

IPA Policy Manual

Chapter 7 – Finance

7.1 Investment Policy

DELEGATION OF AUTHORITY

The Board of Directors of the Illinois Principals Association is a fiduciary, and is responsible for directing and monitoring the investment management of Investment Account assets. As such, the Board of Directors is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. Investment Management Consultant. The consultant may assist the Board of Directors in: establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
2. Investment Manager. The investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Investment Account's investment objectives.
3. Custodian. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Investment Account, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Investment Account accounts.
4. Co-Trustee. The Board of Directors may appoint an outside individual or entity, such as a bank trust department, to be co-trustee. The Co-Trustee will assume fiduciary responsibility for the administration of Investment Account assets.
5. Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants, and others may be employed by the Board of Directors to assist in meeting its responsibilities and obligations to administer Investment Account assets prudently.

The Board of Directors will not reserve any control over investment decisions, with the exception of specific limitations described in these statements. Managers will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment managers, each manager should request modifications which they deem appropriate.

If such experts employed are also deemed to be fiduciaries, they must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the Investment Account as deemed appropriate and necessary.

DEFINITIONS

1. "Investment Account" shall mean the Illinois Principals Association.
2. "Finance Committee" shall refer to members of the Board of Directors appointed annually by the Association's President to administer the Investment Account as specified by applicable ordinance.
3. "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Investment Account assets.
4. "Investment Manager" shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Investment Account assets.
5. "Investment Management Consultant" shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
6. "Securities" shall refer to the marketable investment securities which are defined as acceptable in this statement.
7. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Investment Account is 10 years.

ASSIGNMENT OF RESPONSIBILITY

Responsibility of the Investment Manager(s)

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 statement. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
2. Reporting, on a timely basis, quarterly investment performance results.
3. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objective progress of the Investment Account's investment management.
4. Informing the Finance Committee regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

5. Voting proxies, if requested by the Executive Director, on behalf of the Investment Account, and communicating such voting records to the Executive Director on a timely basis.

Responsibility of the Investment Consultant(s)

The Investment Consultant's role is that of a non-discretionary advisor to the Finance Committee of the Illinois Principals Association. Investment advice concerning the investment management of Investment Account assets will be offered by the Investment Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the Investment Consultant include:

1. Assisting in the development and periodic review of investment policy.
2. Conducting investment manager searches when requested by the Executive Director.
3. Monitoring the performance of the Investment Manager(s) to provide the Finance Committee with the ability to determine the progress toward the investment objectives.
4. Communicating matters of policy, manager research, and manager performance to the Finance Committee.
5. Reviewing Investment Account investment history, historical capital markets performance and the contents of this investment policy statement to any newly appointed members of the Finance Committee.

GENERAL INVESTMENT PRINCIPLES

1. Investments shall be made solely in the interest of the beneficiaries of the Investment Account.
2. The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
3. Investment of the Fund shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
4. The Board of Directors may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives.
5. Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.

INVESTMENT MANAGEMENT POLICY

1. Preservation of Capital - Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.

2. Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the Board of Directors recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Investment Account's objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
3. Adherence to Investment Discipline - Investment managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

SPENDING POLICY

The purpose of this spending policy is to direct the transfer of investment income to support the financial operations of the IPA. The IPA has no annual spending requirement. The IPA budget shall not include as revenue (or anticipated revenue) any investment income, unless specifically approved by the IPA Board of Directors in accordance with the IPA constitution. Unless so provided, all investment income shall be reinvested in accordance with this investment policy.

INVESTMENT OBJECTIVES

In order to meet its needs, the investment strategy of the Illinois Principals Association is to emphasize current income; that is, to generate a predetermined level of investment income to meet the cash flow needs on a periodic basis for various financial requirements.

Specifically, the primary objective in the investment management for Investment Account assets shall be:

High Current Income - To maximize the generation of investment income (interest and dividends) while avoiding excessive risk.

The secondary objective in the investment management of Investment Account assets shall be:

Income and Growth - To achieve a balanced return of current income and modest growth of principal.

SPECIFIC INVESTMENT GOALS

Over the investment horizon established in this statement, it is the goal of the aggregate Investment Account assets to exceed:

An absolute rate of return of 0%.

The investment goals above are the objectives of the aggregate Investment Account, and are not meant to be imposed on each investment account (if more than one account is used). The goal of each investment manager, over the investment horizon, shall be to:

1. Meet or exceed the market index, or blended market index, selected and agreed upon by the Finance Committee that most closely corresponds to the style of investment management.

2. Display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.

Specific investment goals and constraints for each investment manager, if any, shall be incorporated as part of this statement of investment policy.

DEFINITION OF RISK

The Board of Directors realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the Illinois Principals Association assets understands how it defines risk so that the assets are managed in a manner consistent with the Investment Account's objectives and investment strategy as designed in this statement of investment policy. The Board of Directors defines risk as:

The probability of not meeting the Investment Account's liabilities or cash flow requirements.

LIQUIDITY

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Executive Director will periodically provide investment counsel with an estimate of expected net cash flow. The Executive Director will notify the investment consultant in a timely manner, to allow sufficient time to build up necessary liquid reserves.

