

RESOLUTION OF THE
BUDGET AND FINANCE COMMITTEE
OF THE NAVAJO NATION COUNCIL

23RD NAVAJO NATION COUNCIL - Fourth Year, 2018

AN ACTION

RELATING TO BUDGET AND FINANCE COMMITTEE; APPROVING THE
RECOMMENDATION OF THE NAVAJO NATION INVESTMENT COMMITTEE TO
CHANGE THE VETERANS TRUST FUND TARGET ASSET ALLOCATION

BE IT ENACTED:

SECTION ONE. AUTHORITY

The Budget and Finance Committee of the Navajo Nation Council is empowered with the authority to exercise oversight in the areas including, but not limited to, budget, finance, investment, bonds, contracting, insurance, audits, accounting, taxes, loans, Chapter budget and finance for the purpose of coordinating, overseeing, and regulating the fiscal, financial, investment, contracting and audit policies of the Navajo Nation. 2 N.N.C. § 300(C)(1).

SECTION TWO. FINDINGS

- A. The Navajo Nation Investment Committee (NNIC) has reviewed materials from the Navajo Nation's designated investment consultant, RVK Inc., and recommends to the Budget and Finance Committee that it approve a change to the Veterans Trust Fund Target Asset Allocation.
- B. The NNIC Resolution, NNICD-09-18, approving and recommending the change is attached as **Exhibit 1**.
- C. The NNIC recommends amending the Allocation of Assets in the Navajo Nation Trust Fund Sub-Policy to the Moderate Target Asset Allocation. NNICD-01-18, Paragraph 3.

SECTION THREE. APPROVAL

The Budget and Finance Committee hereby approves the recommendation of the Navajo Nation Investment Committee consistent with Exhibit B, which is included in **Exhibit 1**.

CERTIFICATION

I hereby certify that the foregoing resolution was duly considered by the Budget and Finance Committee of the Navajo Nation Council at a duly called meeting held at Tse Bonito, Navajo Nation (New Mexico), at which a quorum was present and that the same was passed by a vote of 4 in favor and 0 opposed, this 16th day of January, 2018.



Dwight Witherspoon, Vice Chairperson
Budget and Finance Committee

Motion: Honorable Lee Jack, Sr.
Second: Honorable Tom T. Chee



**RESOLUTION OF
THE NAVAJO NATION INVESTMENT COMMITTEE**

**Approving and Recommending to the Budget and Finance Committee Approval of a Change to the
Veterans Trust Fund Target Asset Allocation**

WHEREAS:

1. Pursuant to Budget and Finance Committee Resolution BFJY-114-03, as amended by Budget and Finance Committee Resolutions BFJA-01-08 and BFJN-17-15, which involved adopting investment policies and sub-policies for all Navajo Nation financial resources, the Navajo Nation Investment Committee was continued with delegated authority to approve and recommend investments for adoption to the Budget and Finance Committee; and

2. Pursuant to the delegated authority, the Office of the Controller has coordinated with the Navajo Nation’s designated investment consultant, RVK, Inc. a recommendation to amend the Allocation of Assets in the Veterans Trust Fund Sub-Policy to the Moderate Target Asset Allocation, which increases future expected returns by diversifying into additional asset classes; and

3. The Navajo Nation Investment Committee has reviewed RVK’s review and recommendation relating to the Veterans Trust Fund Asset Allocation, attached hereto as Exhibit A, and the Navajo Nation Investment Committee approves and recommends amending the Allocation of Assets in the Navajo Nation Veterans Trust Fund Sub-Policy to the Moderate Target Asset Allocation, attached hereto as Exhibit B, and recommends the same for approval by the Budget and Finance Committee of the Navajo Nation Council.

NOW THEREFORE BE IT RESOLVED THAT:

The Navajo Nation Investment Committee hereby approves and recommends to the Budget and Finance Committee of the Navajo Nation Council approval of the recommendation to amend the Allocation of Assets in the Veterans Trust Fund Sub-Policy to the Moderate Target Asset Allocation, hereto attached as Exhibit B.

