

To: NRHS Board of Directors

From: Ad Hoc Investment Policy Committee  
Joseph B. Williams, Chairperson  
Claude Doane  
Steve Siegerist  
Al Weber

Friends:

We are pleased to submit our draft proposal for an investment policy for the NRHS. This is a policy for the long term investment of funds for the NRHS. This policy is meant to be a unified policy for investment and generation of income to support the Society's programs and activities. We have at the present time funds that have been donated to the Society by bequests, which should be treated as an endowment which we can build and rely on its income only, preserving capital for future years. At the present time, the vast majority of the Society's funds are in cash or cash equivalent money funds.

We therefore propose the following investment policy for those bequests, future donations, both of cash, and any securities the Society may receive, and all funds held by the Society, with the exception of the day to day working funds which are currently held in a checking account in the Blackhawk Bank and Trust. The remaining funds are currently in a Merrill Lynch Account:

Our proposal for these funds is an eclectic mix of investment vehicles, which have been generated from several different sources. We have attempted to collate and use the most relevant parts of the policies that we reviewed.

An investment policy statement is a strategy in writing and a commitment to a disciplined investment plan for a stated purpose. The purpose of such a policy for our Society is to generate a long term cash return on invested funds.

We have elected to propose a volunteer committee of the Society, which has yet to be established, which we are confident will serve our needs ably, to manage the Society's funds and other investments. We are confident that there is sufficient volunteer talent within the Society, which will allow us to avoid the need to retain and pay an asset management company to do the same. We anticipate using outside firms to do the actual trading, but we believe that the work of overseeing any outside asset management company would be equal or would exceed management of this task with qualified and willing volunteers.

The committee will meet by phone or internet as needed, at a maximum of once a month or a minimum of once a quarter to service our accounts and investments. Minimal financial support is needed to support the committee, and transparency can easily be maintained.

The group we propose will be of 5 members, one of which will be the Society's Treasurer. We deliberately chose an odd number to facilitate decision making.

The other 4 members will each be elected to a 4 year term, with initial appointments to staggered terms of differing length so that one member will need to be elected at the general membership meeting each year for the next 4 years. This will give a long term outlook to the investment group with a long term service of members. If a member of the committee needs to be replaced a replacement can be elected at the next board meeting to fill out that term. We anticipate placing term limits on the members of the committee, providing for the initial appointment, and the ability to be reelected once to a four year term.

NATIONAL RAILWAY HISTORICAL SOCIETY, INC.  
INVESTMENT AND FUNDS POLICY  
Proposed, January 9, 2010

1) Executive Summary

a) Current Assets of portfolio in dollars: \$473,000.00

b) How much do we plan to invest each month: 50% of the investment returns, plus contributed funds either restricted by the donor, or not needed for current anticipated operating expenses?

c) How many years will we be investing: 50 years.

d) What is the expected return over inflation over a 10 year period: 6% per annum.

e) How much of a loss can we accept over:

a three month period: 10%

a one year period: 5%

a five year period: 2%

f) What are the target asset allocations:

Cash: 5%

Bonds: 10%

Large company stocks: 45%

Small company stocks: 30%

Foreign stocks: 5%

The Bonds and Stocks may be held by the Society, held in Street Name, or held by a Mutual Fund for the Society.

g) What are the benchmarks for the portfolio?

Long Term Growth and Income

2) Investment Objectives

a) What is my financial goal? Long Term Growth and Income

b) How long of a time frame for investing? 50 Years

c) How much will this goal cost every year? \$500.00 per year

3) Investment Philosophy

a) What is important to us?

Maintain Principal;  
Long term growth of principal;  
Returning funds to the Society for its programs and activities.

b) What is my philosophy about risk?

Medium to low risk.

c) What is my philosophy about core versus non-core investments?

None.

d) Philosophy about diversification?

Up to but not exceeding:

5% in any one company;

30% in transportation stocks and bonds;

10% in finance, stocks and bonds; Derivatives, and non- standard financial instruments will not be utilized;

20% in utilities;

20% in the food or food service industry;

20% in real estate or real estate management firms;

5% in government securities;

20 % in healthcare industry equities;

20 % in consumer products equities.

These general fields are as generally defined in the financial world.

e) What's the philosophy about trading?

Review portfolio each quarter and at one year intervals conduct a major check that the investments are in the correct areas, and are performing within the stated measures for performance. Rebalancing will be done annually as needed, but must be done every three years to insure investment goals are met.

f) What's the philosophy about costs?

With the realization that management of a portfolio takes outside companies to buy and sell investments we want to strive for a minimal cost to the Society. The committee will endeavor to limit all expenses. With that said, investments in mutual funds will be permitted, notwithstanding their inherent extra cost, due to the anticipated maximized return from such funds.

g) What's the philosophy about taxes?

As the Society is exempt from Income Taxes as a 26 U.S.C. §501(c)(3) not for profit, we get no benefit from tax free investments, such as municipal obligations. The Society needs to take that into account when making investments as no tax benefit will inure.

4) Investment Selection Criteria

a) What are the investment selection criteria for my debt investment vehicles?

Bonds should be from highly rated companies. They should be rated bonds, from firms that do not have a vested interest in the issuing organization or company.

b) What are the investment selection criteria for my common and preferred stocks?

We are looking for stable companies, those which have over history provided solid returns to investors. Dividend paying stocks are to be an important part of the equities selected.

5) Monitoring Procedures

a) How often will we monitor the portfolio?

Please refer to section 3(e).

b) How will we determine how well the individual investments are doing?

We will use a three year average of an investment to determine how an individual investment is performing up to our set standard of 6 % per annum.

c) How will we determine how well the overall portfolio is doing?

Use the Dow Jones Industrial Average, Dow Jones Transportation Average, Dow Jones Utilities Average, and other financial published indexes, such as the S&P 500, or NASDAQ.

d) How will determine if the portfolio is meeting the expected return?

Use the Dow Jones Industrial Average and other financial published indexes. such as the S&P 500, or NASDAQ. Determine the return and compare it to the stated 6 % per annum.

e) How will we determine whether losses fall within my accepted range?

To be determined by the standing committee and reported to management, the Board of Directors, and the members.

6) Reports to Board of Directors

It is anticipated that there will be an annual report of investment funds to the Board of Directors at the Fall meeting of each year. This report will have sufficient detail so that the Directors will have a clear picture of the nature and status of all funds entrusted to the NRHS.

It is also anticipated that at the time of the annual report, the portion of the investment return of the previous year, which is scheduled to be 50 % of the net annual return, would be paid over to the Treasurer at that time.

The net value of the funds on hand is to be reported to the Treasurer and the Comptroller, once per quarter, or as requested by the Treasurer or the Comptroller for the Society's financial reports and audits.

The reports mentioned herein will specifically not cover the NRHS funds in Black Hawk Bank and Trust, which are under the control of the Treasurer, and shall be reported by him or his designee.