

OpMan 22 - Reserve Fund Policy

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1. **POLICY:** The Statement of Reserve Fund Policy provides guidance for the AOC Board of Directors and the investment manager in achieving the desired performance of the Association of Old Crows (AOC) Reserve Fund. This statement:
 - A. Identifies the purpose of the Reserve Fund.
 - B. Provides guidelines on the amount of reserve resources that the Association should strive to maintain.
 - C. Articulates the investment objectives for the AOC Reserve Fund Investment.
 - D. Identifies specific investment guidelines and limitations for the investment manager.
 - E. Provides a basis for the evaluation of the investment performance of the AOC Reserve Fund Investment portfolio.
 - F. Identifies reports and procedures for the investment manager to facilitate timely and effective communications with the AOC.

This statement supplements the procedures for the Reserve Fund financial management as set forth in the AOC, Bylaws, and Operations Manual.

2. **PURPOSE:** In any given year, the Association should plan an operating budget in which the incurred expenses do not exceed the projected income for that financial year. From time to time, situations will arise which will necessitate the need for additional resources. Examples of this include (but are not limited to): office suite improvements, unanticipated income losses, and capital equipment purchases. For this reason, the Association will maintain a Reserve Fund to enable the organization to meet its financial obligations during these times. The Reserve Fund provides a source of revenue which can be used for the following purposes:
 - A. Continuity of operations in case of a catastrophic or other unforeseen event(s) which adversely impact(s) the normal flow of income to the Association.
 - B. Income for large Association capital purchases (such as office suite improvements or equipment upgrades).
 - C. Resources for new Association business opportunities requiring initial starting capital (with the expectation that these opportunities will return these resources to the reserve fund at a future date).
3. **RESERVE FUND LEVEL:** The amount of resources that the Association strives to maintain in the Reserve Fund will vary depending on Association actions and market trends. It may not be possible to maintain a specific level in any given year, but the general goal should be to progress toward maintaining a defined threshold based on summing together the following two calculations.
 - A. Half of the annual operating expenses for the financial year.
 - B. The anticipated Association capital expenses projected in the next 10 years. This would include (but is not limited to) office suite maintenance, , office suite renovations, office furniture, software upgrades, computer equipment, etc.

It should be noted that this calculation identifies the minimum Reserve Fund balance that the Association should strive to maintain. There is nothing in this policy that precludes the Association from maintaining a reserve higher than the defined threshold.

4. **MANAGEMENT OF RESERVE RESOURCES:** The funds in the Association Reserve Account will be placed into a separate account outside of the Operating Account(s) and maintained by an external investment manager. The funds will be balanced across a range of investment options as outlined below to maintain a balance of short-term and long-term investments.

5. **INVESTMENT MANAGER:** The AOC will use the services of a professional investment manager who has the necessary specialized research facilities, organizational infrastructure, and skilled manpower to meet the portfolio objectives and operate within these policy guidelines.
 - A. The investment manager will be able to make investment decisions and actively manage the AOC Reserve Fund Investment, within the guidelines set forth in this policy.
 - B. The Executive Director will function as the primary liaison and point of contact for the investment manager.
 - C. When the investment manager recommends investment activities that deviate from this guidance, the Executive Director and Treasurer will coordinate with the AOC Executive Committee to approve or deny the recommendation.

6. **INVESTMENT STRATEGY:**
 - A. At least \$50,000 of the portfolio will be in cash, money-market fund that invests only in short-term Treasuries. This shall be used as needed as a deposit point for earned interest, as a tool for re-balancing account holdings, and as a place for near-term, emergency cash draws for AOC working capital. The money-market fund shall have limited check-writing features. The rate of return from this portfolio unit will be totally driven by government/market actions and will be risk-free (ignoring inflation).
 - B. The Fixed Income portion of the portfolio, as defined by the approved investment strategy ratios should, unless otherwise recommended by the Investment Manager, be invested in Government-issued or insured securities, to ensure the preservation of capital.
 - C. Where possible, as advised by the Investment Manager, the Fixed Income investments should be in a laddered set of 10-year Treasury notes with 10% of the total reaching maturity in any given year. Two, three, and five year notes may be used to start the process and to ease the transition to a full 10-year bond ladder.
 - D. The balance of the portfolio will be invested in a mix of stocks, bonds, and cash. The investment manager will select the asset allocation for this part of the portfolio and the individual securities to include in the portfolio elements. The asset allocation and security selection will be guided by the following:
 1. The overall portfolio (government plus other) shall be reviewed and reported with recommendations to the AOC at least annually by the investment manager. The investment manager's recommended asset allocation strategy shall include target ratios between equities and fixed income assets as well as target ratios within the categories of equities and fixed income assets. The investment manager shall clearly outline the risk exposure of the AOC Financial Plan. The Finance Committee will review the investment

manager's recommendations and make recommendations for approval to the EXCOM. Upon approval, this shall be referred to as the "AOC Strategy."

2. Fees and transaction costs should be minimal and consistent with the investment strategy approved by the AOC.
 3. Simple and straightforward security types are preferred but the investment manager will make final security type decisions.
 - E. The investment manager can make portfolio changes up to 25% of the non-government portfolio value in any quarter without specific AOC approval. Portfolio changes above this limit and any longer-term investment policy changes must be approved by the AOC Executive Committee.
 - F. The investment manager may deviate from the above guidelines by up to 10% to take advantage of market conditions while maintaining the portfolio's balance as defined in paragraph 3a above.
7. **PORTFOLIO PERFORMANCE OBJECTIVE:** The overall portfolio rate of return benchmark will be the Lehman Brothers Government/Corporate Bond index (or only Government Bond index, if corporate bond holdings are insignificant), the Wilshire 5000 stock index, and the prevailing money market return weighted in accordance with the overall asset allocation of the total portfolio. The investment manager is expected to meet or exceed this benchmark return, excluding fees.
8. **REPORTS:** The investment manager will provide a monthly statement of portfolio status to the AOC Executive Director, who will in turn make it available to the Treasurer. The investment manager will submit a quarterly report which:
- A. Computes the portfolio benchmark (using publicly available data) and notes the actual portfolio rate of return both with and without fees. These return numbers will cover the previous quarter and the previous 12 months. The benchmark numbers shall also include the previous 10 years (long-term portfolio returns shall be included at the appropriate time).
 - B. Contains a written recommendation about future actions even if the recommended action is to make no changes.
 - C. Summarizes portfolio changes, in the past quarter.
 - D. Reports portfolio risk, measured using the Risk Metrics Group (TM) process, and comparisons to market index risk grades and to investor type classification (aggressive, conservative, etc.).
 - E. When feasible the AOC Executive Director will schedule the quarterly report to be presented in person by the portfolio manager at a regularly scheduled Executive Committee meeting. An annual report by the portfolio manager will be planned for the December Board of Directors meeting.
- A. **PROCEDURES:** Any newly installed Treasurer will review the OPMAN policy with the AOC Executive Director and Investment Manager to determine if the reserve policy is aligned with current AOC financial priorities. When the investment manager requires written direction or approval from the AOC, the request will be submitted to the AOC Executive Director who will notify the Treasurer of the request. The Treasurer will authorize the action or take the issue to the Executive Committee for a decision, within two weeks of notification by the investment manager. If the Treasurer is not immediately (within one week) available to consider the request, the AOC Executive Director will forward the request to the President.