

THE HERB SOCIETY OF AMERICA, INC.
INVESTMENT POLICY
Approved March 2010

This statement governs the management of the financial assets of The Herb Society of America, Inc. (HSA). The Society's Finance and Operations Committee (FOC) is responsible for setting and updating the investment policy. At a minimum, this statement will be reviewed every three years by the FOC. For details on HSA endowments, funds, and accounts, please refer to the "HSA Investments" document. For guidelines concerning donations, please refer to the "HSA Donations Policy" document.

I. FINANCIAL AND INVESTMENT OBJECTIVES

The objective of this policy statement is to assure that the portfolio will be managed in such a manner as to preserve Society assets while allowing sufficient liquidity and flexibility to maintain regular operations and support future growth.

II. PORTFOLIO COMPOSITION

HSA's investment policy allows for holdings within three asset classes: cash and equivalents, equities and fixed income securities. The purpose of cash and equivalents is to maintain liquidity, manage cash flow and provide ready access to funds needed for regular operations and emergencies. The purpose of the equity portion is to produce a total return that will provide for growth in the investment portfolio through income and capital appreciation. The purpose of the fixed income allocation is to reduce the overall volatility of the investment portfolio and to produce income in support of The Society's operations. It is recognized that investing in capital markets entails volatility and risk and that at any given time, the portfolio could lose value.

The Society's assets are held in a variety of funds and grouped into the following categories: unrestricted, board-designated unrestricted, temporarily restricted and permanently restricted. See "HSA Investments" for details on specific funds. The portfolio composition underlying each of these categories will be determined by the restrictions and/or purposes of the funds.

Permanently Restricted Endowments

The purpose of the endowments is to achieve long-term growth and generate income to support operations and programs. Due to the historical risk premium associated with equities relative to bonds, the goal of growing the asset base dictates a larger commitment to equities than fixed income securities. To achieve its objectives, the portfolio's commitment to the major classes shall be as follows:

Permanently Restricted Endowments
Asset Allocation

Long Term Target

Target Range

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Fixed Income & Cash Equivalents	40%	30 - 50%
Equities	60%	50 - 70%

Spending Rule for Permanently Restricted Endowments

The donor determines spending restrictions on these endowments. In general, access to monies is limited to interest and dividends; capital gains and losses are considered to be part of the corpus. See “HSA Investments” for details on specific endowments.

Board-Designated Unrestricted Funds

The purpose of these funds is to generate income to support HSA operations and programs. With the exception of the Presidents’ Fund, these funds shall be invested within the following guidelines:

Board-Designated Unrestricted Funds
Asset Allocation

	Long Term Target	Target Range
Fixed Income & Cash Equivalents	40%	30 - 50%
Equities	60%	50 - 70%

The Presidents’ Fund shall be invested entirely in cash and equivalents.

Spending Rule for Board-Designated Unrestricted Funds

For board-designated funds, interest and dividends are available to support the HSA operating budget or specific programs. In addition, principal may be used each year upon recommendation of the FOC and with approval of the full board (as indicated by their review and approval of the proposed overall HSA budget). The applicable principal is defined as an average of the twelve previous quarter-end market values of the portfolio. The amount calculated is available for use in the subsequent fiscal year.

In regards to the Research and Education Fund, monies available for grants will be determined in the same manner and using the same guidelines as described in the preceding paragraph. The treasurer, the education chair, and the chairs of the research grant and the grant for educators committees will have the authority to distribute the allocated funds between the two grant programs. Specific grant awards continue to be the sub-committees’ responsibility (reference: HSA operating manual, job description for the research grant committee and the grant for educator committee).

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Temporarily Restricted Accounts

The purpose of these accounts is to support specific programs and/or functions of The Society. As such, the preservation of principal is the paramount goal.

With the exception of the District Operating Accounts, temporarily restricted accounts shall be invested within the following guidelines:

Temporarily Restricted Accounts
Asset Allocation

	Long Term Target	Target Range
Cash & Equivalents	20%	15 – 25%
Fixed Income	80%	75 - 85%

The District Operating Accounts shall be invested entirely in cash and equivalents.

