

## American Finance Association Investment Policy

### Overall Purpose of the Investment Policy

The purpose of this policy is to set forth the standards and guidelines governing the investment and management of the American Finance Association's (AFA) financial assets in compliance with donor, state, and federal laws and regulations, if any. This policy governs the investment of two groups of funds: the long-term/endowment pool and the Fischer-Black prize pool. Because each pool has a different objective, this investment policy addresses them separately. This policy also outlines the responsibilities of the AFA board of directors, its investment subcommittee, and any other party involved in managing the AFA's investments; and identifies or provides permissible investments, target asset allocations, and diversification requirements.

### Investment Pools

The long-term investment/endowment pool supports the AFA's mission by providing a substantial, sustainable flow of funds for operations. Developed with the generous gifts of the AFA's supporters over time as well as reinvestment of earnings, the long-term/endowment pool provides a reliable source of funds for current and future use. It is held for the AFA's exclusive use, benefit, and purpose.

The Fischer-Black prize pool provides funds to allocate to the prize winners every other year. Funds in this pool consist of net assets with donor restrictions.

### Responsibilities and Delegation of Authority

The Board has ultimate responsibility for the prudent management of the AFA's investment assets. In fulfilling its responsibilities, the Board may delegate authority for the oversight of investments to the Investment Committee. The Board, the Investment Committee, and their agents will act in accordance with this policy and all applicable laws and regulations. The Investments Committee will review this policy on a regular basis and make recommendations to the Board for any necessary revisions to support the AFA's investment objectives. All participants in the investment process shall act responsibly and in a manner that is consistent with their roles as fiduciaries of the AFA.

It is the responsibility of the Investments Committee to

- review and approve this policy, which addresses
  - asset allocation targets;
  - investment guidelines relating to eligible investments, diversification and concentration restrictions, and performance objectives; and
  - acceptable risk levels.
- hire an external investment manager, consultants, bank custodian(s), and/or other experts, if needed, to manage the investments in accordance with this policy.
- monitor the external investment managers' and other experts' adherence to this policy and evaluate the performance of the portfolio using the objectives and guidelines stated herein.

- evaluate and recommend changes to the asset allocation targets and ranges, as necessary, to achieve the performance goals for the investments.

Should the AFA outsource its investment management, it is the responsibility of external investment manager to

- invest the assets placed in his or her care in accordance with this policy,
- report monthly investment performance results to Executive Secretary and Treasurer,
- communicate any major changes in the economic outlook that may impact the investment strategy to the investment committee chair and management, and
- present a written report annually to the board of directors

## **Long-term Investment/Endowment Pool**

### **Investment Objectives**

The primary investment objective of the long-term/endowment investment pool is to provide a sustainable maximum level of return that is consistent with prudent risk levels. The long-term investment program balances short-term spending needs with the preservation of the real (inflation-adjusted) value of assets.

The goal of the long-term/endowment investment pool is to provide real returns of 3-5% above inflation on the invested capital over long periods.

### **Investment Guidelines**

The investment committee and any designated managers are expected to adhere to the following guidelines unless otherwise noted in an addendum to this policy or in a separate written agreement with the manager. General guidelines and cash equivalents guidelines outlined below apply to all investment managers including the Executive Secretary and Treasurer and the Investment Committee.

### **Approved Investments**

Approved assets include the following:

- Fixed income and cash. The goal for the fixed income assets is to provide diversification for the total portfolio, reduce the overall volatility of the portfolio, and generate periodic predictable cash flows that can be used in support of annual spending requirements. Within fixed income category, the following investments are permitted:
  - Cash
  - Certificate of deposit [specify limit per institution]
  - Money market funds with Moody's rating of AAA or Standard and Poor's rating of AAAM
  - United States Treasury bills, notes, bonds, zero coupon bonds, STRIPs, and TIPS
  - Securities issued by federally related institutions (with full faith and credit backing by the U.S. government)
  - Commercial paper with minimum ratings at the time of purchase of A-1 (S&P) or P-1 (Moody's)
  - Well-diversified bond mutual funds and ETFs, containing both domestic and foreign obligors
  - Individual corporate notes and bonds. Constraints on individual corporate bond positions are listed below.

- Global equities. Equity investments in U.S. and international companies are typically among the most liquid and well-researched opportunities. These investments will typically be in the form of well-diversified ETFs or mutual funds. Constraints on individual equity positions are listed below.
- Alternative Investments. This asset class represents one of the most illiquid investment classes; however, alternative investments offer potentially attractive returns because they may take advantage of market inefficiencies and may benefit from active management strategies. Such investment may include private placements, hedge funds, and/or real assets.

