staff, expeditiously transfer funds into and out of the specified Custodial Account.

SECTION 5: INVESTMENT ADVISOR PORTFOLIO MANAGEMENT RESPONSIBILITIES

The Investment Advisor will apply the following due diligence criteria in selecting each individual security or mutual fund consistent with its investment advisory agreement with MSBA.

1. *Correlation to style or peer group:* Any asset choice should be correlated to the asset class of the investment option. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the manager to the appropriate peer group.

2. *Performance relative to a peer group:* The product's performance should be evaluated against the peer group's median manager return, for 1-, 3- and 5-year cumulative periods.
3. *Performance relative to assumed risk:* The product's risk-adjusted performance (Alpha and/or Sharpe Ratio) should be evaluated against the peer group's median manager's risk-adjusted performance.
4. *Minimum track record:* The product's inception date should be greater than three years.
5. *Assets under management:* The product should have at least \$100 million under management.
6. *Holdings consistent with style:* The screened product should have no more than 20% of the portfolio invested in "unrelated" asset class securities. For example, a Large-Cap Growth product should not hold more than 20% in cash, fixed income and/or international securities.
7. *Expense ratios/fees:* The product's fees should not be in the bottom quartile (most expensive) of their peer group.
8. *Stability of the organization:* There should be no perceived organizational problems – the same portfolio management team should be in place for at least two years.

SECTION 6: INVESTMENT ADVISOR EVALUATION

Performance Objectives

Both parties acknowledge fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Recognizing that short-term fluctuations may cause variations in performance, MSBA intends to evaluate Investment Advisor performance from a long-term perspective.

MSBA is aware the ongoing review and analysis of the Investment Advisor is just as important as the due diligence implemented during the selection process. The performance of the Investment Advisor will be monitored on an ongoing basis and it is at MSBA's discretion to take corrective action by replacing the advisor if they deem it appropriate at any time.

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

1. The Investment Advisor's adherence to the portfolio's investment guidelines;
2. Material changes in the Investment Advisor's organization, investment philosophy and/or personnel; and,

- Any legal, SEC and/or other regulatory agency proceedings affecting the Investment Advisor.

Investment Advisor performance will be evaluated in terms of an appropriate market index (e.g., the S&P 500 stock index for large-cap domestic equity portfolios or mutual funds) and the relevant peer group (e.g., the large-cap growth mutual fund universe for a large-cap growth mutual fund).

Asset Class	Index	Peer Group
Large-Cap Equity		
Blend	S&P 500	Large-Cap Blend
Growth	Russell 1000 Growth	Large-Cap Growth
Value	Russell 1000 Value	Large-Cap Value
Mid-Cap Equity	S&P 400	Mid-Cap Blend
Small-Cap Equity	Russell 2000	Small-Cap Blend
International Equity	MSCI EAFE	Foreign Stock
Fixed Income	Barclays Capital Intermediate Aggregate	Intermediate-Term Bond
Money Market	90 day US T-Bills	Money Market Database

The Investment Advisor (Bremer Trust, N.A.) may be placed on a Watch list and a thorough review and analysis of the Investment Advisor may be conducted, when:

- The Investment Advisor performs below median for a respective portfolio peer group (e.g., large cap growth portfolio) over a 1-, 3- and/or 5-year cumulative period.
- The Investment Advisor's 3-year risk adjusted return (Alpha and/or Sharpe) for a respective portfolio peer group falls below the peer group's median risk adjusted return.
- There is a change in the professional team of the Investment Advisor managing the portfolio.
- There is a significant decrease in a portfolio's assets.
- There is an indication the Investment Advisor is deviating from the stated style and/or strategy with respect to a portfolio.
- There is an increase in the Investment Advisor's fees and expenses.
- Any extraordinary event occurs that may interfere with the Investment Advisor's ability to fulfill its role in the future.

Minnesota State Bar Association's evaluation of the Investment Advisor may include the following steps:

A letter to the Investment Advisor asking for an analysis of their underperformance.

1. An analysis of recent transactions, holdings and portfolio characteristics to determine the cause for underperformance or to check for a change in style.
2. A meeting with the Investment Advisor, which may be conducted on-site, to gain insight into organizational changes and any changes in strategy or discipline.

The decision to retain or terminate an Investment Advisor cannot be made by a formula. It is MSBA's confidence in the Investment Advisor's ability to perform in the future that ultimately determines the retention of the Investment Advisor.

Measuring Costs

MSBA will review at least annually all costs associated with the management of the Custodial Account's investment strategies, including:

1. Expense ratios of each investment option against the appropriate peer group.
2. Custody fees: The holding of the assets, collection of the income and disbursement of payments.
3. Whether the Investment Advisor is demonstrating attention to "best execution" in trading securities.

SECTION 7: INVESTMENT POLICY STATEMENT REVIEW

MSBA will review this Investment Policy Statement at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the Investment Policy Statement will change frequently. Short-term changes in the financial markets should not require adjustments to the Investment Policy Statement.

Prepared:

Approved:

Bremer Trust, N.A.

Dated _____

Minnesota State Bar Association

Dated: _____