EDUCATION ASSOCIATION

FIVE YEAR RESERVE FUND

INVESTMENT POLICY STATEMENT

Effective 01/01/2019
Education Association
COLUMBUS, OHIO
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I. INTRODUCTION

The Education Association Board of Directors, through an Investment Committee (the “Committee”) shall establish, manage, and strategically divest for use the financial reserves of the Association in order to maintain operations and programs of the Association for immediate and long term purposes. The Committee must act as a prudent, responsible steward for the financial reserves of the Association.

Definitions:

“Asset Pool” is a grouping of assets to meet time constrained cash needs of the organization.

“Committee” is the Investment Committee designated by the Board of Directors of the Association.

“Custodian” is the individual(s) that hold for safekeeping and report on the securities.

“Fiduciary” is the individual(s) exercising authority or control on a continuous and comprehensive basis over the Association assets, including management, acquisition, disposition, and administration.

“Full Market Cycle” is a period of three or more years of time which long-term historic rates of return are realized.

“Investment Assets” <insert Association definition of assets to include in this policy>.

“Investment Advisory Services” include advice on investment policy, goals and objectives, allocation of assets, manager search and recommendation, performance measurement and evaluation.

“Investment Consultant” is the individual or organization engaged to provide Investment Advisory Services to the Committee.

“Investment Manager” is the individual(s) employed to manage Investment Assets.

“Investment Policy” is the Investment Policy Statement of the Association.

“Sponsor” is the Association.
II. STATEMENT OF PURPOSE

The Investment Policy Statement (IPS) establishes the guidelines for the investment of cash or other investment assets (funds) of the Association for the purposes of managing investment risk and to optimize investment returns within acceptable risk parameters.

The investment restrictions established by this policy serve as a framework to achieve the investment objectives at a level of risk deemed acceptable. These policies and restrictions are designed to minimize interfering with efforts to attain overall objectives without excluding any appropriate investment opportunities.

III. INVESTMENT OBJECTIVES AND GOALS

The objective of this IPS is for operating funds to earn a higher rate of return than achieved with the existing checking account and for longer duration funds to achieve a rate of investment return (net of asset management expenses) that meets or exceeds the rate of return of the appropriate benchmark indices established based on the asset classification, while maintaining adequate liquidity for normal operations.

Recognizing that short term market fluctuations may cause variations in performance of the funds, the expectation of the account is to achieve the following total return performance over a full market cycle:

a. a reasonable level of total return appropriate for the asset structure and desired rate of return and asset allocation as defined in section VI, and
b. avoid significant underperformance of the desired rate of return, or loss of investment capital, and
c. prudently appreciate capital for future operations support, and
d. maintain a risk level appropriate to the asset style and relevant index, and
e. minimize the asset’s exposure to fluctuating investment returns.

IV. INVESTMENT PHILOSOPHY

Asset Pools. The Committee recognizes the need for ready cash for operations versus short- and long-term cash needs. The Committee has established Pools of assets for the specifically timed needs of capital; Operating Pool, Short-term Pool, Long-Term Pool.

Diversification. The Committee recognizes that diversification of assets assists in mitigating the magnitude of loss in any one year.

Strategic Asset Allocation. Allocate assets within Pools to provide an optimal mix of investments with the potential to produce the desired returns and objectives with minimal fluctuation in overall portfolio value. Allocating funds among a variety of investment types increases the probability that if one investment type is decreasing in value, another one is increasing in value.
Re-balancing Among Pools and Asset Classes. The Committee recognized that with investment performance, the value of assets in pools and asset classes will fluctuate creating an imbalance in the required allocation of assets. Funds will be redirected between pools and classes to re-balance the assets to the required allocations.

Returns. Focus on the total returns and manage with the goal of optimizing long-term inflation adjusted returns given the pool’s investment guidelines.

Preservation and Appreciation of Capital. Make reasonable efforts to preserve and grow capital overall, understanding losses may occur in individual investments.

Definition of Risk. The Committee defines risk as the probability of not meeting the investment objectives. Risk should be reviewed periodically to ensure appropriate for the given investment style and objectives and the Investment Manager should make reasonable efforts to control risk.

Return Volatility. Market fluctuations occur as a routine experience of investments and are inherent in achieving objectives of the investments. Managers will be evaluated on performance of their skills recognizing that market volatility will affect performance.

Adherence to IPS. All individuals or groups with responsibility for management of Association assets are expected to adhere to the management styles for which they were hired/retained and will be evaluated accordingly.