To maintain the ability to deal with unplanned cash requirements that might arise, the Board of Directors requires that a minimum of 25% of Investment Account assets shall be maintained in cash or cash equivalents, including money market funds or short-term U.S. Treasury bills.

MARKETABILITY OF ASSETS

The Board of Directors requires that all of Investment Account assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Investment Account, with minimal impact on market price.

INVESTMENT GUIDELINES

Allowable Assets

1. Cash Equivalents
 - Treasury Bills
 - Money Market Funds
 - STIF Funds
 - Commercial Paper
 - Banker's Acceptances
 - Repurchase Agreements
 - Certificates of Deposit
2. Fixed Income Securities
 - U.S. Government and Agency Securities
 - Corporate Notes and Bonds

- Preferred Stock
 - Fixed Income Securities of Foreign Governments and Corporations
 - Planned Amortization Class Collateralized Mortgage Obligations (PAC CMOs) or other "early tranche" CMOs
3. Equity Securities
 - Common Stocks
 - Convertible Notes and Bonds
 - Convertible Preferred Stocks
 - American Depositary Receipts (ADRs) of Non-U.S. Companies
 - Stocks of Non-U.S. Companies (Ordinary Shares)
 4. Alternative Investments
 - The above-referenced strategies may include, but are not limited to, investments (directly or indirectly) in the following: common and preferred stocks, options, warrants, convertible securities, foreign securities, foreign currencies, commodities, commodity futures, financial futures, derivatives, real estate, bonds (both investment-grade and non-investment-grade, including high-yield debt, distressed or other securities) and other assets. Strategies may utilize short-selling and leverage.
 5. Mutual Funds
 - Mutual Funds which invest in securities as allowed in this statement.
 6. Other Assets
 - GIC's

Asset Allocation Guidelines

Investment management of the assets of the Illinois Principals Association shall be in accordance with the following asset allocation guidelines:

1. Aggregate Investment Account Asset Allocation Guidelines (at market value)

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>
Equities	0%	25%
Fixed Income	50%	85%
Alternative Investments	0%	0%
Cash and Equivalents	15%	50%

In the event that IPA's investment portfolio balance exceeds Four Million Dollars (\$4,000,000) the above asset allocation guidelines may be amended to allow for up to a 40% investment in equities, provided that no more than 5% of such equities are invested in non-U.S. large stocks – developing countries and no more than 5% of such equities are invested in non-U.S. stocks – emerging markets. Should IPA's investment portfolio balance drop below Four Million Dollars (\$4,000,000), investments shall be reinvested to comply with the above asset allocation guidelines.

2. The Board of Directors may employ investment managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Investment Account, such disciplines must fit within the overall asset allocation guidelines established in this statement.

3. In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Executive Director will instruct the Investment Consultant(s) to bring the portfolio(s) into compliance with these guidelines as promptly and prudently as possible. In the event that any individual Investment Manager's portfolio is in violation with its specific guidelines, for reasons including but not limited to market price fluctuations, the Board of Directors expects that the Investment Consultant will bring the portfolio into compliance with these guidelines as promptly and prudently as possible without instruction from the Executive Director.

Diversification for Investment Managers

The Board of Directors does not believe it is necessary or desirable that securities held in the Investment Account represent a cross section of the economy. However, in order to achieve a prudent level of portfolio diversification, the securities of any one company or government agency should not exceed 35% of the total fund, and no more than 40% of the total fund should be invested in any one industry. Individual treasury securities may represent 85% of the total fund, while the total allocation to treasury bonds and notes may represent up to 100% of the Investment Account's aggregate bond position.

Guidelines for Fixed Income Investments and Cash Equivalents

1. Investment Account assets may be invested only in investment grade bonds rated BBB (or equivalent) or better.
2. Investment Account assets may be invested only in commercial paper rated BBB (or equivalent) or better.
3. Fixed income maturity restrictions are as follows:
 - Weighted average portfolio maturity may not exceed 15 years.
4. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poors, and/or Moody's.

SELECTION OF INVESTMENT MANAGERS

The selection of Investment Manager(s) must be based on prudent due diligence procedures. Other than alternative investment managers, all qualifying investment managers must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company.

INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

Performance reports generated by the Investment Consultant shall be compiled at least quarterly and communicated to the Executive Director for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. 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 statement. The Board of Directors intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate a manager for any reason including the following:

1. Investment performance which 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 statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

Controls and Reports

The Executive Director shall establish a system of internal controls to prevent losses arising from fraud, employee error, misrepresentation by third parties, or imprudent employee action.

The Executive Director shall provide investment reports to the Treasurer. In addition, monthly investment reports shall be provided to the Association's Auditor.

INVESTMENT POLICY REVIEW

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Finance Committee plans to review investment policy at least annually.

This statement of investment policy is adopted on January 15, 2019 by the Board of Directors of the Illinois Principals Association and is recorded in the official minutes of said meeting.

Conflict of Interest

No IPA employee responsible for the Association's investment decisions shall knowingly:

- a. Have any interest, directly or indirectly, in any authorized investments.
- b. Have any interest, directly or indirectly, in the seller, sponsors, or managers of those investments.
- c. Receive, in any manner, compensation of any kind from any entity managing the Association's investments.

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