

**Society of American Archivists
Council Meeting
August 10, 2009
Austin, Texas**

Action Item: Revision of SAA Investment Policy

(Prepared by the SAA Investment Committee: Ann Russell, chair; James Byers; Dennis Meissner; Becky Haglund-Tousey; Nancy Beaumont; and Thomas Jurczak)

BACKGROUND

At its August 25, 2009, meeting the SAA Council approved the following charge for a newly created Investments Committee: “The Investments Committee is charged with reviewing and recommending revisions to the current Investment Policy to address 1) the duties and responsibilities of the Investment Committee, 2) specific quantified income needs (e.g., income that is at least adequate to cover projected fund expenses), 3) administrative fees, and 4) all other areas that are appropriate for such a policy; and for providing ongoing oversight of SAA's investments program.”

DISCUSSION

The Committee reviewed and discussed SAA’s existing Investment Policy and agreed unanimously to submit the following recommendation. [*Note: Highlighted throughout the proposed policy is substitution of “Finance Committee” for “finance group.” This language is pending consideration by the Council of formation of a standing Finance Committee (Agenda Item II.D.).*]

RECOMMENDATION

THAT the revised “SAA Investment Policy” as drafted by the Investments Committee and presented at the August 10, 2009, Council meeting be adopted. (Strikethrough = deletion; underline = addition)

SAA Investment Policy

Background

~~In 1992, SAA Treasurer Bill Maher proposed that SAA explore options for increasing its yield on investments for long-term reserve funds by investing in stocks. SAA Council approved the concept of hiring a professional money manager to handle SAA's long-term reserve investments. Maher and Executive Director Anne Diffendal filled out a questionnaire that helped identify SAA's investment goals and risk tolerance and interviewed two money managers recommended by Merrill Lynch (SAA's investment broker and advisor). With Council's approval, they chose Rittenhouse Capitol Management of Radnor, Pennsylvania to act as SAA's money manager for long-term investments. Merrill Lynch continued to be retained to advise SAA on their operating funds.~~

~~At the time, some general investing principles were outlined for SAA's entire investment portfolio, including investment goals and priorities, and amounts available to invest. The guidelines provided to Merrill Lynch included:~~

~~In 2001, the Society of American Archivists' independent auditors pointed out the need for a formal investment policy. Both legally and ethically, the SAA Council must provide prudent oversight of the Society's investments. This written investment policy is intended to address those concerns, and its existence will help protect SAA from liability should the Society's investments be mismanaged. The guidelines provided in the initial investment policy included the following:~~

- ~~▪ Maintain adequate working funds to satisfy fluctuating needs for cash during the year;~~
- ~~▪ Provide access to funds to help cover a possible budget deficit in any given year;~~
- ~~▪ Provide for growth of capital net of inflation;~~
- ~~▪ Preserve the principal; place an amount equivalent to any federal grant funds in insured funds; and~~
- ~~▪ Seek as high a level of current income as is prudent.~~

~~Based on this input, and on the investor profile determined by SAA's answers to Merrill Lynch's questionnaire, SAA's investment portfolio has been managed in a balanced way between fixed income and equity securities.~~

~~While the groundwork laid in 1992 has resulted in an improved yield on SAA's investments, much more guidance can and should be given to SAA's advisors and money managers regarding the Society's investments.~~

Preamble

~~The SAA Council is responsible for the fiduciary management of the Society. Even SAA's legally unrestricted funds are held by the Council as a steward for the sake of~~

~~carrying out SAA's mission and purposes.] to include both legally restricted and unrestricted funds, held by Council as a steward to carry out SAA's mission and purpose. The following investment objectives and directions are to be judged and understood in light of that overall sense of stewardship.~~

Delegation

The SAA Council has delegated supervisory authority over its financial affairs to the Society's **[Finance Committee]**, ~~Treasurer, Executive Director and Director of Finance and Administration, hereafter collectively referred to as the finance group.~~ **Among its several tasks, the Finance Committee is responsible for reporting regularly to the Council on the status of SAA's investments. In carrying out its responsibilities, the Finance Committee and its agents will act in accordance with this Investment Policy and all applicable laws and regulations.** The SAA Council reserves to itself the exclusive right to revise the Policy.

The SAA Council and its **Finance Committee** are authorized to retain one or more Financial Consultant(s) to assume the investment management of funds and assets owned or administered by SAA. In discharging this authority, the **Finance Committee** can act in the place of Council and may receive reports from, pay compensation to, and enter into agreements with such Financial Consultant(s). The Council may also grant exceptions to the Investment Policy when appropriate. The **Finance Committee** will maintain regular contact with the Financial Consultant(s) and any investment brokers primarily through the Director of Finance and Administration, the Executive Director, or the Treasurer, all of whom are members of the Committee.

The SAA Council has established the **Finance Committee** to, among other responsibilities, provide oversight of SAA's investment program, including reviewing specific quantified income needs that are adequate to cover projected fund expenses, investment administrative fees, management performance, a three-year review schedule for the SAA Investment Policy and program, and all other areas that are related and appropriate to SAA investments. The **Finance Committee** will receive copies of all periodic financial reports. (See [reference to Finance Committee].)