Spending Rule for Temporarily Restricted Accounts

The restrictions on these accounts can be purpose and/or time related. In general, spending rules allow access to the entire amount of the account to finance the specific programs for which the accounts were established. See “HSA Investments” for details on specific accounts.

Unrestricted Account

The purpose of this account is to finance operations. As such, liquidity is the paramount goal. To achieve that objective, the account shall be invested within the following guidelines:

Unrestricted Account
Asset Allocation

	Long Term Target	Target Range
Cash & Equivalents	20%	10 – 30%
Fixed Income	50%	30 – 50%
Equities	30%	20 – 40%

Spending Rule for Unrestricted Accounts

There are no restrictions on this account. In general, spending rules allow access to the entire amount of the account to finance operations within budget. Spending for special projects requires Board approval; spending for emergency purposes requires Executive Committee approval.

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III. INVESTMENT OBJECTIVES AND STRATEGY

The objective of the total portfolio is for each broad class of assets to meet or outperform its appropriate benchmark or index over trailing three- and five-year periods. The domestic equities are to be reviewed against the Wilshire 5000 Total Market Index, the international investments against the MSCI EAFE Index, and the fixed income against the Barclays Capital U.S. Aggregate. The FOC will review the performance of the investment advisor(s) relative to the objectives as stated in this document. To ensure that the risk characteristics of the portfolio do not shift significantly from their long-term objectives, the portfolio's asset allocation will be reviewed quarterly by the FOC and will be reallocated as needed to be within the target ranges.

Equity Portion

The investment objective of the equity allocation is to produce a total return that will provide for growth in the investment portfolio through capital appreciation. Performance will be monitored monthly. The performance of the investment manager will be evaluated based on its results over three- to five-year periods.

1. The equity allocation shall be diversified broadly by economic sector, industry, number of holdings, and other investment characteristics. The manager at his/her discretion should determine the percentage of the portfolio, up to a maximum of 15%, that may be invested in foreign company stock in the form of American Depositary Receipts or open-ended mutual funds invested primarily in foreign securities and custodied with SEC regulated, U.S. domiciled investment companies. Real estate investment trusts (REITs) and convertible securities may be used provided they do not exceed 5% of the total equity allocation.
2. Decisions as to individual security selection, security size and quality, number of industries and holdings, current income levels, turnover and the other tools employed are left to the manager's discretion, subject to the usual standards of fiduciary prudence. No more than 10% of the portfolio market value (5% at cost) may be invested in any one security position and no more than 30% of the market value of the portfolio may be invested in any one industry without the prior approval of the FOC.
3. The equity manager may at his/her discretion hold investment reserves of either cash equivalents or bonds with the understanding that performance shall be measured against the appropriate stock indices. Equity mutual funds may be used in the equity allocation provided holdings of fixed income and/or cash securities within the mutual fund do not cause the portfolio to move outside the stated asset allocation target range. Derivative instruments, such as investment products that replicate or represent market baskets, (e.g. NASDAQ 100, S&P 500, Dow Industrials or other index-linked exchange-traded funds) may be used in the equity allocation; however the introduction of leverage through the use of borrowed funds or derivatives is

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prohibited. Also prohibited are derivatives in the form of equity options, futures contracts and equity hedging instruments.

4. A broad range of mid- and large-capitalization securities is eligible for purchase, provided that the individual securities are compatible with the manager's investment criteria. In general, small-capitalization securities shall comprise no more than 20% of the portfolio at market. Small-cap securities are classified as those companies in the Russell 2000 Index, or of equivalent size.
5. Securities of non-U.S. issuers including American Depositary Receipts (foreign company stock traded on U.S. exchanges) should be considered as investments for non-U.S. issuer's allocation of the portfolio.

Fixed Income Portion

The investment objective of the fixed income allocation is to reduce the overall volatility of the investment portfolio and to produce income in support of HSA's spending requirements. The expectation of the fixed income allocation is to provide a reasonable rate of return, but with limited fluctuations in principal value. Performance will be monitored on a regular basis and evaluated over running three- to five-year periods.

1. The fixed income allocation may contain bonds and fixed income mutual funds, but equities and convertibles are excluded. Fixed income securities must be rated "BBB" or better by Standard & Poor's to be eligible investments.
2. Decisions as to individual security selection, security size and quality, number of holdings, current income levels, turnover and other tools employed by the manager are left to the manager's discretion, subject to the usual standards of fiduciary prudence.
3. The average duration of the fixed income allocation should not exceed 12 years, with no maturity to exceed 15 years.

