Policy No. 2-8: Investments and Reserves

Approved By: Board of Directors
Date Approved: March 28, 2014
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Policy:
Investment Objectives
The primary objective is to ensure the safety and protection of the cash assets; the second objective is to ensure sufficient liquidity; the third objective is to obtain the highest possible rate of return; and the final objective is to ensure a reasonable level of risk. The assets (hereinafter referred to collectively as “the Fund”) must be invested with care, skill and diligence. All investments will be made within the guidelines of quality, marketability and diversification and in compliance with any controlling state and/or federal statutes or any other guidelines directly affecting the prudent investment of assets.

Investment Fund Guidelines and Limitations

I. The Budget and Finance Committee shall develop and communicate to the Executive Director and the Board, general or specific guidelines of investment of the Fund giving due consideration to the following objectives insofar as feasible: (i) preserving capital, while (ii) providing returns that maintain or reasonably increase the yield and value of such assets against inflation and increasing fixed costs, and (iii) preserving such liquidity as may be suitable to meet foreseeable needs for Fund reserves. As a general guideline, the Budget and Finance Committee should attempt to distribute risk among different types or issues of securities and diversify the maturity dates of the Fund investments, unless there are good reasons to recommend modifications to the investment policy to the Board.

II. The Fund shall be invested only in the following types of instruments:

(A) equities in any US common stock, US convertible notes and bonds and US convertible preferred stock.

(B) insured certificates of deposit with banks or other major financial institutions rated A or above as defined by Standard and Poor’s;

(C) obligations of the U.S. Treasury and federal agencies, and other debt instruments insured or guaranteed by the U.S. government;

(D) first mortgage public utility bonds rated BBB or higher by Standard and Poor’s or an equivalent rating service;

(E) money market funds that restrict their investments to the above types of instruments; and

(F) other types of investments as specifically approved by the Board.
The Fund shall be invested pursuant to the following guidelines for authorized investments:

(A) Equities – Target 45% to 55% of the Fund shall be invested in equities.

   (a) Equities- The FBA may invest in any US Common stock, US convertible notes and bonds and US Convertible preferred stocks, American Depository Receipts (ADR) and American Depository Shares (ADS) of Non-U.S. Companies. The FBA may invest in No-Load Mutual Funds which invest in securities and which have annual operating expenses of less than one percent (1%) and Auction Rate Securities with a minimum rating of A or better.

(B) Fixed Income - Target 40% -50% of the Fund shall be invested in these instruments

   (a) U.S. Government or U.S. Agency Bonds. The FBA may invest in any U.S. Treasury or U.S. agency security with a maturity not to exceed 10 years. These securities will be purchased through an authorized security broker or bank and may be held in safekeeping at one of the FBA’s banks or in street name at a brokerage firm.

   (b) Corporate Bonds. The FBA may invest in Corporate Bonds with a Standard & Poor’s rating of at least A and/or Moody’s rating of at least A, and a maturity of not more than 10 years. No more than 5 percent of an individual issue shall be purchased by the FBA, nor shall more than 5 percent of the Fund be invested in the securities of any one issuer. No more than 15 percent of the Fund shall be invested in any one industry.

   (c) Mortgage Backed Securities. The FBA may invest in mortgage backed securities, no less than half of which are backed by the U.S. Treasury or another federal agency (GNMA, FNMA or FHLMC). No more than 15 percent of the Fund shall be invested in mortgage backed securities.

   (d) Fixed Income Investment Funds. The FBA may invest in no-load fixed investment funds which have annual operating expenses of less than 1 percent. No more than 10 percent of the Fund shall be invested in any one fund. The FBA may invest in Index, Exchange-traded funds and no-load mutual funds with up to 5% in high yield and up to 5% in international bonds and emerging market bonds.

(C) Cash (or Cash Equivalent) Reserves –Target 1% to 10% may be invested in cash, cash equivalents or money market funds

   (a) Cash Management Account. A cash management account through a fund manager or a broker may be used as a cash account.
(b) **U.S. Treasury Bills or Short Term (less than one year) U.S. Government or Agency Notes.** These securities may be purchased through an authorized security broker or bank and held in safekeeping with one of the FBA’s banks or in street name at a brokerage firm.

(c) **Certificate of Deposit.** A certificate of deposit, with a maturity of one year or less with any federally insured financial institution may be purchased in an amount not to exceed $100,000, provided that the total deposits with any single institution not exceed federally insured limits.

(D) **Alternative or Non-Traditional Strategies - Target 1% to 4% may be invested in mutual funds or other 1940 SEC Act funds.**

**Unauthorized Investments**

Direct purchases in leverage investments, options, puts or calls, commodities, or other vehicles that are subject to unreasonable risk or jeopardy are not authorized for investment. Unauthorized investments shall also include “load” funds (whether front or back loaded), selling short, commodities other than stock index futures and financial futures, lettered stock, and foreign securities other than those listed on the New York Stock Exchange. No private partnerships or direct investments in illiquid securities. Any investment not specifically listed as an “authorized investment” is not authorized for direct purchase even if not included in the list of unauthorized investments. Exceptions to this general policy may only be made by the Board, in keeping with the objective of maintaining security of principal and obtaining as much appreciation as possible under the investment guidelines.

