

# The Charitable Foundation Energy Bar Association (CFEBA) Statement of Investment Policy Guidelines

Approved 9/11/2018

## Overview:

Type of Plan:	association reserve fund
Initial Assets:	approximately \$100,000
Time Horizon:	10 years
Expected Return:	outperform appropriate benchmarks, after fees
Risk Tolerance:	conservative growth

## *Purpose*

The purpose of this document (“Statement of Investment Policy Guidelines”) is to define the investment policy for the **Charitable Foundation of the Energy Bar Association (CFEBA)**. It identifies a set of investment objectives, guidelines and performance standards. The objectives have been created taking into account, among other things:

- CFEBA’s anticipated financial needs,
- CFEBA’s risk tolerance; and
- the need to document and communicate objectives, guidelines, and performance standards to the investment managers.

This Statement of Investment Policy Guidelines is to be used by the investment managers in developing an appropriate program and by the members of the CFEBA Board of Directors in overseeing the CFEBA’s assets. It is subject to revision from time to time by the CFEBA Board of Directors. This policy also sets out a basis for investment performance measurement and evaluation.

## *Investment Objective*

The CFEBA’s objective is to maintain and grow an emergency reserve fund which shall be disbursed only in the event of unusual circumstances. In meeting this objective, the CFEBA Board seeks to achieve a high level of total investment return consistent with a prudent level of portfolio risk.

The investment objective, as established by the CFEBA Board, is to earn an average compound rate of return which will outperform appropriate benchmarks as set forth in this Statement of Investment Policy Guidelines after management fees and expenses.

### *Asset Structure*

The asset structure should reflect a balance of the CFEBA’s need for liquidity, preservation of purchasing power, and risk tolerances. The strategic target set by the CFEBA Board, consistent with the achievement of the long-term objectives of the CFEBA, is:

<u>Asset Class</u>	<u>Strategic Target</u>	<u>Tactical Range</u>
U.S. Large Cap Stocks	25%	20 – 45%
U.S. Small/Mid Cap Stocks	20%	10 – 25%
International Stocks	15%	10 – 20%
Fixed Income	38%	30 – 60%
Cash Equivalents	<u>2%</u>	0 – 10%
<b>Total Foundation</b>	100%	

**\*The stock allocation may represent between 40% and 70% of the market value of the total portfolio assets with a target of 60%.**

**\*The fixed income portion of the allocation, including cash and equivalents, will represent between 30% and 60% of the market value of the total portfolio assets with a target of 40%.**

The strategic allocation provides reasonable assurance that the CFEBA’s investment objectives can be achieved based on historic relationships of asset class performance. Liquidity is required only to meet defined pay-out needs, unless the managers are otherwise advised by the CFEBA Treasurer.

It is the CFEBA Board’s responsibility to monitor the overall allocation. It is understood that the tactical ranges are targets and that temporary deviations may occur as a result of market impact or from short-term timing decisions (including due to significant market events or opportunities) initiated by either (i) the CFEBA Board as communicated to the investment manager(s) by the CFEBA Treasurer or, (ii) by the investment managers, with such deviations to be reported to the CFEBA Treasurer for communication to the CFEBA Board. Any long-term changes to this Statement of Investment Policy Guidelines must be approved by the CFEBA Board.

If an investment manager deems an asset structure outside the tactical range to be appropriate, the manager may not deviate from this Statement of Investment Policy Guidelines (other than temporary deviations as discussed above) without prior approval from the CFEBA Treasurer. The manager will promptly report any recommendations, including any material deviations from the above stated strategic allocation, to the CFEBA Board via the CFEBA Treasurer.

*Investment Guidelines*

**EQUITY GUIDELINES\***

<b>Types of Securities</b>	Common and preferred stocks, and issues convertible into common stocks, of both domestic and international corporations and American Depository Receipts (ADRs).
<b>Diversification</b>	The securities of any one issuer are limited to 5% of each portfolio. Broad industry diversification is desirable. For international equities, both industry and country diversification are desirable.
<b>Quality</b>	Only equity securities which are broadly classified as institutional quality issues are eligible for inclusion in the portfolio. All securities held in the portfolio should be publicly traded and have sufficient marketability to permit prompt, orderly liquidation under normal circumstances. Stock selection should emphasize quality with due regard to risk.
<b>Exclusions</b>	<p>Without the express written consent of the CFEBBA Board, the following investments are prohibited:</p> <ul style="list-style-type: none"><li>• short naked call options,</li><li>• short put options,</li><li>• commodities including all futures contracts,</li><li>• swaps, and</li><li>• other derivatives.</li></ul> <p>Where written consent is given for investment in any of these categories, the CFEBBA Board will require the investment manager to adhere to specific safeguards.</p>

\* Please refer to page 5 for “Pooled Fund” guidelines.

## **FIXED INCOME GUIDELINES\***

<b>Types of Securities</b>	Debt securities of any U.S. entity denominated in U.S. dollars, and not otherwise prohibited under these guidelines, U.S. dollar denominated sovereign and supranational bonds (Yankee bonds), and Collateralized Mortgage Obligations (CMOs) (typically backed by the U.S. Government), except as otherwise prohibited under these guidelines.
<b>Diversification</b>	The securities of any one issuer, with the exception of the U.S. Government and its agencies, are limited to 5% of each fixed income portfolio.
<b>Quality</b>	The average credit quality of the portfolio must be at least AA. Up to 10% of the portfolio may be invested in below investment grade securities (Moody's or Standard & Poors quality rating below Baa or BBB, respectively, or unrated). If any security has a split rating, the lower of the two ratings shall be considered for the purposes of meeting minimum quality standards.
<b>Maturity</b>	While there are no maturity limits placed on the portfolio, it is expected that the average effective duration of the fixed income portfolio will not exceed 15 years.
<b>Exclusions</b>	<p>Without the express written consent of the CFEBA Board, the following investments are prohibited:</p> <ul style="list-style-type: none"><li>• privately placed debt,</li><li>• margin buying, short selling,</li><li>• commodities, options, swap contracts, and</li><li>• other derivatives.</li></ul> <p>Where written consent is given for investment in any of these categories, the CFEBA Board will require the investment manager to adhere to specific safeguards.</p>

\* Please refer to page 5 for "Pooled fund" guidelines.