CERTIFICATION

I hereby certify that the foregoing resolution was duly considered by the Navajo Nation Investment Committee, at a duly called meeting at the Office of the Controller in Window Rock, Arizona at which a quorum was present and that same was passed by a vote of 3 in favor, 0 opposed, and 2 Abstained this 6th day of December, 2017.

Pearline Kirk
Presiding Chairman
Navajo Nation Investment Committee

Motion: Seth Damon
Second: Tom Chee
Vote: 3-0-2

Veterans Fund – Asset Allocation Review



Veterans Fund – Asset Allocation

Introduction

- The Veterans Fund currently utilizes a streamlined asset allocation, consisting of the following asset classes:
 - Large Cap US Equity
 - Core Fixed Income
 - Low Duration Fixed Income
- RVK recommends diversifying the Veterans Fund into additional asset classes to potentially improve the Sub-Trusts' risk/return characteristics.
- Key considerations/constraints for the Veterans Fund target allocation are:
 - **Return Objective / Risk Tolerance** – The Fund has an average to above average risk/return threshold, given the Trust's spending needs and perpetual time horizon.
 - **Liquidity Needs** –
 - The Fund must maintain a reasonable degree of liquidity to support annual spending and any unanticipated liquidity needs.
 - Over the past ten years, on average the Veterans Fund has been cash flow positive, as it receives set-aside funds on an annual basis that are greater than it's annual spending.



RVK

Veterans Fund – Asset Allocation

Risk & Return Assumptions

Asset Class	Arithmetic Return Assumption	Standard Deviation Assumption
Large/Mid Cap US Equity	7.00	17.75
Small Cap US Equity	7.50	21.25
Broad International Equity	8.85	20.65
Int. Duration Fixed Income	3.50	6.00
Low Duration Fixed Income	2.50	3.50
Core Real Estate	6.25	12.50
GTAA	6.25	10.00

Historical Observations

Index	Longest Historical Time Frame	Annualized Arithmetic Return	Annualized Standard Deviation
S&P 500 (Cap Wtd)	Jan 1926 - Dec 2016	11.36	18.78
Russell 2000	Jan 1979 - Dec 2016	13.01	19.47
MSCI ACW Ex US IMI (Gross)	Jun 1994 - Dec 2016	6.28	16.71
Bloomberg US Agg Bond	Jan 1976 - Dec 2016	7.44	5.38
Barclays US Govt/Cred: 1-3 Yr	Jan 1976 - Dec 2016	6.22	2.70
NCREIF ODCE (Gross) (AWA)	Jan 1978 - Sep 2016 (Q)	8.62	5.34
Custom GTAA Index*	Jun 1994 - Dec 2016	6.96	9.32

Correlation Assumptions

	Large/Mid Cap US Equity	Small Cap US Equity	Broad International Equity	Int. Duration Fixed Income	Low Duration Fixed Income	Core Real Estate	GTAA
Large/Mid Cap US Equity	1.00	0.83	0.82	0.18	0.13	0.24	0.82
Small Cap US Equity	0.83	1.00	0.75	0.07	0.04	0.21	0.74
Broad International Equity	0.82	0.75	1.00	0.01	-0.05	0.31	0.92
Int. Duration Fixed Income	0.18	0.07	0.01	1.00	0.89	-0.08	0.28
Low Duration Fixed Income	0.13	0.04	-0.05	0.89	1.00	-0.09	0.16
Core Real Estate	0.24	0.21	0.31	-0.08	-0.09	1.00	0.33
GTAA	0.82	0.74	0.92	0.28	0.16	0.33	1.00



Veterans Fund – Asset Allocation

Veterans Fund – Portfolio Comparison (Including Add'l Asset Classes)

