



# Policy: Investments

RESPONSIBILITY: FINANCE COMMITTEE, EXECUTIVE COMMITTEE

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- DATE ADOPTED: March 21, 2014
  - DATE AMENDED: this space reserved for future amendment dates
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## Statement of Purpose

The Association for Rural & Small Libraries, Inc. (ARSL) has been established for the purpose of providing a network of persons throughout the country dedicated to the positive growth and development of libraries. ARSL believes in the value of rural and small libraries and strives to create resources and services that address national, state, and local priorities for libraries situated in rural communities.

This investment policy statement (IPS) has been adopted by the Association for Rural & Small Libraries, Inc. to provide guidelines for the investment of funds held by the organization.

For the purposes of managing investment risk and to optimize investment returns within acceptable risk parameters, the funds held will be divided into three separate investment pools. The process for determining the dollar amount in each pool is set forth in the "Procedures" section of this document. The three investment pools shall be called the "Operating Fund," the "Short-Term Fund," and the "Long-Term Fund."

## Assignment of Responsibility

1. **Responsibilities of the Finance Committee on behalf of the Executive Committee and the Board of Directors.** The Board of Directors and the Executive Committee of ARSL have formed a Finance Committee to assist the Executive Committee and the Board in fulfilling their oversight responsibility concerning the investment and management of ARSL's financial assets. The Finance Committee shall discharge its duties solely in the interest of ARSL, with the care, skill, prudence, and due diligence under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters would use in the conduct of an



enterprise of like character with like aims. The specific responsibilities of the Finance Committee include:

- a. Reviewing the financial needs of ARSL and communicating such needs to the Investment Consultant on a timely basis;
  - b. Determining the risk tolerance and investment time horizon and communicating these to the appropriate parties;
  - c. Establishing reasonable and consistent investment objectives, policies, and guidelines that will direct the investment of the assets;
  - d. Selecting with prudence and diligence qualified investment professionals, including any Investment Manager(s), Investment Consultant(s), and Custodian(s);
  - e. Evaluation of the Investment Manager(s) on a quarterly basis in order to assure adherence to policy guidelines and to monitor investment objective progress;
  - f. Evaluating portfolio performance and other matters relating to the management of the funds; and
  - g. Developing and enacting proper controls and procedures.
2. **Responsibilities of the Investment Consultant.** The role of the Investment Consultant is that of a non-discretionary advisor to the Finance Committee. Investment advice concerning the investment management of the assets will be offered by the Investment Consultant and will be consistent with the investment objectives, policies, guidelines, and constraints, as established in this IPS. Specific responsibilities of the Investment Consultant include:
- a. Assisting in the development and periodic review of this Investment Policy Statement (IPS);
  - b. Conducting Investment Manager searches;
  - c. Providing “due diligence” on the Investment Managers;



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- d. Providing recommendations to hire and/or terminate any Investment Manager(s);
  - e. Acting on behalf of, and at the direction of, the Finance Committee in connection with the hiring or termination of Investment Managers or the selection of mutual funds;
  - f. Monitoring the performance of the Investment Managers or mutual funds to provide the Finance Committee with the ability to determine their progress toward the investment objectives;
  - g. Communicating matters of policy, manager research, and manager performance to the Finance Committee;
  - h. Reviewing investment history, historical capital markets performance, and the contents of this IPS to any newly appointed members of the Finance Committee; and
  - i. Monitoring the asset allocation of the Long-Term Fund and providing the Finance Committee with recommendations for changing asset allocation within the guidelines set forth in this IPS.
3. **Responsibilities of the Investment Managers.** Each Investment Manager will have full discretion to make all investment decisions for the assets placed under his or her jurisdiction, while observing and operating within all policies, guidelines, and constraints, as outlined in this IPS. Specific responsibilities of the Investment Manager(s) include:
- a. Discretionary investment management, including decisions to buy, sell, or hold individual securities, and to alter asset allocation within guidelines established in this IPS and approved by the Finance Committee;
  - b. Communicating any major changes to economic outlook, investment strategy, or any other factors that affect implementation of the investment process;



- c. Informing the Investment Consultant(s) of any material changes in portfolio management personnel, ownership structure, investment philosophy, or other relevant information; and
  - d. Voting proxies on behalf of ARSL, and, when requested, communicating information concerning such voting to the Finance Committee on a timely basis.
4. **Responsibilities of the Custodian.** The Custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by ARSL, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The Custodian will also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets within fund accounts.

