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## INVESTMENT POLICY STATEMENT (DRAFT)

### Lutheran Services in America, Incorporated Board of Directors Meeting

August 2016

This statement of investment policy was adopted by the Board of Directors of Lutheran Services in America, Incorporated ("LSA") on "Date", to provide for the creation of, and guidelines for the management of, various funds held by the organization. These policies supersede any and all prior actions regarding investment policies.

For the purposes of managing investment risk and to optimize investment returns within acceptable risk parameters, the following three investment pools are established:

- Operating Fund
- Short-term Reserve Fund
- Long-term Reserve Fund

## PROCEDURES

- I. The following procedures will be followed to ensure the investment policy statement is consistent with the mission of LSA and accurately reflects current financial conditions:
  - a. The Finance Committee shall review this investment policy at least annually.
  - b. The Finance Committee will recommend any changes in this policy to the Board of Directors for approval by the Board.
  
- II. The following procedures will be used to determine the dollar amounts to be placed in the each of the various funds.
  - a. The President & CEO or his/her designee will, within the allowable investments, recommend the dollar amounts of non-donor restricted funds to be held in the Operating Fund and Short-term Reserve Fund, the combined total of which shall be not less than at least one-half of the previous year's annual operating budget excluding any expenses for projects funded from temporarily restricted accounts. Non-permanent restricted donations will be invested in the Operating Fund and/or Short-term Fund in a manner deemed appropriate by the President & CEO or his/her designee, within the allowable investments.
  - b. The Finance Committee will recommend the dollar amounts of non-donor restricted funds to be held in the Long-Term Reserve Fund, within the allowable investments.

## DELEGATION OF AUTHORITY

The Board of Directors has overall fiduciary responsibility for directing and monitoring the investment management of the various fund assets on behalf of LSA. In fulfilling its responsibility, the Board of Directors is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to Investment Management Consultant, Investment Manager, Custodian, and additional specialists.

It is anticipated that the services of a registered investment manager may be sought to manage portions of the Long-term Reserve Fund. The following procedure shall be followed to engage a new or replace a current investment manager:

- a. The Finance Committee will recommend the hiring or replacing of an investment manager to the Board of Directors.
- b. The Finance Committee will nominate prospective candidates and send a Request for Proposal to each candidate.
- c. The Finance Committee will review proposals and interview candidates to determine appropriate investment manager(s).
- d. The Finance Committee will make the hiring recommendation to the Board of Directors, who shall have the final approval.

## OPERATING FUND

### Purpose

The purpose of the Operating Fund is to provide sufficient cash to meet the everyday financial obligations of LSA in a timely manner.

### Investment Objectives

The investment objectives of the Operating Fund are, in order of importance:

- Preservation of Capital
- Liquidity
- Optimize the return on investments within the constraints above.

### Investment Guidelines

#### Allowable Investments

The President & CEO and Treasurer if authorized by the Board of Directors will invest the LSA Operating Fund as follows:

1. Demand deposit checking account;
2. Interest bearing savings Account;
3. Certificates of deposit at insured commercial banking organizations;
4. Money market funds;
5. Interest bearing checking accounts;
6. Direct obligations of the U.S. Government, its agencies and instrumentalities.

#### Maturity

The maturities on investments for the Operating Fund shall be 3 months or less.

### **Reporting**

The President & CEO or his/her designee shall prepare the following reports for presentation on at least an annual basis to the Board of Directors;

1. Schedule of investments;
2. Interest income year to date;

## **SHORT-TERM RESERVE FUND**

### **Purpose**

The purpose of the Short-term Reserve Fund is to meet the expenses occurring as a result of unanticipated activities and to improve the return on the funds held for expenditure for up to four years.

### **Investment Objectives**

The investment objectives of the Short-term Fund are, in order of importance:

- Preservation of capital
- Optimize the return on investments within the constraints above
- Liquidity

### **Investment Guidelines**

#### **Allowable Investments**

The President & CEO and Treasurer if authorized by the Board of Directors will invest the Short-term Fund as follows:

1. Certificates of deposit at insured commercial banking or similar Lutheran organization financial institutions;
2. Money market funds that invest in government backed securities;
3. Direct obligations of the U.S. government, its agencies and instrumentalities.
4. Mutual funds that invest in direct obligations of the U.S. government, its agencies and instrumentalities.

