**NLN Affiliated Constituent League**

**Policy and Procedure**

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| policy number | **4.6** |
| policy name | Investments (Structured policy) |
| **date of origin** | (Date) |
| purpose | It is the policy of the board to treat all assets of XYZ, including funds that are legally unrestricted, as if held by XYZ in a fiduciary capacity for the sake of accomplishing its mission and purposes. The following investment objectives and directions are to be judged and understood in light of that overall sense of stewardship. In that regard, the basic investment standards shall be those of a prudent investor as articulated in applicable state laws. |
| 1. **policy** | **Investment Assets**  For purposes of these policies, investment assets are those assets of XYZ that are available for investment in the public securities markets as stocks, bonds, cash, or cash equivalents, either directly or through intermediate structures. Illiquid assets are described in XYZ’s gift acceptance policies, and are governed by those rules and not by these investment policies.  **Supervision and Delegation**  The board of XYZ has adopted these policies and has formed an investment committee, described below, to whom it has delegated authority to supervise XYZ investments. The board reserves to itself the exclusive right to amend or revise these policies.  **Investment Committee**  The investment committee is comprised of the treasurer/ chief financial officer, [X # of] board members, and [X # of] non–board member(s), who serve at the pleasure of the board. It shall be the responsibility of the committee to   * supervise the overall implementation of XYZ’s investment policies by XYZ’s executive staff and outside advisors * monitor and evaluate the investment performance of XYZ’s funds * report regularly on XYZ investment matters to the board * grant exceptions as permitted in these policies and recommend changes in approved policy, guidelines, and objectives as needed * execute such other duties as may be delegated by the board   Whenever these policies assign specific tasks to the committee, the policies assume that the actual work will (or may) be performed by XYZ’s chief financial officer or other designated staff members, subject only to the committee’s overall supervision.  **Investment Consultant, Advisors, and Agents**  The committee is specifically authorized to retain one or more investment advisors (advisors) as well as any administrators, custodians, or other investment service providers required for the proper management of XYZ’s funds. The committee may utilize an advisor as an investment consultant (consultant) to advise and assist the committee in the discharge of its duties and responsibilities. In that regard, a consultant may help the committee to   * develop and maintain investment policy, asset allocation strategies, risk-based fund objectives, and appropriate investment management structures * select, monitor, and evaluate investment advisors and/or investment entities * provide and/or review quarterly performance measurement reports and assist the committee in interpreting the results * review portfolios and recommend actions, as needed, to maintain proper asset allocations and investment strategies for the objectives of each fund * execute such other duties as may be mutually agreed   In discharging this authority, the committee can act in the place and stead of the board and may receive reports from, pay compensation to, enter into agreements with, and delegate discretionary investment authority to such advisors. When delegating discretionary investment authority to one or more advisors, the committee will establish and follow appropriate procedures for selecting such advisors and for conveying to each the scope of their authority, the organization’s expectations, and the requirement of full compliance with these policies.  **Objectives**  XYZ’s primary investment objective is to preserve and protect its assets by earning a total return for each category of assets (a “fund”), which is appropriate for each fund’s time horizon, distribution requirements, and risk tolerance. XYZ currently maintains [list funds here, e.g., operating reserves, endowments, charitable trust funds, annuity reserves] and may add other funds in the future. These policies apply to all XYZ funds, although the specific objectives, risk parameters, and asset allocation will vary, as appropriate, from fund to fund.  **Asset Allocations**  Actual asset allocations for each fund will be established and maintained by XYZ on the advice of its consultant and/or advisors, within the ranges provided in the following table:  (Sample Only)  **Investment Fund Asset Class**  Equities Fixed-Income Cash and Cash Equivalents  Operating Reserves 0% 0–50% 50–100%  Annuity Reserves 30–60% 35–75% 5–35%  Charitable Trusts 30–60% 35–75% 5–35%  Endowments 50–80% 15–50% 5–20%  When appropriate, specific objectives for each fund, including specific asset allocation parameters and performance standards, may be reflected in an appendix attached to these policies. Such specific objectives shall nonetheless be within the foregoing ranges, which can only be modified by the committee with the approval of the board.  **Rebalancing Procedures**  The committee will monitor the asset allocation of each fund based on reports provided by XYZ’s consultant and/or investment advisors. The committee may establish any reasonable rebalancing procedure based on either periodic reviews or departures from a range and may use its discretion to determine the timing of rebalancing actions. To achieve rebalancing, XYZ may either move money from one asset class to another or may direct future contributions and expenditures from particular classes as is most convenient.  **Investment Guidelines**  To accomplish its investment objectives, XYZ is authorized to utilize any legal investment structure including separately managed portfolios, mutual funds, exchange traded funds, limited partnerships, and other commingled investment entities. This authority is subject to the requirements and restrictions contained in these policies.  When utilizing mutual funds or other commingled entities, the committee shall see that XYZ’s staff, consultant, and/or investment advisors have selected the investment entity appropriately based on the strategies and provisions contained in the entity’s prospectus. In that event, the terms and conditions of the prospectus are deemed to control the entity’s internal asset allocation, asset quality, diversification, and other requirements.  