## Procedures

1. The following procedures will be followed to ensure that the investment policy statement is consistent with the current mission of ARSL and accurately reflects the current financial condition:
  - a. This investment policy shall be reviewed periodically by the Finance Committee for any necessary updates or revisions.
  - b. Recommendations made by the Finance Committee will be forwarded to the Executive Committee for review.
  - c. Changes approved by the Executive Committee will be presented to the Board of Directors for final approval.
2. The following procedures will be used to determine the dollar amounts to be placed in each of the three investment pools:
  - a. The Treasurer will recommend to the Finance Committee the dollar amounts to be placed in the Operating, Short- and Long-Term Funds.
  - b. The Finance Committee will recommend action to the Executive Committee, which shall have final approval of the dollar amounts placed in specific funds.



3. To assist ARSL in the management of its Long-Term, Short-Term, and Operating Funds, ARSL may engage the services of an Investment Consultant. The following procedures shall be followed to engage a new Investment Consultant or to replace a current one:
  - a. The Administrative Agent will recommend to the Finance Committee the hiring or replacing or an Investment Consultant.
  - b. The Finance Committee will recommend action to the Executive Committee who shall have final approval.
4. The structure of the Long-Term Fund will consist of separately managed accounts and/or mutual funds. The procedures for changing a managed account or a mutual fund will be as follows:
  - a. The Investment Consultant will recommend to the Administrative Agent the changing the manager of an account and/or mutual fund.
  - b. The Administrative Agent will review the candidate(s) and forward the recommendations to the Finance Committee for further review.
  - c. The Finance Committee will recommend action to the Executive Committee who shall have final approval.

## Operating Fund

The purpose of the Operating Fund is to provide sufficient cash to meet the financial obligations of ARSL in a timely manner. ARSL seeks to establish a target balance for all cash and cash-equivalent accounts comprising the Operating Fund that represents one year of projected operating expenses.

## Investment Objectives

The investment objectives of the Operating Fund are:

1. Liquidity;
2. Preservation of capital; and
3. To optimize the investment return within the constraints of the policy.



## Investment Guidelines

1. **Allowable Investments.** The Treasurer and/or Administrative Agent shall be authorized to invest the Operating Fund as follows:
  - a. Federally-insured certificates of deposit not to exceed the insurable limit per institution including interest at commercial banks or savings and loan institutions;
  - b. Money market funds that invest in U.S. Government-backed securities;
  - c. Interest bearing checking accounts in U.S. federal insured banks and savings and loans not to exceed federally insured amounts;
  - d. Direct obligations of the U.S. Government, its agencies, and instrumentalities;
  - e. Federal Agency Discount Notes; and
  - f. Repurchase agreements with institutions whose senior debt rating is rated a double A or better by Standard & Poor's and/or Moody's or where physical delivery of the collateral is made to a third-party custodian.
2. **Maturity.** The maturities on investments for the Operating Fund shall be limited to twelve months or less.

## Reporting

The Administrative Agent shall prepare the following reports for presentation on a quarterly basis to the Treasurer and the Finance Committee:

1. Schedule of investments;
2. Investment income year to date;
3. Current yield;
4. Unrealized/realized gains or losses year to date.



## Short-Term Fund

The Short-Term Fund is intended to meet the expenses occurring as a result of unanticipated activities and to fund projects which are approved by the Finance Committee and Executive Committee. To the extent that there are balances that can be invested, the purpose is to improve the return on funds held for future expenditure while managing investment risk.

## Investment Objectives

The investment objectives of the Short-Term Fund are:

1. Preservation of Capital;
2. Liquidity;

Optimization of investment return within the constraints of (1.) and (2.) above.

## Investment Guidelines

1. **Allowable Investments.** The Treasurer and/or Administrative Agent shall be authorized to invest the Short-Term Fund as follows:
  - a. Federally insured certificates of deposit not to exceed the insurable limit per institution including interest at commercial banks or savings and loans institutions;
  - b. Money market funds that invest in U.S. Government-based securities;
  - c. Interest-bearing checking accounts in U.S. federally insured banks and savings and loans not to exceed federally insured amounts;
  - d. Direct obligations of the U.S. Government, its agencies, and instrumentalities;
  - e. Federal Agency Discount Notes; and
  - f. Repurchase agreements with institutions whose senior debt rating is rated a double A or better by Standard & Poor's and/or Moody's or where physical delivery of the collateral is made to a third-party custodian.



2. **Maturity.** The Short-Term Fund shall have a weighted average maturity of three years or less. The Treasurer and/or Administrative Agent shall be responsible for scheduling the investment maturities.

## Reporting

The Treasurer and/or Administrative Agent shall prepare the following reports for presentation on a monthly basis to the Finance Committee:

1. Schedule of investments,
2. Interest income year to date,
3. Current yield.

## Long-Term Fund

The purpose of the Long-Term Fund is to enhance the purchasing power of funds held for future expenditure and to maintain and improve the financial stability of the Association.