#### **Maturity**

The Short-term fund shall be invested in assets with a maturity from in excess of 3 months to a maximum of 4 years.

### **Reporting**

The President & CEO or his/her designee shall prepare the following reports for presentation on at least an annual basis to the Board of Directors:

1. Schedule of Investments which includes schedule of performance since purchase or last 4 years;
2. Interest Income year to date;
3. Current yield.

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## LONG-TERM RESERVE FUND

### Purpose

The purpose of the Long-term Reserve Fund is to provide secure long-term funding for the mission of LSA. The assets of the Long-term Reserve Fund shall be managed in such a way as to facilitate the organization's goals and objectives as outlined by the Board of Directors. In addition to non-donor restricted funds that LSA itself determines to move into the Long-term Reserve Fund, this fund will be used for the investment of all permanently-restricted donations.

### Investment Objectives

In order to meet its needs, the investment strategy of the Long-term Reserve Fund is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income.

Specifically, the primary objective in the investment management of the Long-term Reserve Fund shall be, in order of importance:

- Optimize the return on investments within the constraints above
- Liquidity,
- Preservation of Capital

### Investment Guidelines

#### General Principles

1. Investments shall be made solely in the interest of LSA and Long-term Reserve Fund.
2. The assets shall be invested with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent investor acting in like capacity and familiar with such matters would use in the investment of a like fund.
3. Investment of these funds 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. LSA may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives.
5. Recognizing that cash from dividends, interest, sales, etc., may reside for brief periods within an investment account, such cash is to be employed productively at all times by investment in Short-term cash equivalents to provide safety, liquidity and return.
6. Investments will be made in socially responsible funds where prudent and practicable.

#### Specific Investment Goals

The goal of the Long-term Reserve Fund shall be to meet or exceed the market index selected and agreed upon by the Finance Committee that most closely corresponds to the general principles stated above.

### Diversification

Investment management of the assets of the Long-term Reserve Fund shall be in accordance with the following asset allocation guidelines:

Asset Class	Minimum	Maximum
Equities	30%	70%
Fixed Income	30%	70%
Cash Equivalents	0%	20%

The Finance Committee may employ investment managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate portfolio, such disciplines must fit within the overall asset allocation guidelines established in this statement.

The Finance Committee will meet annually to monitor and reevaluate investment allocation in reference to the Long-term Reserve Fund asset classes.

### Allowable Assets

The Long-term Reserve Fund requires that all investment assets be invested in marketable securities, defined as securities that can be traded quickly and efficiently for the Long-term Reserve Fund, with minimal impact on market price.

1. Cash Equivalents
  - a. Treasury bills
  - b. Money market funds
  - c. Commercial paper
  - d. Banker's acceptances
  - e. Repurchase agreements
  - f. Certificates of deposit
2. Fixed Income Securities
  - a. U.S. Government and Agency securities
  - b. Corporate notes and bonds (investment grade, at least BBB)
  - c. Mortgage-backed bonds
  - d. Preferred stock
3. Equity Securities
  - a. Common stocks (investment grade, at least BBB)
  - b. Convertible notes and bonds
  - c. Convertible preferred stocks
  - d. American Depository Receipts of non-US companies (ADRs)
  - e. Insured commercial banking or similar Lutheran organization financial institution fixed income securities
4. Mutual Funds that invest in securities as allowed in this statement

To ensure marketability and liquidity, equity investments shall be executed through nationally recognized exchanges such as the New York Stock Exchange, American Stock Exchange and NASDAQ.

### **Reporting**

The Long-term Reserve Fund will be evaluated at least annually on a total return basis. The evaluation will be based on the stated investment goals. Comparisons will show results for the year-to-date. The report will be prepared by the Treasurer and will be presented to the Finance Committee at least annually. The Finance Committee will present a report to the Board of Directors at least annually.