

ARA FINANCIAL MANAGEMENT AND INVESTMENT POLICY

I. PURPOSE:

- Establish guidelines for the prudent management of all of the Organization's financial assets: operating cash accounts, short term cash equivalents and its investment portfolio (endowment) to ensure its financial security in perpetuity.
- Monitor these financial assets by establishing accountability standards and provide for a yearly review.
- Define the responsibilities of the Board of Directors and any other parties involved in managing the Organization's financial assets.
 - Financial Advisory Committee
 - Other financial professionals (bankers, brokers, investment counselors, etc.) involved in managing the Organization's financial assets
- Provide for risk management as required by the Board of Directors, including diversification, by defining permissible investments.

II. ARA FINANCIAL MANAGEMENT OBJECTIVE (GOAL): Provide the organization with financial stability in perpetuity by planning for both good and bad financial market eventualities:

The overall investment objective of the Organization is to maximize the return on invested assets while managing risk and expenses. This will be done through prudent planning, investing and maintaining a diversified portfolio of all of its financial assets. As a Seacoast organization, we prefer to deposit/invest our assets locally with banks and brokerage firms located in our communities or at a minimum, having local representation.

A. DEFINITION OF FINANCIAL ASSETS

- Operating Funds (available on demand) held in FDIC insured bank account (s) which may or may not pay interest. Transactional/short term in nature, these funds are used to facilitate the payment of on-going expenses and the collection of annual dues. Operating funds should cover annual budgeted expenses with provision for a plus/minus 10% variance or as otherwise determined by the Board of Directors.
- Surplus Funds (Operating) are those that are over and above those needed in the current fiscal year. Surplus funds are to be held in FDIC insured bank account (s). Longer term in nature, these balances may be invested in Money Market accounts or Certificates of Deposit with laddered maturity dates to provide for reasonable liquidity for "short fall" needs over and above those covered in the annual budget. The short fall may be the result of a reduction in income as well as an increase in expense.
- Investment Funds held at financial services firms which may include non-FDIC insured banks, conventional brokerage firms and mutual fund companies. The investment portfolio is longer term in nature and may be diversified over a range of financial instruments. **Note:** ARA's endowment fund, the Memorial Fund, includes our largest holding of investment funds. However, other ARA assets may be held in medium to longer term investments as well.
- The Memorial Fund is an endowment fund whose primary objective is to preserve existing principal and to increase principal from contributions.
 - ◆ Income generated by the Memorial Fund investment portfolio is "swept" into a separate account at the brokerage firm (s). Known as the Memorial Fund

Operating account, which is shorter term in nature, may be used to fund Memorial Fund lectures and associated expenses as well as other special projects /and or purchases not covered by the ARA operating budget.

- ◆ Reference is made to the ARA Memorial Fund Policy approved by the Board 12/16/2003 and revised as the ARA Memorial Fund Investment Policy on 5/17/2005 and again on 8/19/2008. This policy replaces previous ARA Memorial Fund investment policies.

B. GENERAL PROVISIONS OF INVESTMENT OBJECTIVE

- All transactions shall be for the sole benefit of the Organization.
- The Directors shall consider reviewing the Organization's financial management policy on an annual basis and updating its investment policy based on recommendations of the Financial Advisory Committee.
- The Directors shall conduct an annual review of the Organization's investment assets to verify the existence and marketability of the underlying assets or satisfy themselves that such a review has been conducted in connection with an independent audit (if any) of the Organization's financial statements.
- Any investment that is not expressly permitted under this Policy must be formally reviewed and approved by the Directors.
- The Directors will conduct the Organization's investment program in compliance with all applicable state, federal and local laws and regulations concerning management of investment assets
- The suitability of investments shall be consistent with the Organization's stated risk tolerance and other objectives determined by the Board of Directors.

III. DELEGATION OF RESPONSIBILITY and RELIANCE ON EXPERTS AND ADVISORS

- The Board of Directors has ultimate responsibility for the investment and management of the Organization's investment assets.
- The Board may hire outside financial experts as investment consultants or investment managers.
- The Board may also establish a Financial Advisory Committee (which may include non-Director members) to provide investment advice to the Board. The committee will be chaired by the Treasurer, include the Memorial Fund Director and will consist of other directors and members with applicable expertise. Advisory committees, by definition, have no authority to act for the Board, but may monitor compliance with the investment policy, recommend changes, and assist the Board in selecting and retaining investment managers to execute this investment policy.

