

## **SAEA Investment Plan July, 2001**

**Purpose and Scope:** The purpose of this plan is to establish a specific procedure for securing, investing and managing annual budget surpluses of the Southern Agricultural Economics Association. This plan establishes the timing and procedure for transferring budget surpluses (shortfalls) to (from) investment accounts, identifies the general philosophy, objectives, strategies and the desired performance results of investments, and identifies specific responsibilities for the securing, investing and managing of the investment funds.

### **General Philosophy**

The Southern Agricultural Economics Association (SAEA) is a non-profit professional organization formed for the purpose of promoting and aiding the exchange of ideas and information between agricultural economists interested in the Southern region of the United States. As such, the SAEA would like to establish an investment fund that may assist the organization in fulfilling its purpose into perpetuity. The fund is to be established from the contribution of year-end annual budget surpluses. The target is to achieve an initial fund level of \$100,000 and then maintain the real value of this fund while using earnings to carry out the missions of the SAEA.

### **Investment Objectives**

The overall objective of this investment plan is to establish an investment fund capable of supporting the purpose and missions of the SAEA as long as the organization exists. Specifically, the SAEA will continue to attempt to achieve budget surpluses until the investment fund attains one hundred thousand dollars. Upon reaching this level the SAEA will attempt to achieve a balanced budget.

The growth objective of the investment fund is to achieve an ending year level for the fund that is equal to the beginning year level plus the annual increase in the Gross Domestic Product Implicit Price deflator.

The performance objective for the fund as a whole shall be to exceed a rate of return (net of fees and costs) equal to the growth objective plus five percent.

The amount of the fund that exceeds the growth objective level may be used in the following year to promote the purpose and mission of the SAEA. Should the growth objective not be reached, the full board of the SAEA shall determine whether the fund may be used in the following year to support the programs of the SAEA.

### **Responsibilities:**

#### **SAEA Board**

- Establish and revise as necessary an investment strategy, including asset allocation parameters and targets for invested funds;

- Develop and maintain investment guidelines and performance criteria for each investment asset class and investment manager;
- Select investment managers and investment firms;
- Approve all plans for investment in alternative investment instruments; and
- Evaluate the performance of the investment fund, managers and firms.

#### SAEA Directors

- Provide the SAEA Board with a proposed investment strategy, including asset allocation parameters and targets for invested funds;
- Provide the SAEA Board with a proposed set of investment guidelines and performance criteria for each investment asset class and investment manager;
- Provide the SAEA Board with a list of proposed investment managers and investment firms;
- Provide the SAEA Board with an evaluation of the performance of the investment fund, managers and firms.
- Report investment results, including fund manager and firm, to the SAEA Board at the biannual SAEA board meetings; and
- Report the investment results to the membership at the SAEA annual meetings, in the SAEA March newsletter and in the Journal of Agricultural and Applied Economics.

#### Secretary/Treasurer

- Invest funds in accordance with this policy and the target asset allocation strategy established by the SAEA Directors;
- Develop a system of internal controls and procedures for implementation of this policy;
- Establish the bank, depository, custodial and investment accounts and other agreements as are necessary, in the opinion of the Secretary/Treasurer, to enable the proper management of the investment fund;
- Endorse securities for sale, transfer or other purpose as are necessary to implement investment decisions;
- Prepare an annual budget for presentation at the SAEA Board meeting held during the SAEA Annual Meetings to indicate the contribution to the fund from budget surpluses, the expected performance of the fund, and/or the use of the fund earnings for the missions of the SAEA;
- Prepare a revised annual budget for presentation at the summer SAEA annual Board meeting to indicate mid-year adjustments to the expected contribution to the fund from budget surpluses, the expected performance of the fund, and/or the use of the fund earnings for the missions of the SAEA;

#### Investment Managers

- Manage the investment fund portfolio including security selection, size, quantity, industry emphasis, income potential, and portfolio turnover to conform to the objectives of the fund and within the limits provided by the investment plan;
- Provide the Secretary/Treasurer with quarterly updates on the market outlook and current investment strategy;

- Provide biannual reports on the performance of the investment fund to provide the information necessary for the Secretary/Treasurer to provide the SAEA Board with timely reports;
- Provide the SAEA Board notice of any and all violations of securities laws and regulations or other irregularities, and the measures taken to rectify the situation and reduce the probability of future occurrences;
- Provide the Secretary/Treasurer notice of changes in firm ownership, organizational structure, personnel, or other such changes that may have an impact on the investment fund or investment decisions; and
- Perform other duties as specified in agreements with the SAEA Board or the Secretary/Treasurer made on behalf of the SAEA Board.

