

# Bay East Association of REALTORS®

## Investment Policy

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## **Purpose**

The purpose of the Investment Fund is to optimize total returns over the short (up to 12 months) and long term (1 to 5 years) based on prudent-risk guidelines. Toward this end, the Investment Fund will provide a source of non-dues revenue that will supplement membership dues sufficiently to moderate fluctuations in the Association's general operations and to ensure the flexibility and long-term viability of the Association.

Short term investment transactions are to be conducted by the CFO and/or CEO as needed.

Long term investment transactions require review and recommendation by the Investment Advisory Committee and approval by the Board of Directors.

## **Investments by Bay East Staff**

Authorized Investments – the following inclusive list of investments is authorized, subject to the section on implementation.

1. US Treasury bills, notes and bonds.
2. Certificates of Deposit insured by FDIC
3. CDARs Investments
4. AAA Corporate Bonds
5. Money Market Funds. For accounts where the amount exceeds FDIC insurance coverage the Money Market Fund must invest exclusively in government backed securities.
6. Interest bearing checking accounts and money market accounts and savings in federally insured institutions not to exceed federally insured amounts.

## **Investments with a Third Party Investment Manager**

1. No limit on number of investment managers to be selected.
2. The management of the fund(s) will be active in nature.
3. All income received will be maintained in the portfolios allowing for compounding of returns.
4. Investment Manager **may invest** in all permitted investment classes by Bay East staff (listed above), with the following additions:
  - **Mortgage-Backed Securities**  
The term “mortgage-backed securities” refers to Ginnie Mae pooled mortgage-backed investments and similar instruments.  
No more than 35% of the fixed income portfolio shall be invested in mortgage-backed securities.  
All mortgage backed securities must have a rating of A- or better.
  - **Global & Inflation-Related Fixed Income**  
A portfolio of fixed income securities diversified across geography, maturities, credit ratings and sector in US dollars or local currencies, developed and emerging-market countries, inflation swap agreements, TIPS and other inflation-related securities. No more than 15% shall be invested in global & inflation-related fixed income. Up to 10% of the portfolio may be invested in High Yield securities. Fixed income exposure will be gained through the use of mutual funds and will therefore be managed by the mutual fund prospectus, not the stated guidelines.
  - **Collateralized Mortgage Obligations**  
Collateralized mortgage obligations must be rated A- or better.  
No more than 10% of the fixed income portfolio shall be invested in collateralized mortgage obligations.

### **Equities**

Equities refer to common stocks.  
No more than 8% of any Investment Manager’s portfolio shall be invested in the common stock of any one company.  
No more than 40% of an Investment Manager’s portfolio (equity portion of the portfolio) shall be invested in any one sector.

### **Convertible Securities**

Convertible securities include: securities that are convertible into the common stock of U.S. based companies. This would include convertible bonds, convertible preferred stock, and mandatory convertible securities (*e.g.*

PERCs, CHIPs, and ELKs). Private placement convertible issues, also known as "144A" convertible securities, may not be purchased. All convertible securities purchased must be U.S. dollar denominated securities. For the purposes of asset allocation, convertible securities shall be considered equities. Convertible securities shall be limited to no more than 10% of the equity portion of the portfolio.

### **International Equities**

Allowable international securities are: sponsored and unsponsored American Depositary Receipts (ADR's) or American Depositary Shares (ADS's) or other depositary securities of non-U.S. based companies traded in the U.S. and closed-end country funds. Equities of foreign domiciled companies may also be purchased so long as the securities are registered (or filed) with applicable foreign body governing securities regulation in that country and traded on a recognized exchange or over-the-counter market. Non-US dollar denominated equity securities traded on recognized exchanges may also be purchased.

International Equities shall be limited to no more than 25% of the equity portion of the portfolio.

5. The following Asset Class Exclusions are **to be excluded** from the portfolio mix:
  - Short Sales
  - Purchases of letter stock, private placements (including 144A securities), or direct payments;
  - Leveraged transactions
  - Non covered puts, calls, straddles, or other option strategies;
  - Purchases of real estate, oil and gas properties, or other natural resources related properties including Real Estate Investment Trusts (REIT) or marketable real estate securities;
  - Investments in limited partnerships except for publicly traded Master Limited Partnerships;
  - Investments in futures, use of margin or investments in any derivatives not explicitly permitted in this policy statement
  - Investments in Yankee bonds and notes;
  - Investment in private placement issues
  - Non-US dollar denominated equity securities traded on over-the-counter markets outside the U.S are prohibited (does not apply if utilizing Mutual Funds).
  - Investments by the Investment Managers in their company securities, their affiliates, or subsidiaries (excluding money market or other commingled funds as authorized by the Investment Committee).
6. Bay East may engage a third party investment advisory firm to monitor the performance of selected investment managers.

## **Implementation and Account management**

1. Asset Allocation Study: At the inception of the assignment and thereafter annually and as deemed necessary by the Committee, the Investment Manager shall conduct a detailed Asset Allocation Study which shall examine all relevant and appropriate asset classes available to the Fund and propose a wide variety of allocation alternatives for the consideration of the Advisory Committee.

The study should reflect expectations for a wide range of potential experiences with returns and volatility of the various portfolios. While historical returns and relationships of asset classes should be considered in constructing this study, the results should be firmly based on current market conditions and expected future relationships among these asset classes. The purpose of this study will be to provide the Committee with information related to the probability of each alternative asset allocation in achieving its projected goal.

