**Arizona Trail Association**

# Investment Policy

**Date of Board Resolution:**

## Article I: Purpose

This policy establishes investment objectives, policies, guidelines, eligible securities, and applicable gifts related to all assets held by Arizona Trail Association and/or any subsidiary corporations, primarily for investment purposes (‘institutional funds”). In doing so the policy:

* clarifies the delegation of duties and responsibilities concerning the management of institutional funds.
* identifies the criteria against which the investment performance of the organization’s investments will be measured.
* communicates the objectives to the Board, staff, investment managers, brokers, donors and funding sources that may have involvement.
* confirms policies and procedures relative to the expenditure of institutional funds.
* serves as a review document to guide the ongoing oversight of the management of the organization’s investments.

## Article II: Delegation of Responsibilities

The Board of Directors has a direct oversight role regarding all decisions that impact Arizona Trail Association’s institutional funds. The Board has delegated supervisory responsibility for the management of our institutional funds to the Finance Committee. Specific responsibilities of the various bodies and individuals responsible for the management of our institutional funds are set forth herein.

### Section A: Responsibilities of the Board

The Board shall ensure that its fiduciary responsibilities concerning the proper management of Arizona Trail Association’s institutional funds are fulfilled through appropriate investment structure, internal and external management, and portfolio performance consistent with all policies and procedures. Based on the advice and recommendations of the Finance Committee, the Board shall:

* select, appoint and remove members of the Committee.
* approve investment policies and objectives that reflect the investment objectives and risk orientations of the reserve and endowment funds

### Section B: Responsibilities of the Finance Committee

Members of the Finance Committee are not held accountable for less than desirable outcomes, rather for adherence to procedural prudence, or the process by which decisions are made in respect to reserve or endowment assets. In consideration of the foregoing, the Committee is responsible for the development, recommendation, implementation and maintenance of all policies relative to Arizona Trail Association’s institutional funds and shall:

* develop and/or propose policy recommendations to the Board with regard to the management of all institutional funds.
* recommend long-term and short-term investment policies and objectives for our institutional funds, including the study and selection of asset classes, determining asset allocation ranges, and setting performance objectives.
* determine that institutional funds are prudently and effectively managed with the assistance of management and any necessary investment consultants and/or other outside professionals, if any.
* monitor and evaluate the performance of all those responsible for the management of institutional funds.
* recommend the retention and/or dismissal of investment consultants and/or other outside professionals.
* receive and review reports from management, investment consultants and/or other outside professionals, if any.
* periodically meet with management, investment consultants and/or other outside professionals.
* convene regularly to evaluate whether this policy, investment activities, risk management controls and processes continue to be consistent with meeting the goals and objectives set for the management of institutional funds.

### Section C: Responsibilities of Management

Management shall be responsible for the day-to-day administration and implementation of policies established by the Board and/or the Finance Committee concerning the management of institutional funds. Management shall also be the primary liaison between any investment consultants and/or other outside professionals that may be retained to assist in the management of such funds. Specifically, management shall:

* oversee the operational investment activities of all institutional funds subject to policies established by the Board and/or the Finance Committee.
* notify the Finance Committee when any one asset class falls outside a 10% variance of the allocation determined appropriate by the Finance Committee.
* contract with any necessary outside service providers, such as: investment consultants, investment managers, banks, and/or trust companies and/or any other necessary outside professionals.
* ensure that the service providers adhere to the terms and conditions of their contracts; have no material conflicts of interests with the interests of Arizona Trail Association; and, performance monitoring systems are sufficient to provide the Finance Committee with timely, accurate and useful information.
* regularly meet with any outside service providers to evaluate and assess compliance with investment guidelines, performance, outlook and investment strategies; monitor asset allocation and rebalance assets, as directed by the Finance Committee and in accordance with approved asset allocation policies, among asset classes and investment styles; and, tend to all other matters deemed to be consistent with due diligence with respect to prudent management of institutional funds.
* comply with official accounting and auditing guidelines regarding due diligence and ongoing monitoring of investments, especially alternative investments. Prepare and issue periodic status reports to the Board and the Finance Committee.