## Investment Objectives

The objectives of the portfolio represent a long-term goal of maximizing returns without exposure to undue risk, as defined herein. It is understood that fluctuating rates of return are characteristic of the securities markets. The primary concern should be long-term appreciation of the assets and consistency of total return on the portfolio. Recognizing that short-term market fluctuations may cause variations in the account performance, the portfolio is designed to achieve the following objectives over a three-year moving time period:

1. The account's total return should exceed the Consumer Price Index by 3% annually. On a quarter-to-quarter basis, the actual returns will fluctuate and should exceed the target about half the time.
2. The account's total return should exceed the Treasury Bill Index by a maximum of 3% annually. On a quarter-to-quarter basis, the actual returns will fluctuate and should exceed the target about half the time.





Understanding that a long-term positive correlation exists between performance volatility (risk) and statistical returns in the securities markets, we have established the following short-term objective:

The portfolio should be invested to minimize the probability of low negative total returns, defined as a one-year return worse than negative 12%<sup>1</sup>. It is anticipated that a loss greater than this will occur no more than one out of twenty years.

### Investment Guidelines

The investment policies and restrictions presented in this statement serve as a framework to achieve the investment objectives at the level of risk deemed acceptable. These policies and restrictions are designed to minimize interference with efforts to attain overall objectives, and to minimize the probability of excluding appropriate investment opportunities.

**Allowable Investments.** The Treasurer and/or Administrative Agent shall be authorized to invest the Short-Term Fund as follows:

1. **Prohibited Investments.** Individual investments and investment activity not specifically approved by the Finance Committee are prohibited.
2. **Diversification.** The Long-Term Fund shall be so diversified so that the portfolio will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio, unless under the circumstances it is clearly prudent not to do so.
3. **Long-Term Fund Target Asset Mix.** The Long-Term Fund shall be comprised of the asset classes listed in table below. The target weight is the desired weight for each asset class. The minimum weights and maximum weights

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<sup>1</sup> The estimate of downside risk is built upon the assumption that, over time, the annual returns of the portfolio will be normally distributed and that a wide range of outcomes is possible based on the performance of the asset classes that are defined in this policy. The portfolio is statistically optimized in an effort to minimize the dispersion of the results while achieving the desired rate of return. To quantify the frequency of the negative performance identified above, the portfolio estimates are modeled to a 90% confidence interval which suggests that 90% of the returns would fall within 1.645 standard deviations of the mean and that 5% of the returns, (one out of twenty) could breach the 5% downside return.



are to allow for normal market fluctuations. It is the responsibility of the investment consultant to monitor the Long-Term Fund’s asset allocation and to make recommendations for rebalancing that are consistent with the targeted allocations.

<i>Asset Class</i>	<b>Minimum Weight</b>	<b>Target Weight</b>	<b>Maximum Weight</b>
<b><i>Equity</i></b>			
<i>U.S. Large-Capitalization</i>	15%	21%	27%
<i>U.S. Mid-Capitalization</i>	4%	6%	8%
<i>U.S. Small-Capitalization</i>	3%	5%	7%
<i>International Equities</i>	16%	23%	30%
<i>Total Equity</i>		55%	
<b><i>Fixed Income</i></b>	21%	30%	39%
<b><i>Alternative Assets</i></b>	10%	15%	20%
<b><i>Total</i></b>		100%	

## Equities

The equity asset classes should be maintained at risk levels roughly equivalent to the sectors of the market represented, with the objective of exceeding a nationally recognized index measuring the performance of the designated sector over a five-year moving time period net of fees and commissions. Mutual funds conforming to the policy guidelines may be used to implement the investment program. The following definitions shall apply for the purposes of this policy.



- U.S. Large-Capitalization Stocks: A portfolio of stocks composed primarily of U.S.-based companies having a market capitalization, on average, exceeding \$10.0 billion and whose primary shares trade on a major U.S. exchange. The generally accepted, nationally recognized index for this asset class is the Standard & Poor's 500 Stock Index. (S&P 500).
- U.S. Mid-Capitalization Stocks: A portfolio of stocks composed primarily of U.S.-based companies having a market capitalization, on average, of between \$2.0 billion and \$10.0 billion. The generally accepted, nationally recognized index for this asset class is the Russell Midcap Index.
- U.S. Small-Capitalization Stocks: A portfolio of stocks composed primarily of U.S.-based companies having a market capitalization, on average, of less than \$2.0 billion. The generally accepted, nationally recognized index for this asset class is the Russell 2000 Index.
- International Stocks: A portfolio composed primarily of global developed and emerging market stocks excluding the United States. American Depository Receipts (ADRs) are considered international stocks. The generally accepted, nationally-recognized index for this asset class is the Morgan Stanley Capital international All Country World Index Ex USA (Net).