### *Classes of Authorized Investments*

#### CASH

Cash and cash equivalents including depository accounts.

#### GUARANTEED

Guaranteed investments include treasury bills, high quality certificates of deposit, commercial paper rated A-1 by Moody's, U.S. government agency paper with maturities less than one year, and money market funds.

#### FIXED INCOME

Fixed income securities may include bonds, nonconvertible bonds and preferred stock, debt obligations issued by corporations, the U.S. Government and its agencies, and state or local governments.

- No more than five percent (5%) of the value of any specific portfolio shall be invested in the debt instrument of any one issuer without the approval of the SAEA Board, except for the investment in a fixed income mutual fund.
- All purchases of securities shall be of investment grade and marketable at the time of purchase.

#### EQUITIES

Equities may include common stock, convertible preferred stock, convertible bonds, and such other investments as may be approved by the SAEA Board.

- No more than five percent (5%) of the value of any specific portfolio shall be invested in the instrument of any one issuer without the approval of the SAEA Board, except for the investment in a fixed income mutual fund.
- All purchases of securities shall be of investment grade and marketable at the time of purchase.

## **Fund Management**

Fiscal year – The fiscal year for the fund shall be the calendar year, January 1 through December 31.

SAEA Board – Officers of the Southern Agriculture Economics Association to include the Past President, President, President-elect, Directors, and Secretary/Treasurer(s). The Board shall be responsible for insuring that the fund is managed professionally and that the fund meets the objectives set for the fund. The Board may change the objectives of the fund with the approval of the SAEA membership.

SAEA Directors – Three Elected officers of the SAEA Board with primary responsibility for providing the SAEA Board with information and proposals for managing the performance of and criteria for the investment fund. The Director with longest tenure will act as the chairman of the directors with respect to the management of the investment fund.

SAEA Secretary/Treasurer – One or Two appointed officers of the SAEA Board with the primary responsibility for the management of membership services and fiscal affairs of the association.

Investment earnings – The sum that exceeds the beginning principal at the end of the fiscal year net of costs and fees.

Expendable earnings – The end of the fiscal year sum that exceeds the investment fund growth objective for the fiscal year.

### *Performance Criteria*

Investment performance (before reductions for fees and costs) and risk characteristics for the fund as a whole shall be measured against a customized index comprised of 60 percent S&P 500 index, 30 percent corporate bond index and 10 percent 90 day T-Bills.

The investment performance of the fund as a whole shall be measured against the median performance of a relevant set of similar endowment funds selected by the SAEA Board.

The investment performance for each class of investment in the fund shall be determined in comparison to specific indexes as determined by the SAEA Board.

The management performance shall be measured based upon the performance of the investment and the costs and fees associated with the level of performance of the investments.

**Short term investments** will be invested primarily in income-producing instruments with minimum fluctuation potential. Instruments in this category will emphasize the preservation of capital and include FDIC-insured certificates of deposit, money markets and money market mutual funds, treasury bills, treasury notes, and both short- and intermediate-term bond mutual funds.

**Long term investments** are those funds that can be left undisturbed for at least five years. Those funds will be invested to emphasize growth and assist in maintaining the growth objective of the fund.

**Asset Allocation**

Asset allocation targets shall be reviewed by the SAEA Board annually, at the summer Board meeting, following the financial report of the Secretary/Treasurer. Desired changes in targets considered by the Board should be presented at the SAEA annual meetings and agreed to by a simple majority of members present at the meeting.

The allocation targets shall be established to facilitate achieving the total return objectives of the investment fund within acceptable risk levels. The asset allocation targets shall be established within the following parameters:

	Minimum	Maximum
Short-term investments	10%	20%
Long-term investments	80%	90%
Cash and equivalents	5%	10%
Guaranteed	5%	10%
Fixed Income	25%	40%
Equities	40%	65%

Cash includes budgeted surplus for current financial year.

Guaranteed investments should include sufficient diversity to provide available cash for budget shortfalls in current and future years.

The SAEA Secretary/Treasurer in consultation with the investment fund manager shall develop a strategy to implement and maintain the target asset allocation, including the use of new additions to or subtractions from the fund and the periodic transfers between asset classes and investment categories.