## CASH EQUIVALENTS\*

<b>Types of Securities</b>	Debt securities of any U.S. entity not otherwise prohibited, with a maximum average maturity of one year.	
<b>Diversification</b>	<u>Security</u>	<u>Maximum</u>
	Certificates of Deposit (CDs)	10%
	Commercial Paper	35%
	Corporate Bonds	35%
	Single Issuer for Commercial Paper and Corporate Bonds	5%
<b>Quality</b>	<u>Security</u>	<u>Minimum Rating</u>
	Asset Backed	A
	CDs	B or better
	Commercial Paper	A1/P1
	Corporate Bonds	AA-, Aa3
<b>Exclusions</b>	Without the express written consent of the CFEBA Board the following investments are prohibited:	
	<ul style="list-style-type: none"><li>• floating rate notes with maturities under two years that have any embedded leverage or optionability (e.g., caps, floors, multiple reset features, etc.),</li><li>• floating rate notes with maturities over two years,</li><li>• structured notes, including CMOs,</li><li>• swaps, and</li><li>• other derivatives.</li></ul>	
	Where written consent is given for investment in any of these categories, the CFEBA Board will require the investment manager to adhere to specific safeguards.	

\* Please refer to the section below for “Pooled Fund” guidelines.

## POOLED FUNDS

Investing through a pooled fund (i.e. mutual fund) vehicle means that the investments will be governed by the fund’s own set of guidelines and restrictions. While the intent is to invest in funds which meet these guidelines, there may be instances in which the pooled fund’s guidelines differ. In such cases, the individual pooled fund guidelines and restrictions will supersede those outlined above. In the event that unanticipated changes in investments by pooled funds cause the overall portfolio to deviate from the asset structure and restrictions set forth above, then the investment manager shall adjust the investments in pooled funds in a prudent manner over time to bring the overall portfolio in conformity with the asset structure and restrictions set forth above.

### *Performance Standards*

Standards used to measure investment performance will be set forth in context with the established objectives. Standards are expected to be achieved net of investment management fees and expenses.

Over rolling five-year periods, the performance of the portfolio should exceed the return of an appropriate benchmark, as defined by the CFEBA Board, which shall be, until changed by the CFEBA Board, a blended index, consisting of 60% S&P 500 and 40% Barclays Capital US Aggregate Govt/Credit Index (“SLIGC”).

The logic of this using this index is as follows. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market-weighted index (stock price times number of shares outstanding), with each stock’s weight in the index proportionate to its market value. The S&P 500 is one of the most widely used benchmarks of US equity performance. The SLIGC is composed of all bonds that are investment grade (rated Baa or higher by Moody’s or BBB or higher by S&P, if unrated by Moody’s). Total return comprises price appreciation/depreciation and income as a percentage of the original investment. The index is rebalanced monthly by market capitalization.

### *Administration*

**Documentation** – Each investment manager selected by the CFEBA Board shall submit a written statement to the CFEBA Board describing its proposed investment strategy for achieving the investment goals and objectives that are required in these Statement of Investment Policy Guidelines. Investment manager(s) also shall submit requests for permission to deviate from these Statement of Investment Policy Guidelines whenever their strategy changes significantly as a result of changing market conditions or other factors. In addition, the investment manager(s) shall submit to the CFEBA Board quarterly reports showing:

1. Asset mix for each major class of security, including derivatives and cash equivalents.
2. Position, by individually named securities and/or by appropriately described units of collective funds, showing market values of individually invested securities, and the unrealized gain or loss on each position.
3. Transactions effected in the account, categorized by purchases, sales, and accrued income, including realized gains or losses on each position.
4. Identification of the custodian of the accounts. Any account discrepancies between the manager and the custodian must be identified and explained.
5. Performance of the portfolio, compared to the relevant benchmark defined by the CFEBA Board.
6. All transactions in descriptive detail.

7. Identification of investments in Pooled Funds, quantification of the value of those investments, and provision of any guidelines and restrictions applicable to same.
8. Statement of investment manager fees and expenses.

**Annual Review Meeting** – The investment manager will be expected to meet at least annually with the CFEBA Board. The agenda for these meetings shall include at least:

1. A presentation of investment results in light of the stated objectives,
2. A discussion of the manager’s investment strategies, and
3. Communication of material changes in policy, objectives, investment strategies, staffing or business condition of the investment manager.

**Acceptance of Agreement**

The Statement of Investment Policy Guidelines is adopted for: **Charitable Foundation of the Energy Bar Association**

\_\_\_\_\_  
Julia D. English  
Its Treasurer on Behalf of the CFEBA Board

\_\_\_\_\_  
(Date)

The undersigned investment manager hereby acknowledges its appointment as a named fiduciary in accordance with the Advisory Agreement between the investment manager and the CFEBA Board.

By initial and continuing acceptance of these objectives and guidelines the investment manager concurs with the provisions of this document; however, as indicated above no guarantee or representation is given with respect to any future investment performance.

\_\_\_\_\_  
Jon B. Lindenberg  
Lindenberg Wealth Management Group of  
Wells Fargo Advisors

\_\_\_\_\_  
(Date)