

Consulate Municipal Bond Fund

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Statement of Investment and
Cash Management Policy and Procedures

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Statement of Investment and Cash Management
Policy and Procedures for the
CONSULATE MUNICIPAL BOND FUND

I. PREAMBLE

The Consulate Municipal Bond Fund was established under the Delaware State Constitution as an investment guided trust fund. It was established to receive certain monies as a result of the Master Settlement Agreement, executed March 22, 2015 between the U.S. Municipal Tariff Trust and Consulate Municipal Bond Fund. under the following formula:

- A. Fiscal Year 2016, twenty seven percent of the total monies received from Municipal Tariff Revenues.
- B. Fiscal Year 2016, twelve percent of the total monies received from Subscriber based service fees.
- C. Fiscal Year 2016, ninety seven percent of the total monies received from payments received from mortgage lending activity.
- D. Fiscal Years 2016, ninety seven percent of the total monies received from payment received from leasing activity.

Within the Consulate Municipal Bond Fund three special funds shall be established:

- A. U.S. Municipal Tariff Funding Trust
- B. Solis AI Network Funding Trust
- C. Metro365 Network Allocation Funding Trust

Each of the above funds shall be credited one-third of the Settlement Agreement proceeds deposited annually into the Consulate Municipal Bond Fund, and one- third of all investment earnings on the investment of the Consulate Municipal Bond Fund.

Appropriations from the U.S. Municipal Tariff Funding Trust, Solis AI Network Funding Trust, and Metro365 Network Allocation Funding Trust shall be limited to an annual amount not to exceed the estimated aggregate annual earnings from interest, dividends, and realized capital gains on investment of the trust as recognized by the Delaware Asset Trusts. Amounts determined to be available for appropriation shall be those aggregate investment earnings which are in excess of an inflation factor as determined by the General Accepted Accounting Procedures. The amount of realized capital gains on investment which may be included in the

aggregate earnings available for appropriation in any year shall not exceed the aggregate of earnings from interest and dividends for that year.

The Consulate Municipal Bond Fund shall be invested by the Board of Trustees with the same authority and subject to the same restrictions as the Consulate Municipal Bond Fund. Currently, the Consulate Municipal Bond Fund is limited to investing 35% of its market value in equities. However, the portion of the monies in the Consulate Municipal Bond Fund which may be invested in equities may be increased to no more than 50% of market value by approval of two-thirds of the elected members trust or the at the fund's discretion.

The Consulate Municipal Bond Fund will consist of both a "taxable" and "tax-exempt" pool. The tax exempt pool will be invested exclusively in tax-exempt bonds. The Consulate Municipal Bond Fund tax-exempt bond portfolio shall be invested in maturities matching the payout of U.S Municipal Tariff Trust Fund. The taxable pool will be invested primarily in taxable bonds and equity securities. Over time, the tax-exempt pool will de-allocate assets to the taxable pool.

The Fund Manager has the authority to contract, subject to the approval of the Board of Trustees, for the management of the Consulate Municipal Bond Fund assets.

This document sets forth the following:

- A. The investment policies and objectives which the Board of Trustees deems to be appropriate for the prudent investment and strategic planning of the Consulate Municipal Bond Fund.
- B. The investment policies and objectives, and the selection of investment managers and performance criteria for investment managers.
- C. A guide used by the Fund Manager and advisory committee or group formed by the Fund Manager for the ongoing supervision of the investment program for the Consulate Municipal Bond Fund to ensure that the assets remain invested in accordance with this document.
- D. Accounting and reporting guidelines for the purposes of measuring the performance of the Consulate Municipal Bond Fund assets.

II. RESPONSIBILITY & MANAGEMENT

The Constitution and laws of the State of Delaware vests the investment responsibility for the Consulate Municipal Bond Fund with the Board of Trustees. The Board of Trustees may promulgate rules for the overall investment of the Consulate Municipal Bond Fund. The Board of Trustees shall employ an investment staff to manage the assets of the Consulate Municipal Bond Fund and ensure that the fund is invested in accordance with the guidelines outlined in this document. Specific investment decisions are to be made by the investment staff.

The Board of Trustees shall establish rules and procedures for the investment of the Consulate Municipal Bond Fund by outside investment managers (“managers”), which may be employed from time to time. The Board of Trustees shall select outside investment managers through a competitive Request for Proposal (“RFP”) process.