V. ROLES AND RESPONSIBILITIES

a. The Association’s Investment Committee is responsible for the oversight and management of the Association’s investment assets (“Funds”) and establishes this policy, with the concurrence of the Board of Directors, to guide investment activities. The Investment Committee monitors the investment activities carried out in furtherance of the policy and reviews the appropriateness of the policy from time to time, no less than every three years. The Investment Committee shall also review the performance of investments and investment consultants, managers, and advisers no less than every three years. The Investment Committee shall be composed of the Association President, Secretary/Treasurer, Executive Director, Chief Financial Officer/Assistant Executive Director (CFO), and two members of the Association Board of Directors.

b. The Association Secretary/Treasurer shall serve as Chairperson of the Investment Committee and shall preside at all committee meetings. The Chairperson may call special investment meetings in addition to the annual meeting. Investment counsel will be in attendance on an as needed basis. The Investment Committee will annually report all investment results to the Association Board of Directors.

c. The Association Executive Director shall be responsible for the establishment of investment procedures consistent with this policy and to implement the investment policies and guidelines contained herein.
d. The Association **CFO** shall be responsible for maintaining records of all investments and preparing reports for the Investment Committee. Subject to the oversight of the Investment Committee, the investing authority shall reside with the CFO in accordance with this investment policy. The CFO shall provide performance information no less than annually to the Committee and shall include scoring and benchmarking data.

e. The services of a licensed and registered investment adviser may be sought to manage portions of the various pools. The following procedures shall be followed to engage a new or replace a current investment adviser:
   i. The CFO may solicit proposals from several potential advisers and prepare an analysis for the Investment Committee.
   ii. The Investment Committee shall review the candidates and make their selection based on fee structure, history of investment performance and such other criteria as are appropriate for the nature of the engagement.
   iii. Investment advisers will be required to follow this Policy and to report at least quarterly to the CFO.

f. The **Investment Consultant** shall provide advice to the Committee concerning investment objectives, policies, guidelines, discretionary management of assets if requested, and review and recommendation of Investment Managers.

g. The **Investment Manager(s)** is/are responsible for making investment decisions with respect to the investment portfolio within the Pools of assets. Investments shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.
   i. Duties can be listed and identified based on contract with manager and will be determined based on fiduciary level of relationship
   ii. Continue…
   iii. Continue…

VI. **ASSET ALLOCATION STRATEGY**

The Association will define cash needs for operations (up to 12 months cash requirements), short-term needs for cash (up to two years cash requirements), and long-term needs for cash (longer than two years from current date). The assets are to be divided into three separate investment pools to accommodate the cash needs. The three investment pools shall be called the “Operating Pool”, the “Short-Term Investment Pool” and the “Long-Term Investment Pool”.

For the purposes of managing investment risk and to optimize investment returns within acceptable risk parameters, each Pool will have an asset allocation strategy that defines the appropriate mix of assets and the weighted balances of each category. These allocations and asset mix are detailed in sections VII, VIII, and IX.
a) **Defining Pool Cash Needs.** No less than Annually, the CFO will review the organization’s cash flow needs and determine the relative levels of funds needed for the Operating Pool, the Short-Term Investment Pool, and the Long-Term Investment Pool, based upon the following criteria:

i. **Operating Pool:** The purpose is to provide sufficient cash to meet the ordinary operating financial obligations of the association.

ii. **Short-Term Investment Pool:** The purpose is to provide sufficient cash to meet unexpected needs while improving the investment return on funds held over the next three to four years.

iii. **Long-Term Investment Pool:** The purpose is to enhance the purchasing power of funds held for future expenditures, to maintain the financial stability of the association, and to provide current income to be used during the current budget cycle.

iv. Funds are allocated first to the Operating Pool, next to the Short-Term Investment Pool, and last, any remaining Funds are allocated to the Long-Term Investment Pool.

VII. **OPERATING POOL GUIDELINES.**

The purpose of the Operating Pool is to provide sufficient cash to meet the ordinary operating financial obligations of the association in a timely manner, maximizing investment return consistent with liquidity needs.

a) The investment objectives of the Operating Pool are:

i. Preservation of capital;

ii. Proper liquidity; and

iii. Optimal investment return within constraints of (a) and (b) above.

b) Allowable investments include the following:

i. Interest bearing checking accounts in federally insured banks;

ii. Fully collateralized overnight sweep (via repurchase agreements) of operating checking account;

iii. Federally Insured Certificates of Deposit;

iv. Federal Agency Discount Notes;

v. Direct Obligations of the U.S. Government, its Agencies and instrumentalities;

vi. “Floaters’’;

vii. Fully collateralized institutional money market accounts; and

viii. Money market funds that invest exclusively in government backed securities.
VIII. SHORT-TERM INVESTMENT POOL GUIDELINES

