Why Should You Have a Policy?

In a rising interest rate environment, and with the current equity markets, investing class funds is becoming a potentially meaningful way of increasing Class resources. But first:

A Cautionary Tale, or It Happened To Us And It Can Happen To You.

Source: Bloomberg
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Risking 501(c)(3) status – Most classes will be okay.

- The IRS expects that charitable organizations will take a “prudent man” approach to investing. By that they mean that there won’t be any investments whereby:
  - an officer of the organization can benefit as a result of the investment;
  - the investment is high risk investment; or
  - the investment is low or no return, i.e., no sweetheart deals

- Some investments, while not prohibited, could receive a higher level of scrutiny if the class was audited by the IRS:
  - Securities purchased on margin;
  - Commodity futures;
  - Working interest in oil & gas wells;
  - Puts, calls & straddles;
  - Stock warrants; or
  - Short sales.

- And remember to keep your cash in a FDIC insured account
The Executive Committee has to decide:

- the investment purpose & risk tolerance (protect principal or increase resources);
- composition of Investment Committee as well as roles and responsibilities of members;
- Conflict of Interest Policy;
- periodicity of reporting to Executive Committee;
- transition planning; and
- liquidity guidelines.

The Investment Committee has to:

- define an appropriate investment strategy to meet the requirements established by Executive Committee;
- define metrics for success;
- understand cost structure of investments; and
- undertake periodic asset allocation study (every 2 or 3 years).