Title: Investment Policy

Rationale or Purpose

To provide guidance for the investment of funds held by the Association.

Operating Fund: The purpose of the Operating Fund is to provide sufficient cash to meet the financial obligations of NAfME in a timely manner for the normal operations of the Association.

Reserve Fund: The purpose of the NAfME Reserve Funds is to conservatively grow capital for future Association needs while maintaining minimal liquidity in the case of unexpected requirements. The Reserve Funds consist of one fund normally referred to as NAfME Reserve Investment Fund.

Policy Statement

It is the policy of NAfME to increase its reserve fund to and maintain it at a market value of not less than 100 percent of the Associations’ annual operating budget.

Procedures

1. General provisions
   a. The Investment Policy Statement shall be reviewed and approved annually by the National Executive Board of Directors (Board of Directors) as part of the annual budget approval process.
   b. In order to ensure that the Investment Policy Statement is consistent with the current mission of NAfME and accurately reflects the current financial condition of the Association the Executive Director in conjunction with the Finance Committee will review the Investment Policy annually and recommend revisions to the Board of Directors as needed.
   c. Investment Advisor(s): It is anticipated that from time to time the services of a registered investment advisor(s) may be sought to assist in managing portions of NAfME funds. The following procedure shall be followed to engage a new or replace a current registered investment advisor(s):
      i. The Executive Director will recommend the hiring or replacing of an investment advisor(s) to the Finance Committee who will recommend to the Board of Directors who shall have final approval.
ii. The investment advisor(s) will be selected based on the following criteria: investment philosophy, historical performance, experience of key personnel, and financial viability.

iii. The same procedure shall apply for both individually managed account and mutual funds.

iv. The investment advisor(s) will have discretion over equity selection and diversification consistent with NAfME’s stated investment objectives, risk tolerance, asset allocation, liquidity requirements and restrictions as set forth in this Investment Policy. NAfME will track selections and pose questions whenever selections seem to run contrary to policies set forth in this Investment Policy Statement. NAFME reserves the right to disapprove of any transactions.

v. The investment advisor(s), except for the alternative investment allocations, is prohibited from investing or engaging in: private placements, letter stock, options, securities whose issuers have filed a petition for bankruptcy, short sales, margin transactions, any speculative investment activities, commodity transactions, direct investments in real estate, loan money, or permit the lending, mortgage, pledge, or hypothecation of any asset.

vi. The investment advisor(s) will provide to the Chief Financial Officer, monthly reports on the value of all investments held and a listing of investment transactions for the month. Additionally, the investment advisor(s) will make the investment account information available on-line thru secure internet access.

vii. Appointment of investment advisors: The appointed investment advisors of NAfME are:

a. Operating Funds: Federally Insured Savings Network 4800 Montgomery Lane, Suite 880 Bethesda, MD 20814-3459 240-497-0400


viii. Investment Advisor(s) Performance Review and Evaluation:
The performance of the total portfolio, as well as the individual investment / asset class components will be measured against the benchmarks described above. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals and guidelines as set forth in this Investment Policy Statement.

The Executive Director in consultation with the Finance Committee will evaluate the performance over at least a three-year period, but reserves the right to move to terminate the investment advisor(s) at any time for any reason including the following:

1. Investment performance that is significantly less than anticipated given the discipline employed and the risk parameters established or
unacceptable justification of poor results.

2. Failure to adhere to any aspect of this Investment Policy Statement including communication and reporting requirements.

3. Significant qualitative changes to the investment advisor(s) organization.

Investment advisor(s) shall be reviewed annually regarding performance, personnel, strategy, organizational and business matters, and any other qualitative factors that may impact their ability to achieve the desired investment results.

d. On a semi-annual basis or more frequently as NAfME or the investment advisor(s) deem necessary, NAfME’s portfolio shall be rebalanced to meet the asset allocation targets. If any of the diversification percentages are exceeded due to changes in market values, divestiture is required in a reasonable and timely manner unless otherwise determined by the Executive Director in conjunction with the Finance Committee.

e. Investment Guidelines: The investment policies and restrictions presented in this Investment Policy Statement serve as a framework to achieve the investment objectives at a level of risk deemed acceptable.

   i. Cash: Cash holdings typically are to be minimal and maintained in an interest bearing account at a comparable rate of return to the general market. If financial circumstances dictate, a maximum 100 percent cash allocation can be realized.

   ii. Equities: The equity portion of the portfolio should be maintained at a risk level roughly equivalent to that of the equity market as a whole.

   iii. Bonds: Investments will be managed actively to pursue opportunities presented by changes in interest rates, credit ratings and maturity premiums.