External investment managers will 1) advise the AFA when they become aware of a downgrade that, had it been in effect at the time of purchase, would have prevented the investment from being permitted under the above constraints; and 2) agree to a plan for disposition of the investment.

Prohibited investments include the following, unless specifically authorized by the Investments Committee in a separate written agreement:

- Securities purchased on margin or via short sales
- Securities of an investment manager, its parent, or its affiliates
- Futures, forwards, and options
- Commodities or commodity contracts

Investments should be screened and evaluated to ensure that they are aligned with the AFA's mission.

### **Current Asset Allocation Targets and Rebalancing**

The Investment Committee has the responsibility to re-evaluate targets given market conditions. If the target is modified, the Board will be notified and asked for approval. Once a bound is met, the portfolio will be rebalanced to the target. The current target allocation and range are listed below:

Asset Category	Target	Range
Global equities (domestic and foreign)	60%	50%–70%
Private and alternative assets	0%	0%–10%
Fixed income and cash	40%	30%–50%

### **Fischer-Black Prize Pool**

#### **Purpose and Investment Objectives**

The primary investment objectives of the Fischer-Black prize pool are to preserve capital, maintain necessary liquidity, and maximize investment return within appropriate risk constraints.

#### **Approved Investments**

- Fixed income and cash. The goal for the fixed income assets is to provide diversification for the total portfolio, reduce the overall volatility of the portfolio, and generate periodic predictable cash flows that can be used in support of annual spending requirements. Within fixed income category, the following investments are permitted:

- Cash
- Certificate of deposit [specify limit per institution]
- Money market funds with Moody's rating of AAA or Standard and Poor's rating of AAAM
- United States Treasury bills, notes, bonds, zero coupon bonds, STRIPs, and TIPS
- Securities issued by federally related institutions (with full faith and credit backing by the U.S. government)
- Commercial paper with minimum ratings at the time of purchase of A-1 (S&P) or P-1 (Moody's)
- Well-diversified bond mutual funds and ETFs, containing both domestic and foreign obligors
- Individual corporate notes and bonds. Constraints on individual corporate bond positions are listed below.
- Global equities. Equity investments in U.S. and international companies are typically among the most liquid and well-researched opportunities. These investments will typically be in the form of well-diversified ETFs or mutual funds. Constraints on individual equity positions are listed below.

External investment managers will 1) advise the AFA when they become aware of a downgrade that, had it been in effect at the time of purchase, would have prevented the investment from being permitted under the above constraints; and 2) agree to a plan for disposition of the investment.

Prohibited investments include the following:

- Non-marketable securities or those for which no public market exists (except for time deposits, repurchase agreements and money market funds)
- CMOs and other CDOs
- Unrated securities, except for money market funds, repurchase agreements, and time deposits
- Futures, forwards, and options
- Foreign currency denominated securities

Investments should be screened and evaluated to ensure that they are aligned with the AFA's mission.

### Asset Allocation Targets

Asset Category	Target	Range
Cash and cash equivalents	0%	0%–15%
Fixed income	45%	35%–55%
Public equities	55%	45%–65%

### Withdrawals from the Portfolio

The Investment Committee authorizes the Executive Secretary and Treasurer to withdraw funds from the AFA Investment Account for operating expenses up to \$100,000 in a six-month period without approval. The Investment Committee may grant approval for amounts above \$100,000 on a one-time or recurring basis.

## **Diversification**

The Investment Committee and its designated investment managers are responsible for achieving a level of diversification in their portfolio that is consistent with their investment approach and their role in the AFA's overall investment structure. Managers may be retained for portfolios that concentrate in specific market segments. The Investments Committee may waive general diversification guidelines upon request for these "special purpose" portfolios.

### **Diversification Guidelines**

- the AFA will maintain a reasonable diversification of investment assets between and within asset classes and investment categories at all times.
- Investments in the equity or debt securities of any one company shall not exceed 5 percent of the overall investment portfolio nor shall the total securities position (debt and equity) in any one company exceed 10 percent of the portfolio.

### **AFA Authorized Persons on the Investment Account**

The AFA may authorize, with the approval of the board, certain individuals to have access to the investment accounts of the Association. Such individuals must pass a background check, be U.S. citizens, and may not also hold a passport issued by a foreign country without an extradition treaty with the U.S.