Cash and Equivalents

Cash and cash equivalents are maintained to provide liquidity for operating purposes and at the manager's discretion as equity and bond substitutes. Cash equivalent investments must be rated "A1". The executive director will notify the manager as soon as possible of the need for cash withdrawals.

MONITORING OF OBJECTIVES AND RESULTS

1. All objectives and policies are in effect until modified by the FOC. The committee will review this Statement of Investment Policies and Objectives each year prior to the fall meeting of the board of directors.

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2. The investment portfolio will be monitored for consistency with the manager's investment philosophy, return relative to objectives and investment risk as measured by asset concentrations, exposure to extreme economic conditions and market volatility. The portfolio shall be reviewed by the FOC on a quarterly basis, but results will be evaluated over one, three and five year periods.
3. The manager shall report information to the treasurer and the executive director, as required by the board. The executive director will forward the reports to members of the FOC. Reporting requirements are:

Online access to accounts must be available and provide:

- Current portfolio value
- Change of holdings value from previous month
- All monthly transactions

Quarterly communications should include at a minimum:

- Printed statements of current value and all transactions that took place during the quarter
- Economic and/or market overview
- Current investment strategy and portfolio holdings

Annual presentations to the FOC (and the board if it is desired) of The Society may be requested. Information made available should include:

- Investment performance for the calendar year-to-date and since inception of the account
- A review of long-term (three to five years) performance
- Economic and/or market overview
- Statement of Compliance with the Policy guidelines

4. The manager is obligated to suggest and support revisions to these guidelines if it concludes certain provisions may adversely affect the portfolio's future performance. In addition, if any provision of these guidelines is unclear to the manager, direction should be sought from the FOC.
5. The manager is held to a standard that is consistent with the care, skill, prudence and diligence then prevailing that a prudent expert, acting in a like capacity and familiar with such matters, would use in the conduct of investing a portfolio of fixed income securities with like objectives. The Prudent Expert Standard is based upon the assumption that the manager has greater skill than that of a person of ordinary skill, and that the manager is under a duty to exercise such skill.

Approved by The Herb Society of America, Inc.

Signed:

Date:

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President, Board of Directors

Chair, Finance and Operations Committee

Appendix 1 HSA Investment Funds

Endowments (Permanently Restricted)

The Frances Ellis Price Endowment
The General Endowment
The National Herb Garden Endowment
The Founders' Library Endowment

Board-Designated Unrestricted Funds

The Operations Fund
The National Herb Garden Fund
The Research and Education Fund
The Library Fund
The Presidents' Fund

Temporarily Restricted Accounts

The National Herb Garden Account
The Members at Large Account
District Operating Accounts
The Ellen Remmel Memorial Account (HSA website)
The Vision Account (capital campaign)
The Educator Account

In addition, HSA maintains an unrestricted operating account.

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Appendix 2 HSA Fund Asset Allocation

Asset Allocation	Target Range	HSA Funds
Cash	100%	<ul style="list-style-type: none"> ▪ District Accounts ▪ Presidents' Fund

Asset Allocation	Target Range	HSA Funds
Fixed Income & Cash Equivalents	30 – 50%	<ul style="list-style-type: none"> ▪ Frances Ellis Price Endowment ▪ General Endowment ▪ National Herb Garden Endowment ▪ Founders' Library Endowment ▪ Operations Fund ▪ National Herb Garden Fund ▪ Research & Education Fund ▪ Library Fund
Equities	50 – 70%	

Asset Allocation	Target Range	HSA Funds
Cash & Equivalents	15 – 25%	<ul style="list-style-type: none"> ▪ National Herb Garden Account ▪ Members at Large Account ▪ Ellen Rimmel Memorial Account ▪ Vision Account ▪ Educator Account
Fixed Income	75 – 85%	

Asset Allocation	Target Range	HSA Funds
Cash & Equivalents	10 – 30%	<ul style="list-style-type: none"> ▪ Unrestricted Operating Account
Fixed Income	30 – 50%	
Equities	20 – 40%	