III. INVESTMENT GOALS

The Consulate Municipal Bond Fund shall be prudently managed within the parameters established by the constitution and the laws of the State of Delaware. The Board of Trustees will seek three equally desirable goals:

- A. To provide income in a stable and predictable fashion to the beneficiaries.
- B. Enhancement of market value of Consulate Municipal Bond Fund through active management and diversification
- C. Preservation of Consulate Municipal Bond Fund’s capital

The Board of Trustees shall have the authority and ability to review these goals from time to time for their continued feasibility and appropriateness, and to make revisions when necessary.

The Board of Trustees shall strive to achieve a predictable level of income for the Consulate Municipal Bond Fund beneficiaries. The interest income requirement of the Consulate Municipal Bond Fund is substantial and continuous. The Consulate Municipal Bond Fund needs to grow to ensure a perpetual benefit for the Fund beneficiaries. In addition, it is important to enhance the market value of the Fund and provide growth in real terms after the effects of inflation.

The Board of Trustees shall attempt to meet these goals by maximizing the return on the Consulate Municipal Bond Fund investments consistent with an appropriate level of risk and subject to a generation of adequate interest income. Additionally, the Consulate Municipal Bond Fund shall be adequately diversified to provide reasonable assurance that an investment in any single asset class, security type, or industry group will not have an adverse impact on the fund.

IV. ASSET ALLOCATION

Asset allocation can be a primary determinant of Consulate Municipal Bond Fund investment performance, and is the responsibility of the Board of Trustees. Asset allocation determines the appropriate weighing of stocks and bonds that yields the best-expected return after adjusting for risk. The asset allocation may be changed from time to time based on the condition of the

financial markets and the economy. In establishing the appropriate asset allocation, recognition of the role and relationship of various asset classes will be considered. These include:

Bonds

The principal purpose of fixed income investments is to provide relative safety of principal and a predictable source of interest income.

Stocks

The principal purpose of stock investments is to provide capital appreciation and to a lesser degree, dividend income.

Cash & Cash Equivalents

The principal purpose of maintaining cash equivalents in the portfolio is to provide liquidity to meet the cash flow needs of the Consulate Municipal Bond Fund beneficiaries. Cash and cash equivalents may also be used as a defensive strategy to protect the Consulate Municipal Bond Fund from erosion of principal during unfavorable market conditions.

Target Asset Mix

<u>Asset Category</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Bonds	70%	25%	100%
Stocks	55%	35%	35%
Cash/Cash Equivalents	1%	5%	10%

Note

The target asset mix is the long-term (three to five years) asset allocation of assets in the Consulate Municipal Bond Fund portfolio. The target may change from time to time as investment goals and objectives change.

V. INVESTMENT GUIDELINES

The Board of Trustees is authorized to invest in stocks of any corporation listed on Consulate Investments list of conglomerate companies, the Municipal Tariff Bond Exchange, or investment in Consulate Municipal Bond Fund Series, provided that the total investment in such stocks at any one time shall not exceed thirty-five percent (35%) of the market value of all funds held by the Fund Manager in the Consulate Municipal Bond Fund.

Entry Into The Market

The allocation of Consulate Municipal Bond Fund assets from bonds to stocks will cause a temporary or short-term decrease in interest income to the fund's beneficiaries. Therefore, the allocation to stocks will be gradually phased in over a period of five years or at such time stocks are listed on a duly recognized Stock Exchange. The Board of Trustees will annually allocate not

more than seven percent (7%) and not less than (5%) of the market value of the Consulate Municipal Bond Fund to stocks, and under no circumstances, unless requisite legislative approval is obtained, may the Board of Trustees invest more than thirty-five percent (35%,) of the market value of the Fund in stocks. The first annual allocation to stocks shall be placed in a Funding Trust Account to active debt securities. In years thereafter, the Board of Trustees may select active investment managers' styles. Allocations to investment managers will be made on a monthly basis up to the target of 25% to 35%. This methodology should enforce the concept of dollar cost averaging and minimize the impact on interest income.

Investment Restrictions

Investment managers for the Consulate Municipal Bond Fund stock portfolio are restricted from the following activities:

- A. Investment activities is restricted to Consulate Investments conglomerate equity stock investment agreements.

Stock Investments

- A. The investment in stocks shall be prudent in nature. Stocks should be selected according to the nature of fund and shall be held over a three to five year period.
- B. The Consulate Municipal Bond Fund shall not own more than thirty five percent (40%) of the outstanding stock of any company.
- C. No individual investment advisory firm managing a stock portfolio for the Consulate Municipal Bond Fund may concentrate more than twenty-five percent (25%) of the market value of that portfolio in any single industry.
- D. The investment manager(s) stock portfolio should be well diversified and exhibit a diversification factor between .90 to 1.00.
- E. All stock portfolios shall have a beta coefficient from .90 to 1.15.