2. Investments must be in one or more of the listed approved investments and may be (a) direct or (b) indirect through a Registered Investment Advisor.
3. "Registered Investment Advisor" means a major investment house or commercial bank that is subject to regulations by the U.S. Government or an agency thereof, is a member of the New York and/or American Stock Exchange (in the case of an investment house), and is approved by the Investment Committee.
4. Brokered CDs, CDARs and multiple CDs in a given institution are subject to the current FDIC insurance coverage and must therefore be limited to that amount.
5. Bay East may occasionally retain the services of a separate Investment Advisor to review the balances, positions, transactions and performance of the investment portfolio.
6. An Investment Manager will be granted discretionary authority to initiate transactions in accordance with the policies, guidelines and restrictions mandated in this document. To this end, each approved investment manager will be provided with (a) a copy of this policy and (b) a list of authorized Bay East personnel compiled by the Bay East CEO who will periodically review transactions for compliance with this policy.
7. Total accumulated balances of the available reserve funds may be pooled for investing to achieve higher yields. In this approach, accounting processes shall remain separate for each reserve fund.
8. Notwithstanding language to the contrary, assets invested in comingled vehicles will be managed in accordance with the investment policies, procedures, and guidelines set for the in the offering documents of the vehicles.

## REPORTING REQUIREMENTS AND PERFORMANCE REVIEW

- On a yearly basis, the manager(s) performance will be reviewed by the Investment Committee to determine results. It is understood that Bay East should invest to minimize the likelihood of low negative total returns, defined as a 12 months return worse than negative 10%.
- In the event the overall portfolio drops below 90% of the initial investment (and net of all 3<sup>rd</sup> party related fees), the Committee shall conduct an immediate review of the overall/individual parts of the portfolio and investment advisor.
- The members of the Investment Committee (CEO, CFO, past presidents, President, President Elect and Treasurer) will meet with the manager(s) as needed.
- The Investment Manager will manage the association's assets in a manner consistent with this document.

The Treasurer shall make a report to the Board of Directors at their monthly meeting on all activity within the Investment Portfolio.

A quarterly review of investments should be performed by the Investment committee as compared but not limited to the following:

- (1) The CPI
- (2) 10 Year T-Bill Index
- (3) The S&P 500 Index

Comparisons will show results for the latest quarter, year-to-date and since inception.

### ***Performance Benchmarks***

Because benchmarks vary by asset class and individual assets, the benchmarks to be used to evaluate portfolio performance will be determined by Bay East Staff and the Investment Consultant, for asset classes and individual assets where applicable, and noted as an Addendum to this document. A common benchmark for each asset class, as recommended by the Investment Consultant and approved by the Bay East Staff, will be used to measure the portfolio performance of each Investment Counselor.

## **Reserve Policies and Asset Allocation Guidelines**

### **Cash and Short Term Operational Funds**

There should be minimum exposure to market risk or interest rate risk with short term funds. In other words, the asset allocation should be 100% cash and/or short term fixed income such as CDs or CDARs. Short term investments should not exceed 12 months in length of investment. The Bay East billing cycle is July through June. Operational cash peaks at the beginning of the billing cycle and reaches the lowest value in May, before the billing cycle begins.

### **Short Term Reserves**

Total Reserves are the funds in excess of those required to meet the short-term operating cash needs of the Association. Short Term Reserves assume an investment time frame not to exceed 24 months and make up about 40% of the total Reserves.

Recommended Short Term Reserves:

<b>Asset Allocation Guidelines – Short Term Reserves (40% of total reserves)</b>			
<b>Asset Class</b>	<b>Minimum</b>	<b>Target Percentage</b>	<b>Maximum</b>
Fixed Income	80%	90%	100%
Equities	00%	0%	0%
Cash and Cash Equivalents	0%	10%	20%
Total		100%	

### **Long Term Reserves**

Long term investments may not exceed 60% of the association's total reserves. It is recommended that a minimum of 70% of long term funds be invested in fixed income securities with up to 5 year time horizon. The remaining 30% may be invested in a combination of growth-oriented assets such as equities, real assets, commodities, alternatives and other assets as outlined in Section II with up to a 5 year time horizon as well.

Recommended investments are:

<b>Asset Allocation Guidelines – Long-Term Core Reserves (60% of total reserves)</b>			
<b>Asset Class</b>	<b>Minimum</b>	<b>Target Percentage</b>	<b>Maximum</b>
Fixed Income	70%	80%	90%
Equities	10%	20%	30%
Cash and Cash Equivalents	0%	0%	10%
Total		100%	



## **Portfolio Rebalancing**

Over time, an asset class allocation in any given account will move away from its long-term strategic target. It is understood that the process of rebalancing will be undertaken to make sure the portfolio remains within the targeted allocation.

Rebalancing will occur in accordance with the investment manager's internal rebalancing rules.

Under normal market conditions, we will direct the investment manager to apply automatic rebalancing to all asset classes. From time to time, an asset class allocation will move away from its long-term strategic target due to market movements. When this happens to a magnitude of 5% or greater, the intent will be to move the asset allocation back towards its long-term target. It is understood that it is inefficient to rebalance to the strategic target until the estimated added value more than pays for the transaction costs and taxes. Generally, it is appropriate to rebalance either through cash flow or selling an asset class and bringing the allocation half way back toward its strategic target.

Under extreme market conditions, we may choose to suspend rebalancing in order to isolate and preserve the fixed income allocation. In this case, we will direct the investment manager to not initiate trades geared toward rebalancing. In this circumstance, unless directed otherwise, any cash-including interest and dividends-deposited or withdrawn will still be managed with the objective of bringing the asset allocation closer to the underlying target