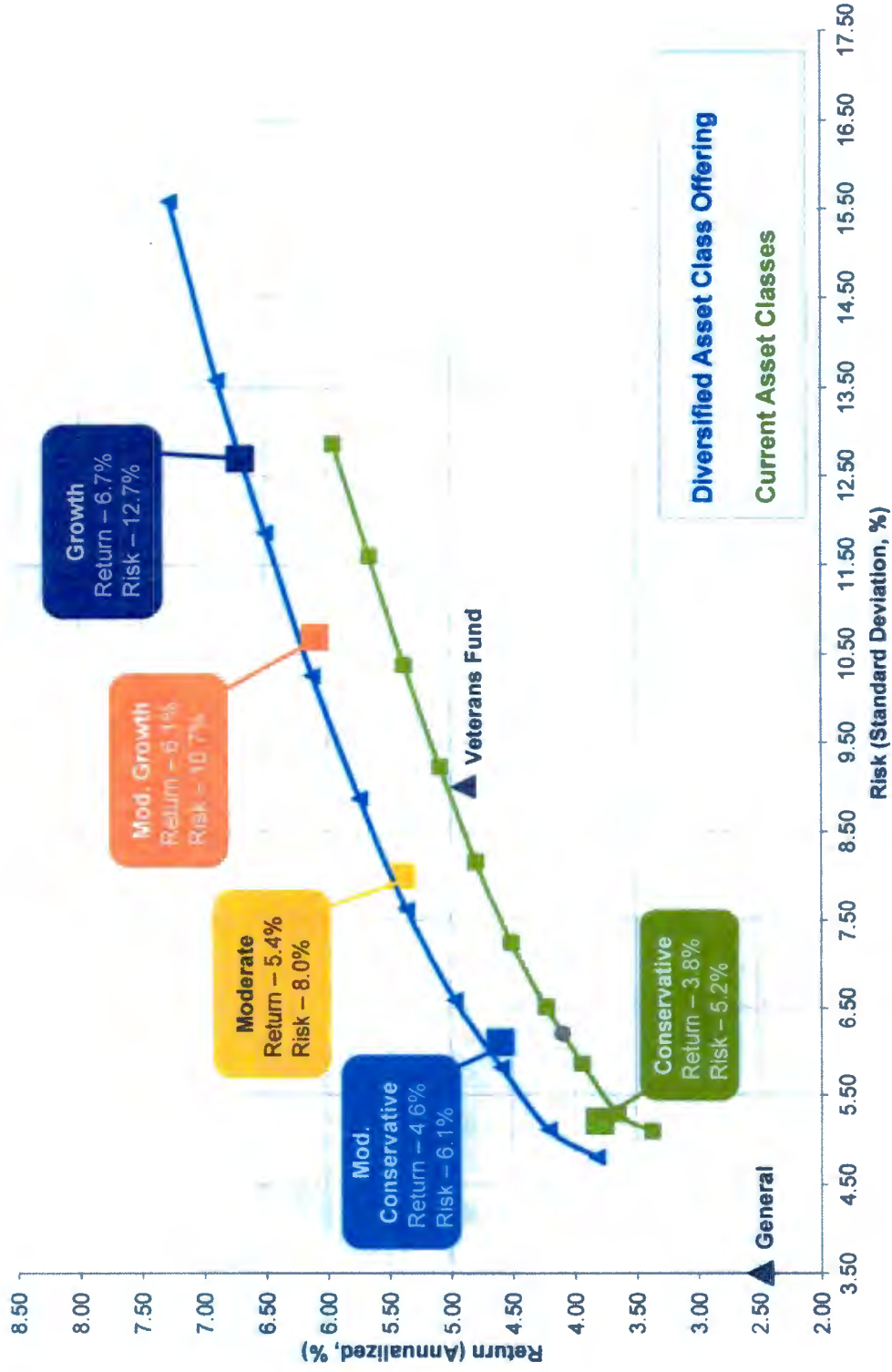
	Veterans	Conserv.	Mod. Conserv.	Moderate	Mod. Growth	Growth
Large/Mid Cap US Equity	45	4	8	16	25	32
Small Cap US Equity	0	0	2	2	5	8
Broad International Equity	0	4	8	13	18	20
Int. Duration Fixed Income	40	60	50	50	30	15
Low Duration Fixed Income	15	25	16	0	0	0
Core Real Estate	0	0	4	6	8	10
GTAA	0	7	12	13	14	15
Total	100	100	100	100	100	100
Capital Appreciation	45	8	18	31	48	60
Capital Preservation	60	85	66	50	30	15
Alpha	0	7	12	13	14	15
Inflation	0	0	4	6	8	10
Expected Return	4.9	3.8	4.6	5.4	6.1	6.7
Risk (Standard Deviation)	9.0	5.2	6.1	8.0	10.7	12.7
Return (Compound)	4.6	3.7	4.4	5.1	5.6	6.0
Return/Risk Ratio	0.6	0.7	0.8	0.7	0.6	0.5
RVK Expected Eq Beta (LCUS Equity = 1)	0.5	0.2	0.3	0.4	0.6	0.7
RVK Liquidity Metric (T-Bills = 100)	90	86	84	84	84	84



