

Washington Financial Aid Association (WFAA)

Investment Policy Statement (IPS)

Rev. 8/04/2017

INVESTMENT OBJECTIVE

The objective of the investment fund is to provide long-term growth of capital at moderate risk to attain a balance sufficient to provide income to fund certain WFAA operations in perpetuity. Periodic distributions may be taken from the fund in order to support WFAA's mission and operations, but these distributions are not regularly scheduled and will be made at the discretion of the Executive Committee.

The targeted annual income in perpetuity for certain operations is **\$13,300** and shall be adjusted annually for inflation per the CPI-U -- US City Average with 2014 used as the base year. An asset balance of **\$221,667** (in 2014 dollars) managed conservatively to return annual income and growth of **6%** is required to provide the targeted income. The targeted fund balance shall be adjusted annually for inflation per the CPI-U -- US City Average with 2014 used as the base year as necessary to provide the targeted annual income in perpetuity.

Sufficient cash and cash equivalent balances will be maintained to equal approximately 12 months of budgeted expenses as approved by the Executive Committee for each fiscal year.

The Executive Committee may alter the objective and income targets as circumstances warrant.

OPERATIONAL OBJECTIVES

The targeted annual income in perpetuity for certain operations is **\$13,300** (in 2014 dollars) to fund the following items:

Student Educational Scholarships	\$7,000
WFAA Member Scholarships for Conference attendance	\$1,000
Conference expense support	\$4,000
Membership development via Website, publications and advertising	\$1,300

The Executive Committee may alter the support operations as circumstances warrant.

INVESTMENT STRATEGY AND REVIEW

PROFESSIONAL FINANCIAL PLANNING

The Fiscal Planning Committee will make investment recommendations in coordination with a Financial Advisor selected by the WFAA Executive Committee. The Financial Advisor must be an established professional or team of professionals representing a well regarded financial firm, a Certified Financial Planner, or a Certified Public Accountant. For example, a financial advisor at a financial institution such as Vanguard or Fidelity would meet this requirement.

ASSET ALLOCATION

The asset allocation is to average **40%** stocks, **12%** bonds, **5%** Real Estate Investment Trusts (REITs), and **43%** cash and cash equivalents (cash equivalents may include savings and checking accounts, certificates of deposit, and money market funds). The Fiscal Planning Committee will provide the Executive Committee with recommended target asset sub-allocations (for example, US and foreign stocks, large and small capitalization stocks, long term and short term bonds) on at least an annual basis.

The performance goal of the investment fund is to achieve an annual rate of return of 6% given the asset allocation of **40%** stocks, **12%** bonds, **5%** Real Estate Investment Trusts (REITs), and **43%** cash and cash equivalents averaged over a three-year period.

There is no particular timetable to reach the asset allocation targets. It is generally expected that a *dollar cost average* approach will be used where monthly or quarterly investments will be made to achieve the asset allocation target.

DIVERSIFICATION

WFAA financial investments shall be generally limited to mutual funds, exchange traded funds, or direct fixed income obligations, to achieve a diversified portfolio in the following categories:

- Cash and cash equivalents, including savings and checking accounts, money market funds and bank certificates of deposit
- Bonds (investment grade or better corporate, U.S. government, municipal, or foreign government)
- Stocks (U.S. and foreign-based companies with a mix of small, medium, and large capitalization companies)
- Real Estate Investment Trusts (REIT'S)

Other asset classes may be considered as markets and products change; however, a conservative approach fully recognizing the fiduciary responsibility of the WFAA Executive Committee for financial asset management must be forefront in the decision-making process.

WFAA investments shall not be placed in unregulated funds such as hedge funds or structured investment vehicles (SIV). Nor shall investments be placed in individual stocks, options, futures, or other higher risk investments not prudent for a non-profit organization like WFAA.

PORTFOLIO REVIEW AND REBALANCING PROCEDURES

From time to time, market conditions are likely to cause the Portfolio to vary from the target allocations established by this IPS. On a quarterly basis the WFAA Fiscal Planning Committee will report to the Executive Committee the asset allocation status. On at least an annual basis the Fiscal Planning Committee shall make rebalancing recommendations to the WFAA Executive Committee. Rebalancing will be advised if either the weighting of an individual asset varies by **10%**, plus or minus, of its recommended weighting, or if the major components (domestic equity, international equity, total equity and total fixed income) vary by **5%**, plus or minus, from those components' recommended weighting. When necessary or available, cash flows will be deployed in a manner consistent with rebalancing the asset allocation. In the absence of sufficient cash flows, the Executive Committee, or a designate financial planner, may effect transactions to rebalance the portfolio.

Example 1: if the WFAA target asset allocation for all stock funds in the portfolio is 40% and the rebalance trigger is 5%, then rebalancing would be recommended if the total stock fund allocation reached 35% or 45% of the total portfolio.

Example 2: if the WFAA target asset allocation for small capitalization stock funds is 20% of portfolio, and the rebalance trigger is 10%, then rebalancing would be recommended if the small capitalization stock funds amounted to 30% or 10% of the total portfolio.

ADJUSTMENT IN THE TARGET ALLOCATION

The WFAA Executive Committee determines the target asset allocation for the portfolio. From time to time, based on changing economic or organizational circumstances or new academic research, it may be desirable to make changes in the target allocation. Such changes should not, however, be made due to short term expectations of the relative performance of individual asset classes. The Executive Committee must approve any proposed changes in the form of a written amendment to this IPS.

INVESTMENT STRATEGY PERFORMANCE

The Executive Committee recognizes that asset class investment performance is cyclical and, therefore, WFAA may experience periods of time in which investment objectives are not met. In addition, unless there are extenuating circumstances, patience will often prove appropriate when performance has been disappointing for a particular asset class, or the overall portfolio.

For the overall portfolio, the Executive Committee should allow a three-year time period or longer for achieving the stated investment return objectives. Shorter time frames contradict

the principles of long-term investing. Under no circumstances, however, can results be guaranteed.

DUTIES AND RESPONSIBILITIES

The WFAA Executive Committee must always be cognizant that they have the ultimate responsibility for the investment of WFAA's assets. Indeed, Executive Committee members must be aware that they may be held liable for not fulfilling fiduciary responsibilities regarding the prudent oversight of WFAA assets.

The Fiscal Planning Committee is charged with providing recommendations with all due care and diligence under the circumstances then prevailing, as any prudent person acting in a like capacity and familiar with such matters, would use in such conduct with like aims. The Executive Committee must further recognize that a Fiscal Planning Committee member is not required to be a certified financial planner, nor licensed investment advisor.

ADOPTION

The WFAA Executive Committee adopts this Investment Policy Statement by an Executive Committee unanimous vote as reflected in the minutes on the following date: **09/26/2013**

REVISIONS approved by the Executive Committee

8/04/2017

Per an October 2016 Executive Committee determination, the cash allocation target is revised from 18 months of budgeted expenses to 12 months of fiscal year budgeted expenses. The cash asset allocation is increased by 3% from 40% to 43% to match the 12 months of budgeted fiscal year expenses. The increase is needed since the current 12-month budget is higher than 18 months of budgeted expenses that existed in 2013 when the allocation was first set.

The bond asset allocation is decreased by 3% from 15% to 12% to balance the increased cash allocation.

To better clarify the inflation index used to adjust investment accumulation and income targets, "CPI -- US City Average" is revised to "CPI-U -- US City Average."