

SOCIETY OF MILITARY ENGINEERS INVESTMENT POLICY STATEMENT

Approved: May 2017

The Society of American Military Engineers (SAME) leads collaborative efforts to identify and resolve national security infrastructure-related challenges. Founded in 1920, SAME unites public and private sector individuals and organizations from across the architecture, engineering, construction, environmental and facility management, cyber security, project planning, contracting and acquisition, and related disciplines in support of national security. In order to fulfill its mission, SAME requires sound financial management, including prudent investment and oversight of its Operating Reserve.

PURPOSE

The purpose of the investment policy is to establish the investment objectives, policies, guidelines and eligible investment types relating to any investments owned or controlled by SAME, and to provide a framework to help SAME, its advisor(s) and its investment manager(s) achieve the investment objectives at a level of risk that the Board of Direction (the Board) deems acceptable. This investment policy guides SAME's investments regardless of market conditions. The objectives and constraints apply equally regardless of underlying economic or market conditions.

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

- Establish reasonable expectations, objectives and guidelines for the investment of SAME's Investments;
- Define a process for investing SAME's investments which meets 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 investment of the Investments;
- Establish relevant time horizons for and the basis for evaluating investment results;

Provide a framework that enhances the probability that investment goals for the Investments will be achieved.

INVESTMENT POOLS

1. **Operating Reserve Fund:** Funds targeted to be used for supporting operations in a downturn to meet expenses that are required for the Society to fulfill its mission.

GENERAL INVESTMENT PRINCIPLES

1. The Investments shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing 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, SAME will engage the services of professional, third-parties to advise, manage, and evaluate the performance of SAME's Investments. Any parties engaged by SAME 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 SAME.
3. SAME 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 SAME's Executive Director. SAME 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 Board of Direction or SAME staff.
4. SAME 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/Investment Manager level.

ROLES AND RESPONSIBILITIES

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

SAME is authorized to retain one or more investment managers or advisors as well as any administrators, custodians or other investment service provides required for the proper management of SAME's funds.

Management of SAME funds will be vested in the Executive Committee of the Board of Direction (Executive Committee), Investment Committee and Staff as specified in the following levels of responsibility:

- A. Unless the Executive Committee delegates its authority, the **Executive Committee** will:
 - 1) Determine the specific investable dollar amounts to be maintained.
 - 2) Establish and approve all investment and spending policies for SAME.
 - 3) Review the investment objectives, investment performance, and asset allocation of all SAME funds and the performance of the investment managers at least annually.
- B. The **Investment Committee** will:
 - 1) Monitor implementation of this Policy to ensure that investment decisions fulfill the objectives of this Policy.

- 2) Review this policy on an annual basis, or sooner if warranted. Consider any proposed revisions to this Policy and recommend any appropriate action to the Executive Committee as necessary and appropriate.
- 3) Review quarterly reports from 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 SAME's mission.

C. Staff:

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

The **Staff** after appropriate consultation with the Investment Committee will:

- 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 SAME's funds on a regular basis.
- 6) Provide to the Investment Committee an investment status report at least quarterly. Staff's report will include the quarterly report(s) provided by the investment advisor and/or any supplemental information Staff deems appropriate.
- 7) Review this Policy at least annually in conjunction with Investment Committee.
- 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 Executive Committee.

D. Investment Advisor:

Investment advice concerning the management of investment assets will be offered by the Investment Advisor, consistent with and observing all policies, guidelines, constraints and philosophies as established in this

Statement. The Advisor will acknowledge and agree in writing to their fiduciary responsibility to fully comply with the current SAME investment policy and as modified in the future. 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 SAME's investment policies;
- 4) Selecting Investment Managers to implement the overall investment strategy;
- 5) Providing "due diligence" research on the Investment Manager(s), including ongoing 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 investment performance results on a quarterly basis, or as requested, to the Staff and/or the Investment Committee;
- 7) Monitoring and reporting the performance of the Investment Manager(s) to provide Staff 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 Staff and 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, any 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, constraints, and philosophies as outlined in this Policy and in any additional Statements (which, if/when issued, shall become attachments to and incorporated into this Statement), as applicable. 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, on a timely basis, to Staff and/or Investment Advisor;
- 3) Informing Staff and/or 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 on a timely basis.

REVIEW OF POLICY

This Investment Policy has been adopted by Executive Committee of the SAME Board of Direction to provide guidelines for the investment of funds held by SAME. 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 Executive Committee.

OPERATING RESERVE

PURPOSE

SAME's primary investment objectives for its operating reserves funds are to preserve the financial stability of the association, protect its assets, and to provide supplemental cash to meet the needs of SAME's general operations.

INVESTMENT OBJECTIVES

The investment objectives of the Operating Reserve are:

- 1) Preservation of purchasing power
- 2) Long-term growth of capital
- 3) Maximize returns in keeping within parameters #1 and #2 listed above

TIME HORIZON

The time horizon for investment purposes shall be 7-10 years. Investment performance and strategy will be monitored on a regular basis and adjusted as deemed appropriate.

SPECIFIC INVESTMENT GOALS

Over rolling seven to ten year periods, it is the goal of the aggregate Operating Reserve Fund assets to exceed, 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 goals above are the objectives for the *aggregate* Operating Reserve Fund rather than for each Investment Manager. The goal of each Investment Manager, over the investment horizon (defined as 7-10 years), shall be:

- 1) to meet or exceed the benchmark that most closely corresponds to the style of 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 Operating Reserve Fund's total return objective (as stated above) is the Society's primary concern. The Executive Committee understands that in order to achieve its objectives for Operating Reserve Fund assets, the Operating Reserve Fund 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 -7.5% in a given year.

Diversification

The fund shall not invest 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.

The fund shall invest only 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 Operating Reserve 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 Operating Reserve may be invested in equities, fixed income securities, cash, cash equivalents, and alternative assets. The proportion of the Operating Reserve invested in each asset class should not be less or more than the percentages 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	52%	40%	to	70%
US Equity	27%	20%	to	40%
Non-US Equity	20%	10%	to	30%
Real Estate (REITs)	5%	0%	to	10%
Alternatives	9%	0%	to	15%
Fixed Income	39%	30%	to	60%
Cash & Equivalents	0%	0%	to	10%

Rebalancing

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

Reporting

The investment advisor will prepare a quarterly report to be distributed to the Staff and the Investment Committee containing a schedule of investments, the current asset allocation and investment performance compared to the objectives of this 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 (REIT's)

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 policy is prohibited.