   iv. Alternative Investments: The objective of alternative investments is to provide exposure to non-traditional assets classes outside of equities and bonds. In doing so, a reduction of risk and volatility can be achieved.

f. Asset Allocation Targets:

<table>
<thead>
<tr>
<th>Investment / Asset Class</th>
<th>Target Allocation</th>
<th>Minimum Allocation</th>
<th>Maximum Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Equities</td>
<td>60%</td>
<td>25%</td>
<td>80%</td>
</tr>
<tr>
<td>Bonds</td>
<td>30%</td>
<td>20%</td>
<td>75%</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td>10%</td>
<td>0%</td>
<td>15%</td>
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g. Performance Benchmarks: Performance benchmarks are necessary to properly measure and evaluate the success of the investment advisor(s). The following performance benchmarks shall be used in determining the success of NAfME's investments:
i. Cash: 3-Month Treasury Bill (average yield)
ii. Equities: Standard & Poor’s 500 Composite Stock Price Index as measured over a three (3) year moving time period net fees and commissions.
iii. Bonds: Lehman Brothers Government/Corporate Intermediate Bond Index

h. Reporting: The Chief Financial Officer with the assistance of information provided by the investment advisor(s), shall prepare the following reports for presentation to the Executive Director on a quarterly basis:
   1. Schedule of investments held in the reserve fund
   2. Dividend & interest income fiscal year-to-date

i. On an annual basis the Executive Director may meet with the investment advisor(s) to review the reports and to evaluate the performance of NAfME’s investments and review adherence to this Investment Policy Statement. The performance of the investments will be measured on a total return basis (net of investments management fees) relative to performance benchmarks. The Executive Director will make an annual report to the Finance Committee and the National Executive Board regarding such investment performance.

2. Operating Fund
   a. The investment objectives of the Operating Fund are as follows:
      i. Preservation of capital.
      ii. Liquidity.
      iii. Optimize the investment return within the constraints of (1) & (2) above.
   b. Diversification: No more than 25% at cost of the Operating Fund may be in the securities of any one insurer with the exception of obligations of the U.S. Government, its agencies and instrumentalities, repurchase agreements collateralized by obligations of the U.S. Government, its agencies and instrumentalities, and federally insured certificates of deposit.
   c. Maturity: The maturities on investments for the Operating Fund, not specifically exempted, shall be limited to a maximum of 3.0 years with a weighted average not to exceed 1.0 year.
   d. Investment Guidelines: The Chief Financial Officer under the direction of the Executive Director and with the assistant of the engaged investment advisor(s), when necessary, shall be authorized to invest the NAfME Operating Fund as follows:
      i. Federally Insured Certificates of Deposit not to exceed $100,000 including accrued interest at commercial banks or savings & loan institutions;
      ii. Federally Insured Money Market accounts not to exceed $100,000 including accrued interest at commercial banks or savings & loan institutions;
      iii. Money Market Funds that invest in government backed securities;
      iv. Direct Obligations of the U.S. Government, its agencies and instrumentalities;
      v. U.S. Government Agency Discount Notes;
      vi. Repurchase agreements with institutions whose senior debt rating is rated “A” or better by Standard and Poors.
   e. The Chief Financial Officer with the assistance of and information provided by the investment advisor(s), shall prepare the following reports for presentation to the
Executive Director on a quarterly basis:

i. Schedule of investments held in the Operating Fund.
ii. Dividend & interest income earned fiscal year-to-date.
iii. Current yield of the portfolio.

3. Reserve Fund

   a. The objective of NAfME investment is to pursue a long-term goal designed to maximize the return without exposure to undue risk, as defined herein.
   b. The investment strategy of NAfME is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income.
   c. The investments shall be undertaken in a manner that seeks to insure preservation of the capital of the overall portfolio while attaining a rate of return, net of fees and taxes, if any, within NAfME’s investment risk constraints.

**Definitions**

**Operating Funds:** Those funds expected to be spent in the normal course of business during the current or near future budget fiscal-years.

**Reserve Funds:** Those funds are to be held in reserve in the case of unexpected capital requirements or other emergency situations which may arise in order to maintain the integrity of the Association’s operations and service to its membership. The Reserve Funds consist of a fund normally referred to as NAfME Reserve Investment Fund.

“Board of Directors” in this policy refers to the National Executive Board.

**References**

**Scope**

This policy applies to both operating and reserve funds.

<table>
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<tr>
<th><strong>Approved By:</strong></th>
<th>NEB, March 2006</th>
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<tbody>
<tr>
<td><strong>Date of Last Revision:</strong></td>
<td>May 19, 2014</td>
</tr>
<tr>
<td><strong>History:</strong></td>
<td>Increased maximum allocation for Equities from 75% to 80% under f. Asset Allocation</td>
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