

# **PSA Endowment Funds Investment Policy**

## **Responsibilities**

The Trustees assume the responsibility for establishing the investment objectives and policies that are to guide the investment of fund assets. The Statement of Investment Policy describes the degree of risk as well as the long-term rate of return that the Trustees deem appropriate.

The Endowment Trustees have the responsibility to monitor the investment manager(s) and the overall investment program of the Endowment Funds of the Society on an ongoing basis, and to add, replace or eliminate the manager(s) when it is deemed appropriate to do so, and to report its actions to the PSA Board.

In seeking to attain the investment objectives set forth in the policy, the Trustees shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act and the Uniform Prudent Investor Act as adopted by the State of Illinois. All investment actions and decisions must be based solely to reduce investment risk and optimize returns in the interest of the Endowment. Fiduciaries (Trustee members) must provide full and fair disclosure to the Trustees of all material facts regarding any potential conflicts of interests.

## **Endowment Trustees**

The Endowment Fund (EF) Trustees will consist of three or four voting Trustees of the Endowment Funds and the PSA Treasurer, who shall be non-voting. The Trustees shall be PSA members who are not PSA Directors or Officers and shall be appointed bi-annually by the President and confirmed by the Executive Committee of the PSA Board. One of the voting Trustees shall be designated as the Lead Trustee. The Lead Trustee will be elected by the Trustees. The President and Executive Vice President of the Society may sit on meetings of the EFT in an advisory role at their discretion.

The Trustees of the Endowment Funds are required to be independent of the Board and officers of the Society. The Lead Trustee and the other voting Trustees of the EFT shall be authorized to provide instructions to the investment advisors for all Endowment accounts of the Society. The EF Lead Trustee and/or other authorized voting Trustee shall advise the PSA Treasurer and the remaining Trustees as soon as possible after the fact on all instructions or other action taken and the reasoning behind it.

The Endowment Fund Trustees shall meet at least twice each year. One meeting shall be in conjunction with the annual Conference of the Society. The Trustees shall also meet with

each investment manager at least annually to discuss account performance. These meetings may be conducted by telephone or video conference if the manager cannot be present at the annual Conference meeting. The Trustees of the EF may, in their sole discretion, convene a “Trustees Meeting” at which only the Trustees shall be present to discuss matters relating to the EF investments and accounts. All other meetings or discussions may be by e-mail, telephone or other such means as the Committee members shall find convenient. The Lead Trustee shall make an annual report to the Board of Directors of the Society in conjunction with the annual meeting of the Board on the state of the Society’s Endowment accounts.

### **Investment Policy**

The investments of the Society Endowment Funds shall be managed with the following priorities in their relative order of importance: First to preserve principal, Second to provide the Society with a reliable flow of income, and Third to grow the Society’s financial assets through prudent investments where appropriate. The Endowment Fund Trustees (EFT) shall oversee the investment activity of the Endowment Funds and any investment advisors in keeping with the Investment Guidelines outlined as part of this policy as revised from time to time.

The investment manager(s) appointed to execute this policy will invest the Society’s Endowment Funds in accordance with the policy and their judgments concerning relative investment values. In particular, the investment manager(s) may be accorded full discretion, within policy limits, with respect to security selection, quality, amount of income and turnover subject to the standards of fiduciary responsibility. The investment manager(s) are encouraged to provide suggestions regarding possible modifications to the objectives and guidelines.

Each investment manager employed to execute this policy is expected to maintain an organization of satisfactory nature with regard to personnel, philosophy, and character. The manager or managers are required to inform the Lead Trustee within 30 days regarding significant matters relating to the investments of the Society’s assets. This includes, at a minimum, the following:

- Substantive changes in the investment manager’s investment strategy and the potential impact on portfolio structure, and
- Substantive changes in ownership of the investment manager, its organizational structure, or the professional staffing assigned to the Society’s accounts.

### **Investment Guidelines**

The Endowment Funds of the Society shall be managed within the following guidelines. In the event that market conditions or other activity cause the guidelines to be breached, the EF Trustees shall take such action as it and the Society's investment advisors deem prudent to address the condition and return the investments of the Society to compliance within twelve months if possible but in no case later than the end of the following fiscal year.

## Asset allocation policy

The following asset allocation targets and ranges are intended to apply to fund assets not expected to be withdrawn within twelve months. They are based on the cost of the assets within each asset class. Current markets values may be used for quick assessments of compliance with the desired target ranges.

In the event that market conditions or other activity cause the guidelines to be breached, the Society's Endowment Fund investment manager(s) shall take such action as deemed prudent to address the condition and return the investments of the Society to compliance within twelve (12) months if possible but in no case later than the end of the following fiscal year.

**Asset allocation for Endowment accounts managed by a single Investment Manager:  
(Notes: Each individual account does not need to reflect an exposure to each sector.  
Where mutual funds are used as the investment vehicle of choice the concentration shall  
be determined by the assets underlying the mutual fund.)**

The asset allocation policies developed herein will be updated based on the EF Trustees evaluation of the Endowment Fund's ability to tolerate investment risk within the various investment accounts in light of its goals and objectives. In arriving at its asset allocation policies, the EF Trustees will consider the following factors:

- The PSA Board's fund raising and spending policy expectations for each fund over the next three and five years.
- Historical and prospective risk and return characteristics associated with various asset classes; and
- Diversification benefits achieved by investing in different asset classes.

The asset allocation policy will be reviewed annually and will be modified, if appropriate, in light of changes in the goals of the Board.

### Concentrations

Category	Sub-Category	Category Target Concentrations as a % of Total Portfolio	Sub-Category Target Concentrations Within Category
Fixed Income		30% - 70%	
	Treasuries		5% - 100%

	Government Guaranteed		5% - 100%
	Non-Guaranteed Agency		0% - 70%
	Corporate		10% - 70%
	Taxable Municipal		0% - 50%
Fixed Income			
Credit Quality	AAA		10% - 100%
	AA		10% - 70%
	A		5% - 60%
	BBB / Baa		0% - 60% Note 1
	Non-Investment		Note 2
Equity		50% - 100%	
	Large Cap		30% - 100%
	Mid Cap		5% - 20%
	Small Cap		0% - 15%
	International ADR		0% - 15%
	Emerging Market		0% - 15%
	REITs		0% - 15%
Preferred		0% - 20%	Note 3
Cash Equivalents		5% - 20%	

Note 1 - Obligations of Corporations issued within the securities markets of the United States provided that the obligation has a rating from a nationally recognized rating service organization (NRSO) of BBB (S&P) / Baa (Moody's) and having a stated maturity of less

than 35 years from the date of acquisition up to 60% of the Corporate fixed income limit. It is anticipated that securities rated BBB / Baa will only be acquired in the Corporate sector and that no purchases would be made when the aggregate concentration of such securities and those rated below BBB / Baa due to downgrades exceeds 50% of the aggregate Corporate fixed income limit (or 15% of the portfolio). For purposes of this provision securities that have a split rating by the ratings agencies will be evaluated based on the higher rating. For purposes of this section an issue is considered BBB / Baa at any level of that grading and does not fall to non-investment grade until the rating is BB+ / Ba1 or worse.

Note 2 - Fixed income obligations rated below BBB or unrated will not be acquired. Securities that are downgraded below BBB will be monitored and the exposure reduced or eliminated as market conditions permit. It is anticipated that securities rated BBB will only be acquired in the Corporate sector and that no purchases would be made when the aggregate concentration of such securities and those rated below BBB due to downgrades exceeds 20% of the target Corporate fixed income exposure. For purposes of this provision securities that have a split rating by the ratings agencies will be evaluated based on the higher rating.

Note 3- The combined exposure to both common and preferred equities shall not exceed 70%. Preferred issues are considered equities and are not subject to the credit quality tests or maturity restrictions that fixed income issues are.

Note 4 - The combined exposure to a single issuer, other than the United States Government, its agencies or GSEs, of both fixed income and equities shall not exceed 5% of the total portfolio. Exposure shall be measured at the time of acquisition. Should the combined exposure to any issuer be found to exceed this guideline, the exposure will be reduced within twelve months from the date the condition is first noted if possible but in no event later than the end of the following fiscal year.

### **Structure**

It is generally expected that investments of the Endowment Funds shall be undertaken with a “buy and hold” perspective and that fixed income investments shall normally be held until maturity unless called by the issuer. This expectation shall not preclude the EF Trustees or investment advisors from disposing of an investment if they deem such action prudent under the circumstances at the time. In the event an advisor feels that timing of the transaction is significant they shall be authorized to take any action required in their discretion without prior consultation. The advisor will notify the Lead Trustee or designated EF Trustee members as soon as possible after taking such an action.

Fixed income investments of the Endowment Funds shall be managed as to maturity through the use of a “ladder” structure to ensure maturities are spread over a reasonable time line. In general, this ladder shall span ten (10) years but not more than twenty (20) years. For

accounts and investments deemed short-term in nature (e.g., operating liquidity, etc.), the ladder term will be governed by the expected liquidity needs of the Society or the account. The investment advisor for an account shall be authorized to adjust (buy or sell) the ladder holdings and duration at their discretion based on market expectations, inflation forecasts, and any news specific to a holding even should such action temporarily place the aggregate fixed income concentration outside of the general concentration guidelines. The advisor will notify the Lead Trustee or designated EF Trustee members as soon as possible after taking such an action.