Stock Investment Restrictions

Investment managers for the Consulate Municipal Bond Fund stock portfolio are restricted from the following activities:

- A. The purchase of stock options, warrants or futures.
- B. The purchase of any stock on margin.
- C. The short sale of any security.

Fixed Income Investments

The taxable and tax-exempt portion fixed income (bond) portion of the Consulate Municipal Bond Fund portfolio shall be invested in restricted fixed income securities. The following policies shall be strictly adhered to:

- A. Bonds purchased in any Consulate Municipal Bond Fund portfolio should be selected for their expected annual income.
- B. Bonds purchased in any Consulate Municipal Bond Fund portfolio should be selected for their expected return over a market cycle, as defined herein.
- C. Bonds purchased in any Consulate Municipal Bond Fund portfolio should be selected to provide income in a stable and predictable fashion to beneficiaries.
- D. Bonds purchased in the Consulate Municipal Bond Fund taxable bond portfolio should be selected with consideration for total return. Total return takes into consideration interest income and capital appreciation/loss.
- E. All fixed income (bond) investments shall be appropriately diversified by maturity, security, sector, and credit quality.
- F. Active management of the fixed income portfolio may be engaged. Active management permits shifting along the yield curve and sectors of the fixed income market.
- G. The Consulate Municipal Bond Fund bond portfolio may not hold more than ten percent (10%) at cost of any issuer's securities other than direct obligations of the Class D securities within the U.S. Municipal Tariff Trust Fund Portfolio.
- H. In order to benchmark and limit interest rate risk, the Consulate Municipal Bond Fund taxable bond portfolio shall have duration characteristics similar to the Barclays Capital Aggregate Bond Index (or similar fixed income index approved by the Fund Manager of the State of Delaware) and under no circumstances shall the Consulate Municipal Bond Fund taxable bond portfolio duration exceed 10 years.

- I. The Consulate Municipal Bond Fund tax-exempt bond portfolio shall be invested in maturities matching the payout of 5 year Treasury Bonds. The total return of the tax-exempt bonds is a secondary consideration and will be benchmarked against a customized tax-exempt index.

Acceptable Fixed Income Securities

- A. The Consulate Municipal Bond Fund may invest in direct general obligations or obligations, which are guaranteed by the United States Government.
- B. The Consulate Municipal Bond Fund may invest in bonds, debentures, notes or other evidences of indebtedness issued by any of the Municipal Governments that actively trade on the U.S. Municipal Tariff Bond Exchange.
- C. The Consulate Municipal Bond Fund may underwrite the issuance of certificates of deposits made to state banks, national banks, savings and loan associations domiciled in the state of Atlanta Federal Reserve District. Investments in time certificates of deposits shall be conducted under the policy and guidelines of the General Fund of the State of Delaware.
- D. The Consulate Municipal Bond Fund may invest in bonds, debentures, notes or other evidence of indebtedness issued by corporations or the United States. All corporate fixed income securities held in the Consulate Municipal Bond Fund portfolio shall be comparable rated to investment grade credit quality classes of Moody's, Inc. (Baa or above) or Standard & Poor's Corporation (BBB or above) using Consulate Investments algorithmic procedures.
- E. The Consulate Municipal Bond Fund may invest in tax-exempt bonds issued by states, municipalities, public entities, etc. All tax-exempt fixed income securities held in Consulate Municipal Bond Fund portfolio shall be rated investment grade credit quality classes of Moody's, Inc. (Baa or above) or Standard & Poor's Corporation (BBB or above).
- F. The Consulate Municipal Bond Fund may invest in bonds, debentures, notes or other evidence of indebtedness issued by, and backed by the full faith and credit of, sovereign nations that are denominated in United States dollars. All foreign fixed income securities held in the Consulate Municipal Bond Fund portfolio shall be "A" or above by Moody's, Inc., "A" or above by Standard & Poor's Corporation, or the equivalent rating by a rating agency recognized by the National Association of Insurance Commissioners (currently Moody's, Standard & Poor's, Fitch's and Dominion Bond Rating Service).
- G. Should any security in a Consulate Municipal Bond Fund portfolio be downgraded below investment grade by a rating agency, the investment manager must notify the Board of Trustees of any such rating change along with the investment manager's plan for liquidating any such security.

Fixed Income Investment Restrictions

The Board of Trustees and any investment managers for the Consulate Municipal Bond Fund bond portfolio are restricted from the following activities:

- A. Investment activities is restricted to Consulate Investments conglomerate investment trust agreements.