**Investment Management**

I. **Authority of Executive Director and the Budget and Finance Committee**

(A) The day-to-day management of the Fund shall be vested in the Executive Director of the FBA, subject to supervision by the Budget and Finance Committee and the Board. As deemed necessary, the Board can employ the services of a financial consultant.

(B) The Budget and Finance Committee shall on a quarterly basis, review the investment portfolio of the Fund and shall on a semiannually basis, convene a meeting of the committee with the investment advisor, to ensure that each investment of the fund is performing reasonably well relative to its particular peer group and according to the tenor of the market for that type of investment. In the event that a particular investment is performing below the standards adopted by the Executive Director and the Budget and Finance Committee, or is performing below the standard outlined below, then the investment will be replaced if, under the circumstances, it would be prudent to do so. In addition, the Budget and Finance Committee shall, on a regular basis review the level of fund reserves, and any expenditures that have been made from the Fund or appear to be warranted. The Budget and Finance Committee shall set and communicate policies or specific instructions concerning such matters to the Executive Director as needed, and shall make reports and recommendations as appropriate to the Board concerning such
matters. Where it would be impractical, unnecessary or unreasonable for the Executive Director to seek the Budget and Finance Committee’s advance authorization for a specific investment because of its limited size, conformity to the stated policies or directions of the Budget and Finance Committee, or exigent circumstances, the Executive Director is authorized to make such investments subject to these Guidelines and the Budget and Finance Committee’s subsequent ratification.

(C) The Budget and Finance Committee shall on a quarterly basis, review the investment portfolio of the Fund and shall on a semiannually basis, convene a meeting of the committee with the investment advisor, to ensure it meets minimum performance goals. The minimum performance goals are that the returns exceed annual CPI.

(D) The Executive Director is authorized and directed to deposit or transfer funds (only between authorized investment accounts of the FBA) in accordance with the FBA’s Investment Policy.

II. Authority of Board

(A) Subject to these guidelines, the Board shall have full authority over the uses and administration of the Fund.

(B) Not less than once a year, the Board shall:

(1) review all expenditures (if any) made from the Fund since the preceding Board review;

(2) consider and direct any additional appropriate expenditures from the Fund reserves (if any); and

(3) set and communicate goals and policies to the FBA’s Budget and Finance Committee and Executive Director concerning an appropriate level of the Fund reserves to be achieved or maintained.

Current Operating Fund
The FBA shall maintain a liquid, minimal risk pool of cash assets needed to meet operating expenditures for six months, taking into account projected income from all sources during this period. The Operating Fund consists of dues revenue, interest income on the FBA accounts, advertising revenue, conference and sponsorship revenue, and other miscellaneous income. The nature of the Operating Fund is primarily short-term.

The Operating Fund should be invested in an institution which is 100 percent collateralized by high-grade investments, primarily U. S. government, state, municipal and U. S. government agency guaranteed securities. Any securities investments must be guaranteed by the United States, its agencies or instrumentality’s including for example, securities issued by FNMA and FHLMC.
Reserve Fund
The primary purpose of the Reserve Fund is to provide funds for unforeseen future contingencies or catastrophic event affecting the operations of the FBA. The Reserve Fund consists of the accumulated reserves (current assets minus current liabilities). The reserve portion of the portfolio is likely to be used to fund fiscal year deficits and unforeseen financial emergencies. The funds are long-term in nature and it is not expected that the funds would be needed without substantial prior notice. The income from this Reserve Fund is used to fund current operations and is not invested within the Fund.

The maximum to be added to the Reserve Fund each year will be the lesser of $50,000 or an amount necessary to bring the Reserve Fund to one-half of the Association’s annual operating budget. Reserve Funds shall not be expended without the approval of the Board of Directors. Amounts expended shall be disclosed to the membership in the next budget disclosure document published following the expenditure of Reserve Funds.

The Reserve Fund should be invested in one of the following: U.S. Government Securities, Certificates of Deposit; U.S. Government Securities Money Market Funds. The Reserve Fund should be invested with the best rate of return with the least amount of risk and must be federally insured. Investments shall be made in such a manner as to provide cash availability to meet the liquidity needs of the FBA.

The reserve amount, and the funding of the reserve, shall be reviewed at least annually by the FBA Budget and Finance Committee for report to the Board of Directors. The Treasurer shall report at each Board of Directors meeting the amount of funds in the reserve and the compliance with the policy. Any expenditure of funds from the reserve beyond any bank charges, professional investment counseling fees, or normal administrative costs, must be approved by two-thirds vote of the Board of Directors. [FW: Performance/Benchmarking – 90-day T Bills]

Special Purpose Funds
FBA funds determined by the Executive Director and the Board or its designee(s) to constitute funds designated for a special purpose shall be invested in the same manner as funds designated as Current Operating Fund.

Purpose:
The purpose of this policy is to provide guidelines for the management of the reserve and investment assets of the Federal Bar Association. The guidelines and objectives provide the Budget and Finance Committee and all interested parties with an understanding of the investment objectives. The procedures and guidelines will provide sufficient flexibility to allow for changing economic conditions and securities markets. The cash assets are to be invested in a manner which: 1) ensures the protection of the FBA’s cash assets; 2) provides a dependable source of operating revenues; and 3) ensures liquidity.