For separately managed portfolios, the following additional requirements shall apply:  **Asset Quality**   * Common stocks — The advisor may invest in any unrestricted, publicly traded common stock that is listed on a major exchange or a national, over-the-counter market, and that is appropriate for the portfolio objectives, asset class, and/or investment style of the fund that is to hold such shares. * Convertible preferred stock and convertible bonds — The advisor may use convertible preferred stocks and bonds as equity investments. The quality rating of convertible preferred stock and convertible bonds must be BBB or better, as rated by Standard & Poor’s; or BAA or better, as rated by Moody’s. The common stock into which both may be converted must satisfy the standard of Section 1, above. * Fixed-income securities — The quality rating of bonds and notes must be A or better, as rated by Standard & Poor’s or Moody’s. The portfolio may consist of only traditional principal and interest obligations with maturities of \_\_ (e.g., seven) years or less. The advisor may not utilize derivatives without the prior permission of the committee. * Short-term reserves — The quality rating of commercial paper must be A+1, as rated by Standard & Poor’s; P+1, as rated by Moody’s; or better. The assets of any money market mutual funds must comply with the quality provisions for fixed-income securities or short-term reserves. * Other securities — The advisor may invest in real estate investment securities (REITs), international securities traded in the United States directly or as depositary shares, international securities traded on recognized foreign exchanges, and any other publicly traded investments that the committee determines to be appropriate.   **Asset Diversification**  The advisor will maintain reasonable diversification at all times. The equity securities of any one company should not exceed \_\_ percent of the portfolio at the time of purchase and the combined debt and equity securities should not exceed \_\_ percent of the portfolio at any time. The advisor shall also maintain reasonable sector allocations. In that regard, the maximum allocation to any one economic sector shall be \_\_ percent of the sector’s weighting, as defined in the published index used for measuring the portfolio’s performance (e.g., S&P500, Russell 1000, etc.). These restrictions do not apply to U.S. government securities.  **Proxy Voting**  Subject to any specific instructions received from XYZ or contained in XYZ’s mission guidelines (see Mission-Based Investment Criteria below), each advisor shall vote proxies according to their firm’s established procedures and shall provide a copy of such procedures to the committee upon request.  **Custody and Securities Brokerage**  The committee will establish such custodial and brokerage relationships as are necessary for the efficient management of XYZ’s funds. Whenever the committee has not designated a brokerage relationship, then XYZ investment advisors may execute transactions wherever they can obtain best price and execution.  **Cash Flow Requirements**  XYZ will be responsible for advising the consultant and each advisor in a timely manner of XYZ’s cash distribution requirements from any managed portfolio or fund. Each advisor is responsible for providing adequate liquidity to meet such distribution requirements.  **Investment Restrictions**  XYZ’s investment assets are to be managed with regard to the following restrictions for tax, risk, or mission purposes:  **Tax-Based Restrictions**  XYZ is a charitable organization under § 501(c)(3) of the Internal Revenue Code. Consequently, its income is generally exempt from federal and state income tax with the exception of income that constitutes unrelated business income (UBI). Since UBI can be generated by leveraged investments (resulting in “debt-financed income”), XYZ will not utilize margin, short selling, or other leveraged investment strategies unless the investment committee grants a specific exception as described below.  **Risk-Based Restrictions**  XYZ will not engage in commodities transactions or option strategies (puts, calls, straddles) nor will it invest in any non–publicly traded securities including but not limited to managed futures funds, hedge funds, private equity funds, or other alternative investments unless approved by the committee as provided below.  **Mission-Based Investment Criteria**  XYZ desires to invest in companies whose business conduct is consistent with XYZ’s goals and beliefs. Therefore, XYZ’s consultant and/or investment advisors will use their best efforts to avoid holding securities of any company known to participate in businesses the board deems to be socially or morally inconsistent with XYZ objectives. The committee will provide advisors with a statement of XYZ’s mission guidelines and restrictions.  **Exceptions to the Investment Restrictions**  The board recognizes the evolving nature of the investment world and that, under some circumstances, XYZ may wish to utilize newer or more complex investment strategies. Therefore, the investment committee is authorized to grant exceptions to the foregoing restrictions. For tax-based restrictions, the committee is to determine if a particular strategy or investment will generate UBTI, for which it may rely on advice of counsel. When granting exceptions, the committee must determine that the potential rewards outweigh the incremental risks. All such exceptions shall be made in writing and shall be communicated to the board as part of the next regular investment committee report.  **Reporting Requirements**   1. Monthly — The committee will obtain written monthly custodial statements. Such statements should contain all pertinent transaction details for each account that holds all or a portion of any XYZ investment funds. Each monthly statement should include the name and quantity of each security purchased or sold, with the price and transaction date a description of each security holding as of month-end, including its percentage of the total portfolio, purchase date, quantity, average cost basis, current market value, unrealized gain or loss, and indicated annual income (yield) at market.  In addition, if not included in the custodial reports, the consultant and/or the investment advisor(s) should provide a report for each fund or portfolio showing the month-end allocation of assets between equities, fixed-income securities, and cash. The monthly review of custodial statements may be delegated to XYZ accounting staff. 2. Quarterly — The committee should obtain from its investment consultant and/or investment advisors, a detailed review of XYZ’s investment performance for the preceding quarter and for longer trailing periods as appropriate. Such reports should be provided as to each fund and as to XYZ investment assets in the aggregate. As to each fund, the committee should establish with its investment consultant and/or investment advisors the specific criteria for monitoring each fund’s performance including the index or blend of indices that are appropriate for the objectives of each fund and for the investment style or asset class of each portfolio within a fund. The committee shall meet with the consultant to conduct such reviews to the extent it deems necessary. 3. Periodically — The committee should meet with its investment consultant at least annually to review all aspects of XYZ’s investment assets. Such a review should include 1) strategic asset allocation, 2) manager and investment entity performance, 3) anticipated additions to or withdrawals from funds, 4) future investment strategies, and 5) any other matters of interest to the committee. |
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Revision Dates: