

## **DIVISION 52 INVESTMENT POLICY – Overview**

### **June 2024**

#### **A. Purpose**

The purpose of this policy is to present a clear understanding of the guidelines and objectives for DIVISION 52 investments. DIVISION 52 seeks long-term growth of capital consistent with prudent risk and with the liquidity necessary to provide funds for the organization's activities. It also provides DIVISION 52's Finance Committee and investment advisor with an understanding of the guidelines, limitations, and direction that the Finance Committee and Board of Directors feel are most appropriate.

#### **B. Allocation of Funds**

Overall, DIVISION 52 funds will be divided into three categories in order to meet anticipated annual cash flow needs for DIVISION 52 operations and to provide long-term investment of remaining funds:

- 1. Current Operating Funds:** Defined as funds needed to meet anticipated program and most current annually-budgeted expenses for the next 1 to 2 months. The objectives of these funds are daily liquidity and preservation of principal. These funds are shown in quarterly APA Accounting reports as Checking.
- 2. Intermediate Funds:** Defined as cash reserve funds in excess of current operating needs as defined above. The function of these funds is to be available to replenish current operating funds as needed and to be available to meet anticipated cash flow needs defined as 2 to 6 months of most current annually-budgeted expenses. The objectives of these funds are preservation of principal, monthly liquidity, and market rate returns. [Currently do not have any intermediate funds but could, for example, put cash into a CD].
- 3. Short Term Investment Funds:** Defined as funds in excess of current operating or short-term funds as defined above. The function of these funds is to be available to replenish current Operating Funds or Short-Term Funds as needed and to be available to meet anticipated major expenses in a 1 to 3 year time period. The objectives of these funds are preservation of principal, monthly liquidity, and market rate returns. These funds are shown in quarterly APA Accounting reports as Short-Term Investments currently held at Merrill Lynch.
- 4. Long-term Investment Funds:** Defined as funds in excess of current Operating, Short-Term (cash reserves), and Short-Term Investment Funds as defined above. The function of these funds is long-term investment of excess operating funds and to be available to replenish intermediate operating funds as needed. The objectives of these long-term funds in total are to provide the opportunity for growth, protection of principal against inflationary risks, and a reasonable level of income. These funds are currently held at Oakheart Financial Group.

#### **C. Management Responsibility**

- 1. Treasurer and President of the Board:** The DIVISION 52 Treasurer will provide quarterly investment status reports to the Finance Committee for the quarterly Board meetings. The President and Treasurer will review the investment policy at least annually and will present to the Finance Committee any recommended changes before the summer Board of Directors meeting.

2. **Finance Committee:** The Finance Committee will monitor investments to ensure that they fulfill the investment objectives of this policy. The Finance Committee will also consider any proposed revisions to the investment policy and recommend appropriate action to the Board of Directors as needed.
3. **Board of Directors:** The Board of Directors will establish and approve all investment policies for DIVISION 52.
4. **Long-Term Investment Advisor (currently Oakheart Financial Group):**
  - a) The Board of Directors is authorized to select an investment manager to provide services necessary for it to perform its obligations as set forth in this policy statement.
  - b) The Investment Advisor, the designated agent of the Board of Directors, shall be guided by certain general investment guidelines and objectives that the Board of Directors shall establish and review from time to time.
  - c) The Investment Advisor's progress in meeting the objectives contained in this policy will be reviewed by the Finance Committee at least every six months, and by the Board of Directors at least every year. The Investment Advisor will personally report holdings and performance to the Finance Committee on a quarterly basis.

**D. Investment Policy Review**

This policy will be reviewed at least every three years by the Finance Committee or sooner if deemed necessary by the Finance Committee. Any changes thereto will be recommended by the Finance Committee to the Board of Directors for their approval.

## **II-A. INVESTMENT POLICY – Current Operating Funds**

**A. Purpose**

The purpose of the operating fund is to provide sufficient cash to meet the budgeted financial obligations of DIVISION 52 in a timely manner. The primary goal of investing operating funds is to ensure that working capital is liquid and available to meet normal budgeted operations. However, maximizing investment income is a secondary consideration to maintaining safety of principal.

**B. Investment Objectives**

1. Provide liquidity
2. Preserve capital

**C. Allowable Investments**

1. Federally insured commercial checking accounts.
2. Money market funds investing in U.S. Treasury and U.S. agency debt instruments.

|             | <u>Target</u> | <u>Minimum</u> | <u>Maximum</u> |
|-------------|---------------|----------------|----------------|
| <u>Cash</u> | 100%          | 100%           | 100%           |

**II-B. INVESTMENT POLICY – Intermediate Funds**

**A. Cash Reserves:**

1. The purpose of this policy is to establish and maintain **Cash Reserves** at a level relative to the annual operating budget of the organization. The Operating Reserve is intended to serve a dynamic role and is available to be utilized as needed rather than being static, devoted only to generating investment income. The establishment and maintenance of **Cash Reserves** will enable DIVISION 52 to meet immediate and future mission-specific goals.
2. Immediate goals:
  - a) Manage cash flow interruptions.
  - b) Minimize or eliminate the need for working capital borrowing.
  - c) Promote member, public, and donor confidence in the long-term sustainability of the organization.
3. Future goals:
  - a) Be able to create special purpose project funds when necessary.
  - b) Meet commitments, obligations, or other contingencies.
  - c) Fund future new projects such as, for example, celebrating DIVISION 52's 30<sup>th</sup> anniversary or expanding awards and grants.
  - d) The Operating Reserve goal will be equal to one year of the most current annual operating budget.

**B. Sources of Cash Reserves:**

1. Assets for the **Funded Board-Designated Operating Reserve** accounts will come from excess checking account funds, membership fees, webinar income, unrestricted Legacies/Bequests/Memorials, earnings on investments, special grants, and other sources of revenue and support within the DIVISION 52 annual operating budget that the Finance Committee may deem to be appropriate.

2. Uses of Cash Reserves:

- a) Internal line-of-credit for use to financially support cash flow to operate the organization.
- b) Funds to stabilize a level of allocations or a level of increased allocation when events affect the source and application of funds.
- c) Funds to meet unfunded and unexpected organization needs.
- d) Funds for emergency and emerging needs of the Society.
- e) Funds to make up a deficiency in the future membership inductions and/or Fundraising Campaigns, either in results or collection.
- f) Maintain funds sufficient to both weather unexpected setbacks and plan ahead for future new or special projects.

3. Governance/Procedures for Cash Reserves:

The procedure for approving use of the Operating Reserve Funds will be as follows:

- a) Any Board member may submit a request to the Finance Committee.
- b) Approvals required depend on the following parameters:
- c) Spending Policy budget support of 5% to 7% requires approval by the full Board on recommendation of the Finance Committee.
- d) Additional requests are limited to 2% or less of current operating reserves – Requires a recommendation from the Finance Committee for approval by the full Board of Directors.

## II-C. INVESTMENT POLICY – Short-Term Investment Funds

### A. Purpose

The primary goal of investing Short-Term Investment Funds is to ensure that working capital is invested as fully as possible in high-quality, liquid securities so as to maximize investment income. However, maximizing investment income is a secondary consideration to maintaining safety of principal.

### B. Investment Objectives

- 1. Generate income
- 2. Preserve capital
- 3. Provide liquidity
- 4. Grow capital

### C. Allowable Investments

- 1. As decided upon and managed by APA via Merrill Lynch, or OakHeart Financial Group
- 2. Federally insured certificates of deposit.
- 3. Face amount certificates.
- 4. Money market funds investing in US Treasury and US agency debt instruments.
- 5. Commercial paper rated A-1 or better.
- 5. Repurchase agreements with underlying rating of AA or better.
- 6. U.S. Treasury and agency debt instruments.

**D. Maturity**

The time horizon for investments in the Short-Term Investment fund is anticipated to be one to five years

**E. Performance Reporting**

When managed outside of APA, the intermediate fund income will be evaluated quarterly by the Finance Committee. at [https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily\\_treasury\\_bill\\_rates&field\\_tdr\\_date\\_value=2023](https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_bill_rates&field_tdr_date_value=2023)

|                     | <u>Target</u> | <u>Minimum</u> | <u>Maximum</u> |
|---------------------|---------------|----------------|----------------|
| <u>Fixed Income</u> | 100%          | 50%            | 100%           |
| <u>Cash</u>         | 0%            | 0%             | 50%            |

**II-D. INVESTMENT POLICY – Long-Term Investment Funds**

**Commented [MZ1]:** As of March 2023, Long-Term Investments refers to funds with Oakheart/Ameriprise

**A. Purpose**

The long-term fund exists for general investment purposes. Preservation of capital is a primary investment goal for these funds, with growth of capital as a near-equal secondary objective.