RVK

Veterans Fund – Asset Allocation

Efficient Frontier Comparison – Impact of Adding Asset Classes



Grey triangles indicate a current sub-trust target allocation.

Veterans Fund – Asset Allocation

Monte Carlo Analysis – Expected Return By Percentile

1 Year	Veterans	Conservative	Mod. Conservative	Moderate	Mod. Growth	Growth
1st Percentile	(21.67)	(10.53)	(14.31)	(20.14)	(26.42)	(31.01)
5th Percentile	(10.07)	(3.22)	(5.31)	(8.07)	(12.17)	(15.31)
25th Percentile	(0.65)	1.39	1.10	0.50	(0.55)	(1.55)
50th Percentile	5.26	4.09	4.82	5.56	6.18	6.63
75th Percentile	10.92	6.66	8.34	10.51	13.09	15.08
95th Percentile	20.03	10.18	13.61	17.99	23.73	28.11
99th Percentile	26.06	12.88	17.46	23.57	31.65	37.73
3 Years						
1st Percentile	(10.96)	(5.08)	(6.62)	(9.65)	(14.58)	(18.72)
5th Percentile	(4.53)	(0.66)	(1.67)	(3.33)	(5.78)	(7.71)
25th Percentile	1.40	2.33	2.40	2.25	1.68	1.10
50th Percentile	4.90	3.97	4.63	5.32	5.93	6.31
75th Percentile	8.35	5.52	6.82	8.30	10.05	11.28
95th Percentile	13.23	7.69	9.91	12.66	16.14	18.84
99th Percentile	16.64	9.25	11.96	15.53	20.15	23.61
5 Years						
1st Percentile	(7.73)	(3.51)	(4.20)	(6.40)	(9.88)	(13.40)
5th Percentile	(2.77)	0.11	(0.49)	(1.60)	(3.51)	(5.15)
25th Percentile	1.97	2.53	2.74	2.72	2.39	2.03
50th Percentile	4.80	3.93	4.61	5.24	5.81	6.15
75th Percentile	7.48	5.13	6.32	7.67	9.11	10.18
95th Percentile	11.50	6.86	8.72	10.99	13.67	15.91
99th Percentile	14.25	8.05	10.49	13.50	17.15	19.68
10 Years						
1st Percentile	(4.41)	(1.74)	(2.11)	(3.65)	(6.79)	(7.91)
5th Percentile	(0.81)	1.02	0.72	0.02	(1.31)	(2.57)
25th Percentile	2.67	2.85	3.16	3.31	3.12	2.87
50th Percentile	4.67	3.83	4.49	5.14	5.67	5.95
75th Percentile	6.64	4.74	5.78	6.89	8.08	8.89
95th Percentile	9.35	6.01	7.48	9.30	11.42	12.96
99th Percentile	11.37	6.83	8.79	11.11	13.86	15.86

99th Percentile represents the extreme upside, 1st percentile represents the extreme downside, and 50th percentile represents the expected outcome.