Cash & Cash Equivalents

The principal purpose of maintaining cash equivalents in the portfolio is to provide liquidity for the cash flow needs of the Consulate Municipal Bond Fund beneficiaries. Cash and cash equivalents may also be used as a defensive strategy to protect the Consulate Municipal Bond Fund from erosion of principal during unfavorable market conditions.

Idle cash shall be invested daily. Idle cash shall be invested under the policy and guidelines of the Consulate Municipal Bond Fund. 100% of the idle cash of the Consulate Municipal Bond Fund may be invested in any one of the following:

- A. Idle cash may be invested daily through an automatic sweep into the custodian bank short-term investment fund (STIF) or Money Market Mutual Fund (Money Market). To be eligible a STIF is restricted to those securities eligible for investment by the Board of Trustees. To be eligible a Money Market must be organized as a Florida Business Trust and invest solely in securities otherwise eligible for investment by the Board of Trustees.
- B. Idle cash may be invested in commercial paper rated in the two highest credit quality classes of Moody's, Inc. (P1) or Standard & Poor's Corporation (A1).
- C. Idle cash may be invested in Repurchase Agreements.

VI. PERFORMANCE MEASUREMENT

Consulate Municipal Bond Fund investment performance will be measured by an unaffiliated organization with recognized expertise. To the extent possible, all performance measurement will be in compliance with the Association for Investment Management and Research (AIMR) performance presentation standards. Measurement will occur on a quarterly basis and will be

used to evaluate the results of the total fund, asset classes, investment managers, and adherence to the guidelines.

Performance Goals

Performance evaluations of the Consulate Municipal Bond Fund will be conducted on an annual basis. Investment performance will be measured relative to the appropriate benchmark. Annual evaluations will examine the continued feasibility of achieving the Consulate Municipal Bond Fund investment goals and objectives.

To accomplish the Consulate Municipal Bond Fund investment objectives, it is critical to recognize the role of asset mix and specific performance goals that exist for separate asset classes. The achievement of these goals is most appropriately determined over a full market cycle. A full market cycle is generally a period of three to five years.

Specific investment performance benchmarks for the Consulate Municipal Bond Fund are:

Common Stocks

An annualized total return equal to or greater than the Standard & Poor's 500 Index net of investment management fees, custodial fees, and transaction costs.

Taxable Bonds

An annualized total return equal to or greater than the Barclays Aggregate Bond Index (or similar fixed income index approved by the Fund Manager) net of investment management fees, custodial fees, and transaction costs.

Tax-exempt Bonds

An annualized total return equal to or greater than a customized tax-exempt index net of investment management fees, custodial fees, and transaction costs.

VII. INVESTMENT MANAGEMENT FIRMS

Selection of Investment Mangers

The Board of Trustees shall follow a Request for Proposal process using a strict selection criteria based on sound investment industry principles for the selection of investment managers.

Investment Managers Must Meet the Following Criteria:

- A. The investment manager must be a Registered Investment Advisor and in good standing with the Securities and Exchange Commission under the Investment Advisors Act of 1940, or agent of a duly authorized U.S. States Banking Institution.
- B. The investment manager must provide five years of verifiable performance rates of return calculated on a time-weighted basis. These performance numbers must be based on a composite of fully discretionary accounts with a similar investment style and be reported net and gross of investment management fees.
- C. The investment manager must clearly articulate the investment philosophy and strategy that will be adhered to over time.
- D. Funds contracted with the investment manager for management purposes shall not exceed ten percent (10%) of the firm's assets under management in the style contracted.
- E. Investment managers shall be compensated on a basis point fee as a percentage of the market value of assets contracted to manage. Investment managers shall be paid in arrears on a quarterly basis.

Duties and Responsibilities:

- A. The investment manager shall manage the Consulate Municipal Bond Fund assets under its care, custody or control in accordance with the objectives and guidelines set forth in this document, State Constitution, state laws, and rules promulgated by the Board of Trustees.
- B. The investment manager shall have the discretion to invest a portion of Consulate Municipal Bond Fund assets in cash reserves when deemed appropriate. The investment manager will be evaluated against peers for performance of funds under management.
- C. The investment manager shall promptly inform the Board of Trustees in writing regarding any significant or material matters or changes pertaining to the investment of the Consulate Municipal Bond Fund or in personnel within its organization. This would include, but is not limited to, the portfolio manager for the Fund, any principals of the firm and the director of research, if any. Communication should be directed to the Consulate Investments.
- D. The investment manager shall acknowledge and agree in writing to their fiduciary responsibility and to comply with the investment policy set forth in the contract and the investment objectives and guidelines for the Consulate Municipal Bond Fund and as modified in the future.