**B. Investment Objectives**

DIVISION 52 seeks long-term growth of capital consistent with prudent risk and with the liquidity necessary to provide funds for the organization's activities.

**C. Allowable Investments**

1. Federally insured certificates of deposit.
2. Face amount certificates
3. Money market funds investing in US Treasury and US agency debt instruments.
4. Commercial paper rated A-1 or better.
5. Repurchase agreements with underlying rating of A or better.
6. US Treasury and US agency debt instruments.
7. Corporate debt rated AA or better.
8. ETFs
9. Mutual funds.
10. Stocks
11. Separately Managed Accounts.
12. Structured Note and CDs.

**D. Asset Allocation**

The Finance Committee and Board of Directors will decide the specific asset allocation guidelines for this portfolio. Allocation guidelines will be reviewed at least annually by the Finance Committee, and may be changed from time to time by the Board of Directors. The current desired allocation is 70% in stocks and 30% in fixed income, with a permissible variation of  $\pm 10\%$ . Within these guidelines, the Investment Manager has the authority to invest less than the maximum allocation (down to zero) under adverse market conditions where asset protection is important.

|                     | <u>Target</u> | <u>Maximum</u> | <u>Minimum</u> |
|---------------------|---------------|----------------|----------------|
| <u>Equities</u>     | 70%           | 80%            | 50%            |
| <u>Fixed Income</u> | 30%           | 50%            | 20%            |
| <u>Cash</u>         | 0%            | 20%            | 0%             |

**E. Maturity**

The time horizon for investments in the long-term fund is anticipated to be at least three to five years, or an average market cycle.

**F. Risk**

DIVISION 52 recognizes that it is not possible to earn consistent returns above inflation without additional investment risk. Achieving this return objective requires that the DIVISION 52 is willing to assume a moderate level of price volatility and resulting asset value fluctuations. In order to contain this volatility, assets will be diversified amongst different fund managers and different styles of fund managers.

**G. Return**

The long-term fund will be evaluated quarterly by the Finance Committee. Returns will be compared to the:

1. Consumer Price Index. Goal is to outperform over a three to five-year period, or an average market cycle.
2. 70-30 blends of S&P 500, EAFE, and Barclays Govt./Corporate Intermediate Index. Goal is to equal this measure over a three to five-year period, or an average market cycle.

### III. SPENDING FROM INVESTMENTS POLICY

#### A. Budget Spending Policy from Investment Pools:

An annual spending policy from total assets (i.e., operating, intermediate, and long-term funds combined) provides support for the annual budget using a guideline range of 5% to 7% with a mid-range target of 6% from all assets based on a three-year rolling average set as of September 30<sup>th</sup> (close of the third calendar quarter and ahead of the Board meeting in February and the start of the fiscal year on January 1). Each year this support will be included in the annual budget for the next fiscal year beginning January 1<sup>st</sup> of the current year. In any given year, the Board may choose to spend a smaller percentage than allowed, including not spending from investments at all, based on unusual circumstances affecting the overall financial health of the organization and with approval of the Board.

#### B. Spending From Investments Policy Review

This policy will be reviewed at least every three years by the Finance Committee or sooner if deemed necessary by the Finance Committee. Any changes thereto will be recommended by the Finance Committee to the Board of Directors for their approval.

### IV. BOARD-DESIGNATED OPERATING RESERVE POLICY

#### A. Purpose

The purpose of this policy is to establish and maintain a **Funded Board-Designated Operating Reserve** at a level relative to the annual operating budget of the organization. The Operating Reserve is intended to serve a dynamic role and is available to be utilized as needed rather than being static, devoted only to generating investment income. The establishment and maintenance of a **Funded Board-Designated Operating Reserve** will enable DIVISION 52 to meet immediate and future mission-specific goals.

Immediate goals:

1. Manage cash flow interruptions.
2. Minimize or eliminate the need for working capital borrowing.
3. Promote member, public, and donor confidence in the long-term sustainability of the organization.

Future goals:

1. Be able to create special purpose project funds when necessary.
2. Meet commitments, obligations, or other contingencies.
3. Fund future new projects such as, for example, celebrating DIVISION 52's 30<sup>th</sup> anniversary or expanding awards and grants.