Objectives

~~[The primary investment objective of the Organization is to earn a total return on its investments (defined as dividends and interest, plus capital gains or minus capital losses, minus expenses) appropriate to the Society's time horizon, liquidity needs and risk tolerance. The finance group will review these factors with the Financial Consultants at least once every five years, starting in Fiscal Year 2003.]~~

The Society's primary investment objective is to earn a positive total return on its investments that meets or exceeds the S&P 500. The computed total return considers dividends, interest, and realized and unrealized capital gains and it factors in capital losses and investment expenses. The Investment Policy and portfolio is reviewed by the **Finance Committee** and Financial Consultant(s) every three years to ensure its

compliance with SAA's risk tolerance, liquidity needs, and investment objectives. This review cycle will begin in Fiscal Year 2010-2011.

Asset Mix

To accomplish the Society's investment objectives, the Financial Consultant(s) are authorized to utilize portfolios of equity securities (common stocks and convertible securities), fixed-income securities, and short-term (cash) investments. As a guide to accomplishing these objectives, the Financial Consultant(s) shall remain within the following ranges:

Operating Expenses: SAA's operating funds will be managed for liquidity, preservation of principal, interest, and potential gain. No more than 50% of SAA's operating funds are to be invested in fixed-income securities (such as U.S. and corporate funds or prime rate funds), with the remaining funds kept in cash and equivalents (such as money market funds and Certificates of Deposit).

Long-Term Investments: SAA's endowment and reserve funds (including the Awards Funds, Endowment Funds, Publications Fund, and Deferred Income Fund) are to be managed with a longer time horizon in mind (three to five years). Thus ~~50% to 80%~~ 40% to 60% of these funds should be invested in equity securities (such as stocks or stock mutual funds), ~~15%~~ 25% to 50% should be invested in fixed-income securities or bond mutual funds, and 5% to 20% should be invested in cash and equivalents.

The **Finance Committee** can modify these ranges from time to time with the Council's approval. The actual investment targets shall be set within those limits by the Financial Consultant(s) in conjunction with SAA's designated financial officer.

Asset Standards

Common stocks: The Financial Consultant(s) responsible for managing the funds for SAA's endowed and reserve funds may invest in any unrestricted, publicly traded common stock that is listed on a major exchange or a national, over-the-counter market that is appropriate for the portfolio objectives, asset class, and/or investment style defined in this policy. This investment can be in the form of direct investment in the stock market or indirect investment via mutual funds. Mutual funds should be considered where they offer additional portfolio diversification; lower purchase, maintenance, and sale costs; and good potential gain.

Convertible preferred stock and convertible bonds: The Financial Consultant(s) may use convertible preferred stocks and bonds as equity investments. The quality rating of convertible preferred stock and convertible bonds generally should be BBB or better (as rated by Standard & Poor's) or Baa or better (as rated by Moody's). The common stock into which both may be converted must satisfy the standard specified for common stocks.

Fixed-income securities: The quality rating of bonds, notes, and bond mutual funds must be “A” or better (as rated by Standard & Poor’s or Moody’s). The portfolio may consist of only traditional principal and interest obligations (no derivatives) with maturities of seven years or less.

Prime rate funds: Any investments in prime rate funds should include a 90-day liquidity.

Cash/cash equivalents: The quality rating of commercial paper must be A-1 (as rated by Standard & Poor’s), P-1 (as rated by Moody’s), or better. The assets of any money market mutual funds must comply with this standard and/or the quality provisions for fixed-income securities.

Asset Diversification

As a general policy, the Financial Consultant(s) will maintain a reasonable diversification at all times. The Financial Consultant(s) responsible for long-term investments may not allow the investments in the equity securities of any one company to exceed 5% of the portfolio nor the total securities position (debt and equity) in any one company to exceed 10% of the portfolio. The Financial Consultant(s) shall also maintain reasonable sector allocations and diversification. In that regard, no more than 25% of the entire portfolio may be invested in the securities of any one sector.

Custody and Securities Brokerage

The **Finance Committee** will establish such custodial and brokerage relationships as are necessary for the efficient management of the Society’s funds. Whenever the **Finance Committee** has not designated a brokerage relationship, the Financial Consultant(s) shall execute transactions wherever they can obtain best price and execution.

Transactions

All purchases of securities will be for cash and there will be no margin transactions, short selling, or commodity transactions.

Reporting Requirements

Monthly: The Financial Consultant(s) shall provide the **Finance Committee** with a monthly written statement containing all pertinent transaction details for SAA’s investment portfolio, including:

- The name and quantity of each security purchased or sold, with the price and transaction date;
- An analysis for each security of its description, percentage of total portfolio, purchase date, quantity, average cost basis, current market value, unrealized gain or loss, and indicated annual income and yield (%) at market; and

- An analysis for the entire portfolio of the current asset allocation by investment category (equities, fixed-income securities, and cash reserves).

Periodically: The Financial Consultant(s) shall provide the Finance Committee with detailed information about 1) asset allocation, 2) investment performance, 3) future investment strategies, and 4) any other matters of interest to the Committee.

Annually: The Financial Consultant(s) shall provide to the SAA Council an annual summary of all transactions in each fiscal year, together with a report of investment performance for the year and a “snapshot” listing of current investments.

Cash Flow Requirements

SAA will be responsible for advising the Financial Consultant(s) in a timely manner of the Society’s cash distribution requirements from any managed account. The Financial Consultant(s) are responsible for providing adequate liquidity to meet SAA’s cash flow requirements in accordance with the Council’s policy.

Adopted by the SAA Council, August 2002; revised, August 2009.