The purpose of the Short-Term Investment Pool is to provide sufficient cash to meet unexpected needs while improving the investment return on funds held over the next one to four years.

a. The maturities for all Short-Term Pool assets shall average less than four years.
b. The investment objectives of the Short-Term Pool are:
   i. Preservation of capital;
   ii. Proper liquidity (One month to Four Years); and
   iii. Optimal investment return within constraints of (a) and (b) above.
c. Allowable investments include the following:
   i. Federally Insured Certificates of Deposit;
   ii. Fully collateralized money market accounts;
   iii. Direct Obligations of the U.S. Government, its agencies and instrumentalities;
   iv. Collateralized Mortgage Obligations (CMO)s;
   v. Mutual funds consisting of collateralized mortgage securities;
   vi. Mutual funds consisting primarily of a portfolio of adjustable and floating rate mortgage securities which are collateralized by mortgages guaranteed by the U.S. Government, its agencies or instrumentalities; and
   vii. Mutual funds or managed accounts consisting of U.S. Government, State Government or Municipal obligations rated at least AA by Standard and Poor’s or Moody’s.

IX. LONG-TERM INVESTMENT POOL GUIDELINES

The purpose of the Long-Term Investment Pool is to enhance the purchasing power of funds held for future expenditures, to maintain the financial stability of the association, and to provide current income to be used during the current budget cycle.

a) The investment objectives of the Long-Term Pool are:
   i. To maximize investment return without undue risk;
   ii. To ensure the long-term appreciation of assets invested;
   iii. To achieve a return that over a five-year period exceeds by 2-3% the annual increase in the Consumer Price Index; and
   iv. To minimize the month-to-month fluctuation of asset values and returns by ensuring a balanced asset mix.
b) Allowable investments include the following:
   i. All allowable investments of the Operating Pool and the Short-Term Investment Pool;
   ii. Mutual funds consisting of equities and/or bonds;
   iii. Individual stocks subject to a maximum 5% commitment at cost of the pool’s market value for any individual security and 15% for a particular industry;
iv. Individual bonds not guaranteed by the U.S. Government, its agencies or instrumentalities, subject to a maximum 15% commitment at cost.

c) Prohibited investments include the following:
   i. Letter stock;
   ii. Commodities or commodity contracts;
   iii. Short sales;
   iv. Margin transactions;
   v. Individual securities of foreign corporations and governments;
   vi. Direct investment in securities of companies against which the Association or NEA currently has a boycott regarding the use of their products or a boycott against the corporation for any social or economic issue.

d) The rate of return objective for any fixed income asset class is to exceed an appropriate fixed income index each year, but, most importantly, over any five-year period, and to exceed the performance of the median fund in a broadly-diversified, nationally-recognized sample of fixed income funds.

e) The rate of return objective for any equity asset class is to exceed appropriate equity performance indices each year, but, most importantly, over any five-year period, and to exceed the performance of nationally recognized benchmarks, mixed as appropriate to the asset mix.

f) The CFO will diversify each asset class appropriately, will purchase securities of investment quality only, and will seek to moderate volatility and risk.

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<tr>
<th>Asset Allocation Weightings</th>
<th>Minimum</th>
<th>Target</th>
<th>Maximum</th>
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<tr>
<td>Cash &amp; Equivalents</td>
<td>0%</td>
<td></td>
<td>10%</td>
</tr>
<tr>
<td>Mutual Funds - Equities</td>
<td>15%</td>
<td>20%</td>
<td>22%</td>
</tr>
<tr>
<td>Mutual Funds - Bonds</td>
<td>15%</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>U.S. Equities</td>
<td>8%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Individual Fixed Income</td>
<td>22%</td>
<td>30%</td>
<td>32%</td>
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<tr>
<td>CMOs</td>
<td>5%</td>
<td>15%</td>
<td>15%</td>
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X. BENCHMARK INDICES

Investment options in various categories may be evaluated according to the benchmarks described below. These benchmarks are intended to be a guide and, in some instances, may not be appropriate to the type of investment being measured. In such cases, a different index should be utilized.

US Equities: S&P 500
International Equities: MSCI EAFE Index
Fixed Income: Barclays Capital Aggregate Bond Index
Cash: US 3-Month Treasury Bills

XI. ACKNOWLEDGMENT AND ACCEPTANCE

The undersigned acknowledge that this Investment Policy Statement was written/revised and approved by the Committee on behalf of the Association Board of Directors.

Committee Signatures:

____________________________________  __________________________
Printed/Signed  Date

____________________________________  __________________________
Printed/Signed  Date

____________________________________  __________________________
Printed/Signed  Date

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