

**SOCIETY OF AMERICAN MILITARY ENGINEERS FOUNDATION
INVESTMENT POLICY
Approved: August 11, 2017**

The Society of American Military Engineers Foundation (the “Foundation”) has been established to support the educational and scientific purposes of The Society of American Military Engineers (the “Society”). To fulfill its mission, the Foundation requires sound financial management, including prudent investment and oversight of its investable funds.

PURPOSE

The purpose of the investment policy is to establish the investment objectives, guidelines and eligible investment types relating to any investments owned or controlled by the Foundation and to provide a framework to help the Foundation, its advisor(s) and its investment manager(s) achieve the investment objectives at a level of risk that the Society of American Military Engineers Foundation Board of Direction (the “Foundation Board”) deems acceptable. This investment policy guides the Foundation’s investments regardless of market conditions.

Specifically, the purpose of this statement of investment policy is to:

- Establish reasonable expectations, objectives and guidelines for the Foundation’s Investments;
- Define a process for the Foundation’s investments which meet standards of prudence and fiduciary responsibility;
- Define roles and responsibilities of parties involved in the management of the Investments;
- Encourage effective communication among all parties involved in the oversight and management of the Investments;
- Guide Third Party Advisors regarding the Investments;
- Establish relevant time horizons for evaluating investment results;
- Provide a framework that enhances the probability that investment goals will be achieved.

INVESTMENTS

1. **Investments:** "Investments" shall mean any funds and accounts owned or controlled by the Foundation.

GENERAL INVESTMENTS PRINCIPLES

1. Investments shall be made with the care, skill, prudence, and diligence that a prudent person acting in like capacity and familiar with such matters would use in the investment of a portfolio of like character and with like aims.
2. As needed, the Foundation will engage the services of professional, third-parties to advise, manage, and evaluate the performance of the Foundation's Investments. Any parties engaged by the Foundation in this effort will, at all times, act in a manner consistent with generally accepted standards of fiduciary responsibility and in the sole benefit of the Foundation.
3. The Foundation seeks to avoid any real or potential conflicts of interest in the management of its Investments. Any parties with real or perceived conflicts should immediately notify the Foundation Board. The Foundation will not invest funds with any firm or in any vehicle that may, as a result of the transaction, monetarily benefit a member of the Society in general, the Foundation Board, or the Foundation staff.
4. The Foundation recognizes that Investments contain risks and seeks to manage these risks through a disciplined investment process and a diversified investment strategy. As such, greater emphasis is placed on risk at the portfolio level than at the individual asset class level.

ROLES AND RESPONSIBILITIES

All funds held by the Foundation shall be invested in a manner that complies with all federal and state requirements applicable to the Foundation as currently constituted, specifically including, but not limited to, any laws or regulations pertaining to the maintenance of the Foundation's federal tax exemption under Section 501(c)(3) of the Internal Revenue Code.

The Foundation is authorized to retain one or more investment managers or advisors as well as any administrators, custodians or other investment service provider required for the proper management of the Foundation's Investments.

Management of the Foundation Investments will be vested in the Foundation Board. The Foundation Board shall appoint an Investment Committee to be chaired by the Foundation Vice-President and assisted by Society Staff with the following levels of responsibility:

A. The **Foundation Board** will:

- 1) Determine the specific investable dollar amounts to be maintained.
- 2) Establish and approve all investment and spending policies for the Foundation.
- 3) Review the investment objectives, investment performance, and asset allocation of all the Foundation funds and the performance of the investment managers at least annually.

B. The Foundation's **Investment Committee** will:

- 1) Monitor implementation of this Policy to ensure that investment decisions fulfill its objectives.
- 2) Review this policy on an annual basis, or sooner if warranted and consider any proposed revisions to this Policy and recommend appropriate action to the Foundation Board as necessary.
- 3) Review quarterly reports from Society Staff in order to monitor portfolio fund and investment manager performance.
- 4) Consider from time to time investment related issues deemed necessary and appropriate to the Foundation's mission.

C. **Society Staff:**

The Executive Director or the Director of Finance, Administration and Operations of the Society, or their designated staff member ("Society Staff"), are authorized to implement the investment decisions as approved by the Foundation Board under this Policy.

Society Staff after appropriate consultation with the Foundation Board will engage the Investment Committee to accomplish the following actions:

- 1) Engage an investment advisor and evaluate the advisor's performance.
- 2) Review on an annual basis the target asset allocation and target investment return objectives of each pool of assets.
- 3) Ensure that the use of investment managers, mutual funds and other investment vehicles comply with the guidelines of this Policy.
- 4) Review investment decisions to ensure that they comply with the guidelines of this Policy.
- 5) Review statements for the Foundation's Investments on a regular basis.
- 6) Provide to the Foundation Board an investment status report at least quarterly. The report will include the quarterly report(s) provided by the investment advisor and/or any supplemental information the Investment Committee deems appropriate.
- 7) The Investment Committee will review this Policy at least annually with the Foundation Board.