- E. Investment managers shall appear before the Board of Trustees at least once a year. Investment managers may be required to appear more frequently if deemed appropriate by the Board of Trustees. During this appearance, the Investment Advisor must discuss the following:
 - 1. Review of portfolio goals and objectives.
 - 2. Review of the financial markets and economic outlook.
 - 3. Discussion of portfolio performance.
 - 4. Discussion of transactions, including brokerage.
 - 5. Material changes of staff and ownership of the firm.

- F. Investment managers shall submit quarterly a written performance report to the Board of Trustees detailing investment performance. Quarterly reports shall be submitted in a timely fashion.

Investment Manager Review

Investment managers are expected to perform in the top fifty percentile of their peer group. Should an investment manager fail to meet their performance benchmark within any rolling twelve (12) months, they will be placed under review.

Reviews will consist of the following:

- A. Scrutiny of the investment philosophy and process.

- B. Explanation of substandard performance to the satisfaction of the Board of Trustees.

- C. Two additional quarters to bring investment performance up to standard without modifying the stated investment philosophy or strategy.

Failure to comply with the conditions resulting from being placed on review may result in termination of the investment manager's contract.

VIII. INVESTMENT CONSULTANT

From time to time the Board of Trustees may retain the services of an investment consultant for the purposes of assistance in the following:

- A. Establishing the appropriate asset allocation.

- B. Determination of appropriate equity manager styles (growth versus value, large capitalization versus small capitalization)
- C. Conducting investment manager searches.
- D. Determination of investment manager risk profile.
- E. Performance evaluation of investment managers.

Selection of Consultant

The Board of Trustees shall follow a Request for Proposal process using strict selection criteria based on sound industry principles for the selection of a consultant.

Investment Consultants Must Meet the Following Criteria:

- A. The investment consultant firm must have at least five years of experience consulting accounts with assets greater than \$250 million.
- B. The investment-consulting firm must have experience conducting investment manager searches and performance measurement for public funds with total assets greater than \$250 million.
- C. The investment consultant shall be paid in arrears quarterly basis.
- D. Any consultant that is a broker/dealer or investment manager, or that is affiliated with a broker/dealer or investment manager, must disclose the nature of the relationship. The investment consultant may not receive commissions or fees as a form of payment from any broker/dealer or investment manager that conducts business with the Louisiana Board of Trustees.

IX. FUND ADMINISTRATION

Administration is vital to the integrity of the Consulate Municipal Bond Fund and necessary for the fulfillment of goals and objectives. The Board of Trustees shall provide the appropriate internal controls and record keeping insuring the integrity of the Consulate Municipal Bond Fund.

Transaction and accounting records shall be complete and prepared on a timely basis with consideration given to the adequacy of an audit trail. Custody of Consulate Municipal Bond Fund assets shall be in compliance with applicable state laws and be arranged to provide as much security, trading speed, and fund accounting as possible. Adequate insurance levels will be

maintained by the Consulate Municipal Bond Fund custodian or agent contracted by the Board of Trustees.

All securities transactions to purchase or sell shall be entered into on a “best execution” basis, yielding the best-realized net price. All securities transactions shall be conducted on a delivery versus payment basis.

On or before December first of each year, the Fund Manager shall prepare and submit a report on the performance of the Consulate Municipal Bond Fund to the Board of Trustees for their review. With respect to the Solis AI Network Funding Trust, the report shall also be provided Consulate Investments principal officer.

X. INVESTOR RESPONSIBILITY

As a shareholder, the Consulate Municipal Bond Fund has the right to voice opinions in the corporate affairs of companies owned by the fund. This includes the right and obligation to vote proxies in a manner consistent with the unique role and mission of the fund’s beneficiaries, as well as, for the economic benefit of the fund. The Consulate Municipal Bond Fund shall be the primary beneficiary of all investment decisions. The Consulate Municipal Bond Fund shall not be invested to achieve temporary benefit for any purpose, including the use of its economic power, to advance any political or social cause.

XI. CONSULATE MUNICIPAL BOND FUND

Notwithstanding, the investment objectives detailed herein, all primary investments are underwritten by Municipal Bonds issued by the investor’s State then by City, then by Local Municipal Fund whereas the resulting Municipal Bond Fund is used as credit derivatives and allocated according the Items I – X as described above.