#### B. Strategies and Procedures

1. **Board-Designated Operating Reserves** shall be accounted for separate and apart from Undesignated Operating Funds in the net asset section of the balance sheet.
2. The Finance Committee will have the responsibility for developing and recommending policies and guidelines for the investment of the Funded Board-Designated Operating Reserve assets along with all long-term investment assets and the Board will approve such policies and guidelines.
3. The Operating Reserve goal will be equal to one year of the most current annual operating budget.

### C. Sources

Assets for the **Funded Board-Designated Operating Reserve** accounts will come from excess checking account funds, membership fees, webinar income, unrestricted Legacies/Bequests/ Memorials, earnings on investments, special grants, and other sources of revenue and support within the DIVISION 52 annual operating budget that the Finance Committee may deem to be appropriate.

### D. Uses

1. Internal line-of-credit for use to financially support cash flow to operate the organization.
  - a) Funds to stabilize a level of allocations or a level of increased allocation when events affect the source and application of funds.
  - b) Funds to meet unfunded and unexpected organization needs.
  - c) Funds for emergency and emerging needs of the Society.
  - d) Funds to make up a deficiency in the future membership inductions and/or Fundraising Campaigns, either in results or collection.
  - e) Maintain funds sufficient to both weather unexpected setbacks and plan ahead for future new or special projects.

### E. Governance/Procedures

The procedure for approving use of the Operating Reserve Funds will be as follows:

1. Any Board member, including the Executive Director, may submit a request to the Finance Committee.
2. Approvals required depend on the following parameters:
3. Spending Policy budget support of 5% to 7% (currently 6% for FY 2017 and FY 2018 budgets) requires approval by the full Board on recommendation of the Finance Committee.
4. Requests to fund annual budget deficits between 0% and 10% of current operating reserves – Requires approval by the full Board on recommendation of the Finance Committee.
5. Additional requests are limited to 2% or less of current operating reserves – Requires a recommendation from the Finance Committee for approval by the full Board of Directors with subsequent action by the Board of Directors to approve or not approve.

### F. Maintenance

The Director of Finance will prepare a status report of the actual **Funded Board-Designated Operating Reserve** at the end of each fiscal year based upon the final independent audited financial results. The Director of Finance will post an interim status report if the summer Board meeting occurs before the end of the fiscal year.

#### Operating Reserve Ratio Calculation

The calculation formula will be based upon amounts defined in Section III as follows:

$$\frac{(\text{Total Unrestricted Net Assets}) - (\text{Net Fixed Assets as of the Most Current Fiscal Year-End})}{\text{Most Current Annual Operating Budget}}$$

= Number of Years of Operating Reserves

After the close of the fiscal year, the Director of Finance will post the Operating Reserve Status Report online following acceptance and completion of the annual financial statement audit. The Finance Committee will monitor the Operating Reserve Status Report and will recommend any related actions as deemed necessary.

**G. Definitions**

1. **Board-Designated Operating Reserves** – Amounts reported in the Unrestricted Net Assets section of the balance sheet and identified as **Board-Designated Operating Reserves** less long-term net fixed assets (Actual Operating Reserves).
2. **Undesignated Operating Funds** – Equals total Actual Operating Reserves less Operating Reserve Goal
3. **Funded Board-Designated Operating Reserve** – A fund consisting of liquid assets and investments accounted in the net asset section of the balance sheet. Liquid assets are those that may be converted to cash quickly and easily and do not include long-term net fixed assets. It is not required that **Board-Designated Operating Reserves** be physically segregated in a separate bank or investment account although DIVISION 52 may decide to do so (Operating Reserve Goal).
4. **Operating Budget** – DIVISION 52's most current total annual budgeted expenses.
5. **Operating Reserve Goal/Target** – The Operating Reserve goal will be equal to one year of the most current DIVISION 52 annual operating budget.
6. **Spending Policy** - An annual spending policy from investment pools is to be established to provide support for the annual budget using a guideline range of 5% to 7% with a mid-range target of 6% from investment pools based on a three-year rolling average set as of September 30<sup>th</sup> (close of the third calendar quarter). Each year this support will be included in the annual budget for the next fiscal year beginning January 1.
7. **Investment Policy** – DIVISION 52 seeks long-term growth of capital consistent with prudent risk and with the liquidity necessary to provide funds for the organization's activities. DIVISION 52 funds will be divided into three categories in order to meet anticipated annual cash flow needs for DIVISION 52 operations and to provide long-term investment of remaining funds.