IV. RESPONSIBILITIES OF THE BOARD and the FINANCIAL ADVISOR COMMITTEE:

- The Board with guidance from its Financial Advisory Committee is charged with the responsibility of managing the investment assets of the Organization. The specific responsibilities of the Board and its Financial Advisory Committee include:
 - 1) Communicating the Organization's financial needs to its outside financial professionals on a timely basis.

- 2) Determining the Organization's risk tolerance and investment horizon and communicating these to the appropriate parties.
- 3) Establishing reasonable and consistent investment objectives, policy guidelines and allocations which will direct the investment of the assets, to be reviewed by the Board on an annual basis.
- 4) Prudently and diligently selecting one or more qualified financial professionals including investment managers(s), investment consultant(s), and custodian(s).
- 5) Regularly evaluating the performance of financial professionals to assure adherence to policy guidelines and to monitor investment objective progress.
- 6) Developing and enacting proper control procedures; e.g., replacing financial professionals due to a fundamental change in the investment management process, or for failure to comply with established guidelines.

V. GENERAL FINANCIAL AND INVESTMENT GUIDELINES:

- A copy of this Policy may be provided to all outside Financial Professionals.
- The Organization is a tax-exempt organization as described in section 501(c) 3 of the Internal Revenue Code. This tax-exempt status should be taken into consideration when making Organization investments.
- The Organization is expected to operate in perpetuity; therefore, a 10 year investment horizon shall be employed. Interim fluctuations should be viewed with appropriate perspective.
- One or more cash accounts shall be maintained with a zero to very low risk tolerance to keep cash available for reinvesting for income generation or for anticipated expenses.
- Transactions shall be executed at reasonable cost, taking into consideration prevailing market conditions and services and research provided by the executing broker

VI. RISK MANAGEMENT GUIDELINES:

A. PERMITTED INVESTMENTS

- The organization's investment portfolio may include the following:
 - 1) Cash & Equivalents
 - 2) Individual Bonds and Other Fixed Income Securities
 - US Government
 - Municipal
 - Corporate
 - Packaged portfolios such as mutual funds, ETFs, etc.
- Individual Equities
 - Domestic (Large/Mid/Small Cap)
 - International
- No fixed income security shall have an equivalent credit quality below investment grade at the time of purchase, defined as:
 - 3) BBB by Standard & Poor's for straight bonds and convertibles
 - 4) Baa3 by Moody's Investor Service for straight bonds and convertibles
 - 5) A1 by Standard & Poor's for short term securities
 - 6) P1 by Moody's Investor Service for short-term securities

7) AAA for money market accounts

- Rebalancing shall be done on a semi-annual basis or more frequently if deemed necessary
- Rebalancing is a periodic adjustment to the mix of investment types in order to more accurately comply with the organization's stated risk tolerance.
- The following transactions are prohibited: Purchase of non-negotiable securities, derivatives, high risk or junk bonds, private placements, precious metals, commodities, short sales, any margin transactions, straddles, warrants, options, life insurance contracts, leverage or letter stock.

B. DIVERSIFICATION

- The Organization will maintain reasonable diversification of investment assets between asset classes and investment categories at all times.
- Investments in the equity securities of any one company should not exceed [5%] of the portfolio nor shall the total securities position (debt and equity) in any one company exceed [10%] of the portfolio.
- Reasonable sector allocations and diversification should be maintained. As a guideline, no more than [25%] of the entire portfolio may be invested in the securities of any one sector.
- Investments within the investment portfolio should be readily marketable.
- Each investment in the portfolio must be identified for review purposes.

C. ASSET ALLOCATION

- The Organization should develop an asset allocation policy based on its goals/objectives, cash needs and risk tolerance.
- The policy should be a written one and endorsed by the Board of Directors on an annual basis.
- The resources to determine the Organization's asset account shall include those provided by financial professionals.

D. MEASURING PERFORMANCE

Performance of ARA's investments shall be evaluated periodically by the Financial Advisory Committee to assure that the portfolio is consistent with the Organization's goals. The committee will provide a written report of the evaluation to the Board of Directors at least once per year.