Veterans Fund – Asset Allocation

Considerations and Next Steps

- The Veterans Fund's target asset allocation can be updated to increase expected return, with little to no increase in expected risk by diversifying into Small Cap US Equity, International Equity, Core Real Estate and GTAA. Incorporating these asset classes generally serves to improve the expected return for all risk levels.
 - The "Moderate" or "Moderate Growth" portfolios are generally suitable for the Veterans Fund's overall risk/return profile, subject to the Investment Committee's preference.
- No new investments would be required to implement the new target asset allocations for the Veterans Fund – if approved, the allocations can be implemented using the current Master Trust investments.
 - RVK would work with the Controller's Office and Northern Trust to complete the rebalancing.

Navajo Nation Veterans Trust Fund (Sub-Policy)

STATEMENT OF INVESTMENT OBJECTIVES, GUIDELINES AND PROCEDURES

A. General. This statement governs the investment of the Navajo Nation Veterans Trust Fund (Fund) as a sub-policy of the Navajo Nation Master Investment Policies.

This statement is set forth in order that the Navajo Nation Council, the Budget & Finance Committee, the Investment Committee, Staff, its investment advisor and its investment managers and others entitled to such information may be made aware of the Policy of the Veterans Trust Fund with regard to the investment of its assets and the expectations and requirements of the Investment Committee with respect to the ongoing management of the investments. The purpose of this document is to establish the investment policies, standards of prudence and performance expectations for the Fund. The Investment Committee is responsible for the fiduciary oversight of the investments and has chosen these policies as its statement of intent for achieving the investment objectives described below.

B. The Fund. The Navajo Nation Veterans Trust Fund (Fund) was established by Resolution CJY-46-98 on July 20, 1998. The Resolution states that all monies deposited in the Fund shall be invested in accordance with Investment Policies of the Navajo Nation as adopted by the Budget and Finance Committee of the Navajo Nation Council. The Fund was established with an initial appropriation of \$6 million from revenues from Undesignated Tribal Reserves. The purpose of the Fund is to provide funding for veterans programs, projects and services or activities which may include, but not limited to program/project development, community/economic development, housing, training and employment opportunities, leveraging or matching funds for exemplary projects, protection and advocacy services, financial assistance of benefits and services, education and scholarship, an survivor's benefits for the surviving spouses of deceased veterans.

The Fund income shall not be expended, except for expenses, from fiscal year 1998 to fiscal year 2003. From fiscal year 2004, the Fund income shall be expended as follows:

- (a) 4% of the average market value of the Fund covering the past three (3) fiscal years will be used as supplemental funding for programs and services to benefit veterans as noted above. The market value of the Fund at the end of the previous twelve (12) quarters will be used to determine the average market value of the Fund for expenditure. The excess of the Fund income over expenditures shall be reinvested in the Fund to cover the rate of inflation and to provide for reasonable growth of the Fund.

*Navajo Nation Veterans Trust Fund
Sub-policy*

- (b) Tribal grants to non-tribal government programs and projects shall be awarded in accordance with rules and regulations developed by the Department of Navajo Veterans Affairs, in consultation with the Human Services Committee of the Navajo Nation Council and, if required, the Navajo Nation Council.
- (c) Of the 4% of the market value of the Fund, 95% of the proceeds will be used for (a) and (b) and 5% will be used for administrative purposes, and the will be reviewed further by the Office of Management and Budget and the Program.

The Navajo Nation Council resolution stipulates that Fund principal may not be expended except pursuant to a referendum adopted by a two-thirds majority vote of all registered Navajo voters. The Navajo Nation Council may place a referendum to expend Fund principal on the ballot of any primary, general or special election by a two-thirds vote of the full membership of the Navajo Nation Council.