### **Investment Restrictions**

The assets of the Society Endowment Funds will not be invested in foreign securities other than ADRs (American Depository Receipts), ETFs (Exchange Traded Funds), or mutual funds or their equivalent registered and traded on a principal exchange in the United States.

The assets of the Society Endowment Funds will not be invested in private placements or other unregistered securities irrespective of the issuer, in securities that are restricted as to trading or are not traded on the principal exchanges of the United States (even though they may be acquired or disposed of on a regional exchange), in derivative securities or those that represent the stripped principal or interest of another security, or in securities without a specified coupon (floating rate) unless such rate is identifiable based on an index published in the Wall Street Journal and resets at least semi-annually.

Permitted Cash and Cash Equivalent holdings include, time deposits, CD's, commercial paper, and Treasury Bills provided that:

- any time deposit or CD be issued by a bank having at least \$400 million in assets
- any commercial paper has a rating of A1 / P1
- any instruments other than a Treasury Bill mature within 365 days or if the instrument is considered to be perpetual, the applicable rate shall reset at least every six months.
- certificates of Deposit shall be managed so as to not exceed the maximum "insured" limit provided by the FDIC (\$250,000), unless other insurance is provided by the institution to supplement such limit.

Permitted equity investments will include common and preferred stocks, shares of mutual funds, ADRs or their equivalent, and shares of Exchange Traded Funds (ETFs). All holdings must be freely tradable on one or more of the major exchanges of the United States. In the case of mutual funds this will be interpreted to mean that the fund is registered for sale in the United States and that the shares may be redeemed at the discretion of the holder within the timeframes deemed normal for shares of that fund type. Mutual fund shares shall not be acquired directly as separate holdings, but must be held within one of the active brokerage accounts of the Endowment Funds.

In general, the concentrations contained within these guidelines are deemed to be based on the cost of the security at the time of its acquisition. In order to facilitate rebalancing of equity holdings under the programs such as the Diversified Stock Income Plan (DSIP) or “VALUE” list promoted by Wells Fargo Investment Advisors, or other equity management plans that may be deemed desirable from time to time, the Investment Advisor shall be empowered to buy or sell equity holdings within the portfolio as needed to rebalance the holdings to the program’s plan model on a quarterly basis, or such other time frame as may be mutually agreed on by the Lead Trustee or designated EF Trustee members and the Investment Advisor. Further the Investment Advisor shall also be authorized to buy or sell common equity holdings when they are added to or removed from the guidelines of the equity management plan used by the Investment Advisor. Both such actions may be taken by the Investment advisor without prior consultation with the designated members of the Endowment Trustees, provided that such action is reported to the appropriate members as soon after being taken as is practicable.

Market conditions may make it advantageous for the Endowment Funds to acquired fixed income holdings at a premium price. Unlike gains and losses incurred in the normal course of portfolio management which may increase or decrease the aggregate principal in the portfolio, the premium paid for a fixed income security is considered principal of the portfolio and shall be recouped from the income stream provided by that holding. As the logistics of doing this on a coupon by coupon basis are impractical, it is acceptable for the entire premium paid for a holding to be recouped form income when the holding matures or is disposed of.

### **Performance benchmarks**

The investment objectives for investments of the PSA Endowment Funds are to optimize the risk and return of the portfolios with the constraints of the policies noted above. For performance reporting purposes the total return and risk of the portfolios will be compared to a benchmark proposed from time to time by the Investment Manager and approved by the EF Trustees.

### **Evaluation and review process**

The EF Trustees will review the performance of the investment manager(s) and their adherence to the restrictions and policies applicable to the assets under management on an annual basis. Each manager is also responsible for monitoring the portfolio and reporting a deviation from the guidelines to the EF Trustees after the deviation occurs. The EF Trustees will bring to the PSA Board’s attention any deviation from the objectives and guidelines when such are noted.

No less than annually, each Investment manager will be expected to provide the EF Trustees with:



- A written review of their investment performance and portfolio structure;
- A written summary of any deviations from investment policy guidelines;
- A summary of its key investment decisions and any modifications in investment style;
- A written review of organization changes;
- A capital market review that will include economic trends, capital market outlook, and recommendations for changes in the investment policy, if any.

While the relationship with investment managers is expected to continue, the Society's EF Trustees reserve the right to terminate its relationship with any retained investment manager at any time it determines it is appropriate to do so. In addition, the EF Trustees reserve the right to remove assets, in part or in full, from any manager.

The Treasurer and Endowment Fund Trustees will review the applicable overall investment program at least every three years and present the results of the review to the Board. Key issues will include:

- Changes in the Society's financial goals and objectives;
- Current trends and developments in the capital markets and manager community.
- Recommended changes in the Investment Policy or Guidelines for the accounts overseen by their respective Committee.