- 8) Communicate to the investment advisor, on a timely basis, all information relevant to the portfolio, such as changes in investment objectives, time horizon and liquidity requirements.
- 9) Inform the advisor of all tax-related issues or unique circumstances concerning the portfolio.
- 10) Annually, ensure an external audit is performed and the results of the audit are reported back to the Foundation Board.

D. Investment Advisor:

Investment advice concerning the management of Investments will be offered by the Investment Advisor, consistent with and observing all policies, guidelines, and constraints as established in this Policy. The Advisor will acknowledge and agree in writing to their fiduciary responsibility to fully comply with the Foundation Investment Policy. Specific responsibilities of the Investment Advisor include:

- 1) Assisting in the development and periodic review of investment policy;
- 2) Determining an appropriate asset allocation strategy consistent with policy guidelines, return objectives, risk tolerance, liquidity needs and time horizon;
- 3) Exercising discretion over Investments in accordance with the Foundation's Investment Policy;
- 4) Selecting Investment Managers to implement the overall investment strategy;
- 5) Providing "due diligence" research on the Investment Manager(s), including monitoring of Investment Managers for fundamental changes in investment management process and evaluation and potential replacement of Investment Managers upon the occurrence of such events;
- 6) Reporting Investments performance results on a quarterly basis, or as requested, to the Foundation Investment Committee;
- 7) Monitoring and reporting the performance of the Investment Manager(s) to provide the Foundation Investment Committee with the ability to determine adherence to investment policies and progress toward the investment objectives;
- 8) Reviewing and recommending investment policy changes and presenting recommendations to the Investment Committee as appropriate;
- 9) Communicating, on at least a quarterly basis, any major changes in economic outlook, investment strategy, or other relevant factors that affect implementation of either the investment process or progress toward investment objectives.
- 10) Communicating in a proactive and timely manner, recommended actions resulting from changes

in the advisor's economic outlook, perceived market risks, or other relevant factors that could affect invested assets.

- 11) Meet with the Investment Committee quarterly to review portfolio structure, strategy and investment performance.

E. Investment Managers

Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, and constraints as outlined in this Policy. Specific responsibilities of the Investment Manager(s) shall include:

- 1) The timely investment of principal and interest into securities permitted by this policy and in accordance to the specific investment discipline and process for which the manager was hired;
- 2) Reporting investment performance results, quarterly to the Investment Advisor;
- 3) Informing the Investment Advisor of any material change in its investment management process, organization or personnel (e.g., changes in ownership, structure, portfolio management personnel, investment philosophy, etc.);
- 4) Voting proxies, on behalf of the organization, and communicating such voting records to the Board upon request.

INVESTMENT OBJECTIVES

The Foundation's investment objectives are:

- 1) Moderate Growth
- 2) Periodic capital investments and expenditures
- 3) Maximize returns in keeping within parameters #1 and #2 listed above

TIME HORIZON

The time horizon for investment purposes shall be 3-5 years. Investment performance and strategy will be monitored on a regular basis and adjusted as deemed appropriate.

SPECIFIC INVESTMENT GOALS

Over rolling three to five year periods, it is the goal of the Foundation that its Investments earn in excess of (on a net of fee basis):

- 1) the Consumer Price Index
- 2) a balanced index representative of the portfolio's long term asset allocation strategy

The investment goal above is the objectives for the *aggregate* Foundation Investments rather than for the Investments managed by each Investment Manager. The goal of each Investment Manager, over the investment horizon (defined as 3-5 years), shall be:

- 1) to meet or exceed the benchmark that most closely corresponds to the respective Manager's investment management; and
- 2) to display an overall level of risk that is consistent with the risk associated with the respective benchmark (referenced above).

Recognizing that modern portfolio theory generally equates standard deviation with risk (*i.e.*, the higher an asset's standard deviation, the "riskier" it is and thus the higher its return should be), risk will be measured by the standard deviation of a Manager's quarterly returns relative to the standard deviation of the representative benchmark over a common time frame.

INVESTMENT GUIDELINES

Risk Tolerance

Achievement of the Foundation's total return objective (as stated above) is the Society's primary concern. The Foundation Board understands that to achieve its objectives for the Foundation's Investments the Foundation Investments will experience volatility of returns and fluctuations of market value. The portfolio is designed to minimize (though not eliminate) the probability of experiencing a "worse case" return of -6.5% in each year.

Diversification

Investments shall not be invested directly in the stock of any company or the bonds of any single issuer, with the exception of the US Government, its agencies, and federally insured instruments.

Investments shall only be invested through diversified vehicles such as mutual funds, exchange traded funds or professionally managed pools of such investments, with the exception of the US Government, its agencies, and federally insured instruments.