## Fixed Income

Investments in fixed-income securities will be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premium. Mutual funds conforming to the policy guidelines may be used to implement the investment program. The following definitions shall apply for the purposes of this policy:

A portfolio consisting primarily of dollar-denominated investment-grade fixed-rate taxable bonds that may include Treasuries, government-related and corporate securities, MBS pass-through securities, asset-backed securities, and commercial mortgage-based securities. The portfolio may also include, but is not limited to, other fixed income investments such as investment in Treasury Inflation Protected Securities (TIPS), international bonds and high-yield bonds. The generally accepted, nationally-recognized index for this asset class is the Barclays Capital Aggregate Bond Index.



## Alternative Investments

Investment in alternatives may be considered by this organization within the context of an overall investment plan. The objective of such investments will be to seek to diversify the portfolio, complementing traditional equity and fixed-income investments and improving the overall performance consistency of the portfolio. It is acknowledged that there is no guarantee that this objective will be realized.

Alternative investments, including, for example, hedge funds, managed futures, commodities, and other non-traditional investments, shall be utilized through mutual funds or professionally managed pools of such investments to provide for a prudent level of diversification. Performance comparisons will be made to the HFRI Fund of Funds Index, an equal-weighted index representing funds of funds that invest with multiple managers focused on absolute return strategies. The index is a proxy for the performance of the universe of funds focused on absolute return strategies. Returns of are of fees and are denominated in USD.

## Investment Manager Selection and Evaluation Criteria

1. Investment Manager Selection. In selecting the Investment Manager(s) for the Long-Term Fund, the Finance Committee will consider a variety of statistical and non-statistical factors. These factors, measured over a multi-year period, may include the Investment Manager's investment objectives, performance relative to its index and peer group, risk characteristics, return characteristics, investment style, fees, manager tenure and turnover, style consistency, and the degree of correlation with other Investment Managers employed by ARSL.
2. Investment Manager Monitoring and Review. The ongoing monitoring of investment options must be a regular and disciplined process. It is the mechanism for revisiting the Investment Manager selection process and confirming that the criteria originally satisfied remain so, and that an Investment Manager continues to be a valid selection. While frequent change is neither expected nor desirable, the process of monitoring investment performance relative to specified guidelines is an ongoing process.
  - a. The Finance Committee, working with the Investment Consultant, will monitor, on a periodic basis, the same factors identified above



under "Investment Manager Selection." The placement of a manager on a "watch list" may be required if an Investment Manager:

- i. has a change in manager or analytical staff;
  - ii. has experienced style drift;
  - iii. has performed unfavorably on an absolute basis relative to its index or peer group over rolling five-year periods
  - iv. has performed unfavorably on a risk-adjusted basis relative to its index or peer group over rolling five-year periods;
  - v. has violated ARSL's investment policy guidelines;
  - vi. has material litigation filed against the firm;
  - vii. has material changes in firm ownership structure; or
  - viii. has exhibited any other unfavorable factors that the Finance Committee or the Investment Consultant deem material since the initial selection of the Investment Manager.
- b. Watch list status is expected to last no longer than one quarter and will be used to evaluate the factors that led to the watch list designation. If, at the conclusion of the watch list evaluation, the Finance Committee has overall satisfaction with the Investment Manager, no further action is required. If areas of dissatisfaction exist, it is the responsibility of the Finance Committee, working with the Investment Consultant, to consider taking steps to remedy the deficiency, including the removal of the Investment Manager.
3. Investment Manager Removal.
- a. The Investment Consultant may recommend the removal of an Investment Manager when it believes such removal is in the best interest of the Long-Term Fund, taking into account all relevant factors, including, and without limitation, a lack of confidence in the Investment Manager's ability to:



- i. Achieve performance and risk objectives;
  - ii. Comply with investment guidelines; or
  - iii. Maintain a stable organization and retain key relevant investment professionals.
- b. The watch list is not the only route for removing an existing manager. The aforementioned events or conditions, or any other events or conditions of concern identified by the Finance Committee or the Investment Consultant, may prompt the immediate removal of an Investment Manager without his or her being watch listed. Any decision to remove an Investment Manager will be made on an individual basis, and will be made based on quantitative and qualitative review.

### Performance Reporting

The Long-Term Fund will be evaluated quarterly on a total return basis. Returns will be compared to:

1. Consumer Price Index plus 3%
2. Three-month Treasury Bill Index plus 3%
3. Nationally recognized indices measuring the performance of the classes specified in the target asset mix.

Comparisons will show results for the latest quarter, year to date, and since inception. The report will be prepared by the Investment Consultant and will be presented to the Administrative Agent on a quarterly basis.

- End of Document -