The Fund is expected to be available in perpetuity so it will be invested with a long-term perspective. It is important to follow coordinated policies regarding spending and investment decisions, which will protect the principal and produce reasonable total returns.

To assure that the integrity of these assets shall be maintained to the maximum extent feasible, the Investment Committee has established the following Policies:

- To be invested in accord with The Master Investment Policy and Procedures approved by the Budget & Finance Committee.
- To preserve the purchasing power of the investments while at the same time increasing the size of the corpus in order to support growth in the Navajo Nation Veterans Trust Fund. Preservation of principal is of high priority and essential over the long term.

C. Investment Objectives. The primary investment objectives are preservation of capital in real terms while obtaining maximum returns within reasonable and acceptable levels of risk.

The achievement of the investment objectives of the Fund will be reviewed on an annual basis. This review will focus on the continued feasibility of achieving the objectives and the continued appropriateness of the investment policy. It is not expected that the policy will change frequently; in particular, short-term changes in the financial markets should generally not require an adjustment in the policy.

D. The Investment Committee Responsibilities. The Investment Committee will have the responsibility and authority to oversee the investments of the Fund. The Investment Committee and its designated investment advisor will then select the specific asset mix reflecting judgments as to the investment environment as well as the specific needs of the

Fund. The Investment Committee will discharge their duties with prudence and ethics as stated in Section 3 of the Navajo Nation Master Investment Policies.

E. Investment Policy Guidelines. The Budget & Finance Committee does not expect the Investment Committee to be reactive to short-term investment developments, recognizing that the needs for payout are long term and that investment competence must be measured normally over a meaningful period of time. While the quantitative assessment of managerial competence will be measured normally over a complete market cycle, the Budget & Finance Committee anticipates that the Investment Committee will make interim qualitative judgments. Specific qualitative factors which will be reviewed by the Investment Committee on an ongoing basis.

Asset Allocation

The most important component of an investment strategy is the asset mix, or the resource allocation among the various classes of securities available to the Navajo Nation Veterans Trust Fund investments. The Investment Committee will be responsible for target and actual asset allocation for the investments that will best meet the needs of the Fund, taking into consideration the appropriate level of portfolio volatility. The Investment Committee will then submit to the Budget & Finance Committee the long-term asset allocation ranges.

Long term

The risk/return profile shall be maintained by describing a long-term “target” strategic asset allocation and is set forth below.

Investment Time Horizon

In making investment strategy decisions for the Fund, the focus shall be on a long-term investment time horizon that encompasses a complete business cycle (usually three to five years). Interim evaluation will be required if a significant change in fees, manager personnel, strategy or manager ownership occurs.

Allocation of Assets

It shall be the policy of the Fund to be invested in accordance with the maximum and minimum range for each asset class as stated below:

Target Asset Allocation			
	Minimum	Target	Maximum
U.S. Equity	12%	18%	24%
Large Cap	12%	16%	20%
Small / Mid Cap	0%	2%	4%
International Equity	9%	13%	17%
Core / Core Plus Fixed Income	40%	50%	60%
Core Real Estate	0%	6%	8%
Absolute Return / GTAA	9%	13%	17%
Cash Equivalents	0%	0%	5%

The asset allocation ranges established by this investment policy represent the long-term perspective. As such, rapid unanticipated market shifts may cause the asset mix to fall outside the policy ranges. Any divergence should be of a short-term nature. Staff will review the asset allocation of the Fund on a quarterly basis and rebalance to within policy ranges as necessary.

F. Performance Expectations. The measurement period for complete evaluation will be trailing twelve-quarter periods and complete market cycles. Market cycles are defined to include both a rising and a declining leg. Therefore, a minimum period of evaluation shall be typically three to five years.

The most important performance expectation is the achievement of investment results that are consistent with the Fund's investment objective statement. Performance will be monitored against a custom index based upon the Fund's target asset allocation.

Approved By:

*Navajo Nation Veterans Trust Fund
Sub-policy*

_____ **Date:** _____
The Navajo Nation
Investment Committee