For the purposes of diversification, investments in diversified mutual funds/exchange traded funds or professionally managed pools are not to be considered a single security. However, the individual holdings of each mutual fund, exchange traded fund, and professionally managed pool should be aggregated and reported at the total portfolio level.

In aggregate, no individual company's stock should total more than 7% of the portfolio's market value and no industry should represent more than 20% of the portfolio's market value.

In aggregate, no individual issuer's bonds should total more than 5% of the portfolio's market value, with the exception of the US Government, its agencies, and federally insured instruments.

Liquidity

Fund securities shall be of a quality and type that provides ready liquidity if there should be a need to sell them.

Maturity

The average weighted maturity of the fixed income portion of the Investments of the Foundation will be 12 years or less and/or average duration of less than 7 years.

Credit Quality

The average credit quality of the fixed income portion of the portfolio shall be investment grade or higher.

Asset Allocation

The Foundation Investments may be invested in equities, fixed income securities, cash, cash equivalents, and alternative assets. The proportion of the Foundation's Investments invested in each asset class should not be less or more than the percentage ranges listed below. The Investment Advisor will determine the detailed composition and sub-categories within these ranges.

<u>Asset Class</u>	<u>Target</u>	<u>Minimum</u>		<u>Maximum</u>
Equity	48%	40%	to	61%
US Equity	27%	20%	to	40%
Non-US Equity	16%	10%	to	25%
Real Estate (REITs)	5%	0%	to	10%
Alternatives	8%	4%	to	12%
Fixed Income	44%	35%	to	60%
Cash & Equivalents	0%	0%	to	10%

Rebalancing

Over time, due to changing capital market conditions, a portfolio's actual asset allocation may move away from its long-term strategic target. The Investment Advisor will rebalance the Foundation Investments as appropriate within the specified asset allocation ranges.

Reporting

The Investment Advisor will prepare a quarterly report to be distributed to the Foundation Investment Committee containing a schedule of investments, the current asset allocation and investment performance compared to the objectives of this Investment Policy and to appropriate benchmarks and indices.

PERMISSIBLE INVESTMENTS

Cash and Equivalents

Cash and equivalent securities, with the exception of the US Government, its agencies, and federally insured instruments, shall only be held through diversified vehicles such as mutual funds, exchange traded funds or professionally managed pools of such investments.

- 1) Treasury Bills
- 2) Money Market Funds
- 3) STIF Funds (Short Term Investment Funds)
- 4) Commercial Paper
- 5) Banker's Acceptances
- 6) Repurchase Agreements
- 7) Certificates of Deposit
- 8) Checking and/or Savings accounts

Fixed Income

Fixed income securities, with the exception of the US Government, its agencies, and federally insured instruments, shall only be held through diversified vehicles such as mutual funds, exchange traded funds or professionally managed pools of such investments.

- 1) U.S. government and agency issues
- 2) U.S. mortgage-backed and asset-backed securities
- 3) U.S. corporate bonds
- 4) Senior, adjustable-rate U.S. bank notes.
- 5) Foreign government or foreign corporate bonds
- 6) High yield U.S. corporate bonds
- 7) Convertible U.S. corporate bonds

Equities

Equity securities shall only be held through diversified vehicles such as mutual funds, exchange traded funds or professionally managed pools of such investments.

- 1) Common stocks of U.S. corporations
- 2) Preferred stocks of U.S. corporations
- 3) Common stocks of foreign corporations
- 4) Stocks of U.S. real estate investment trusts (REITs)

Alternative Investments

Alternative investments, including hedge funds, managed futures and other non-traditional investments, shall only be acquired when using a mutual fund or professionally managed pool of such investments.

PROHIBITED INVESTMENTS: Any investment not specifically permitted in this Investment Policy is prohibited.

SPENDING POLICY

Objectives

Once the Foundation's Investments are amassed to agreed levels, the objectives of the spending policy are principally:

1. To provide a steadily increasing annual distribution from the Investments in furtherance only of the purposes of the Society and the Foundation.
2. To establish a spending rate that protects and enhances the real value of the Foundation Investments over time.

Spending Amount

The Foundation recognizes that the establishment and consistent application of a spending policy is essential to the long-term success of the Foundation and the performance of its invested funds.

The spending amount for each year will be determined and approved annually by the Foundation Board as part of the upcoming year's budget development process.

Review of Spending Policy

The Foundation Board shall review the spending policy periodically to ensure achievement of the above objectives.

REVIEW OF AND CHANGES TO THE INVESTMENT POLICY

This Investment Policy has been adopted by the Foundation Board to provide guidelines for the investment of funds held by the Foundation. This policy will be reviewed annually by the Investment Committee, or sooner if warranted by internal or external events or changes. Changes to the policy will be recommended by the Investment Committee to the Foundation Board. No change to this Policy will be effective unless and until approved by the Foundation Board.