## Article III: Guidelines for Expenditure

The Board of Directors and the Finance Committee are responsible for the establishment of an Endowment Fund Spending Policy to: (a) ensure that sufficient investment return shall be retained to preserve the endowment funds’ economic value as a first priority; and, (b) to provide funds for the annual operating budget in an amount which is not subject to large fluctuations from year-to-year to the extent possible. The Board of Directors and the Finance Committee are also responsible for the establishment of a Reserve Fund Spending Policy, which prioritizes (a) providing emergency funds for operations in an amount which is not subject to large fluctuations from year-to-year to the extent possible; then, (b) ensuring that investment return shall be retained to preserve the reserve funds’ economic value when possible.

In making any decision relative to the expenditure of institutional funds, each of the following factors must be considered:

* general economic conditions;
* possible effect of inflation or deflation;
* expected tax consequences, if any, of investment decisions or strategies;
* the role that each investment or course of action plays within the overall investment portfolio of the fund;
* expected total return from the income and appreciation of investments;
* the uses, benefits, purposes and duration for which the institutional fund was established;
* the preservation of the institutional fund;
* purposes of the Arizona Trail Association and the fund, and any special relationship or special value therein;
* the needs of the organization and the fund to make distributions and preserve capital;
* all applicable investment and spending policies;
* other organizational resources; and
* where appropriate, alternatives to spending from the institutional fund and the possible effects of those alternatives.

For each decision to appropriate institutional funds for expenditure, an appropriate contemporaneous record should be kept and maintained describing the nature and extent of the consideration that the appropriate body gave to each of the stipulated factors.

### Subsection A: Endowed Funds Spending Policy

This policy provides a maximum cap for expenditures from endowed funds to ensure that the fund is not eroded over time as it generates income and capital gains. The fund may expend less than the amount provided through the Spending Policy so that it grows in perpetuity for the enduring benefit of the mission of the Arizona Trail Association.

The Arizona Trail Association has adopted a distribution policy that allows for use of earnings from the endowment. Accumulated earnings on the endowment are released from temporarily restricted net assets when used by the Arizona Trail Association for programs. All earnings may be released and used annually.

The State of Arizona adopted the Uniform Prudent Management of Institutional Funds Act (the Act). The Board of Directors has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Arizona Trail Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the Act.

### Subsection B: Reserve Fund Spending Policy

The purpose of a reserve fund is to offer a flexible option to saving non-endowed cash or cash equivalents for emergency use while generating a small amount of investment income. The Arizona Trail Association is authorized to withdraw up to 100% of the reserve fund, but may expend less than the amount provided through the Spending Policy so that it grows in perpetuity for the enduring benefit of the mission of the Arizona Trail Association.

## Article IV: Guidelines for Investing

It will be the responsibility of the Finance Committee and the Board of Directors to regularly review the performance of the reserve accounts and the endowed accounts, and report to the Board of Directors at least quarterly with updates and recommendations as needed. In accordance with Arizona Trail Association’s understanding of UPMIFA, the Finance Committee must consider the purposes of both Arizona Trail Association and our assets in managing and investing institutional funds. All individuals responsible for managing and investing Arizona Trail Association’s institutional funds must do so in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances. Investments will be limited to those outlined in this policy.

### Section A: Investing Endowment Funds

The philosophy to be considered in exercising our investment strategy of endowed funds shall be:

* Investment Objective: Seeks to grow capital long-term through investments in fixed income, equities, and alternative investments.
* Risk Profile: Achieve long-term performance expectations while accepting some level of short-term volatility, mitigated through diversification.
* Performance Measurements Standards:The benchmarks to be used in evaluating the performance of the main asset classes will be consistent with relative indexes.

Exceptions to the investment policy may be made only when assets are invested in a Mutual Fund(s) that periodically utilizes prohibited strategies to mitigate risk and enhance return.

#### Subsection 1: Public Equities

Allowable Range: Minimum 0%; Maximum 75% of total assets.

Public Equity investments may include domestic, international and emerging market common stocks, convertible preferred stocks, exchange traded funds, equity futures and debt securities convertible into equity securities. Diversification should target majority domestic and minority international allocations, with minimal exposure to small cap and emerging markets.

#### Subsection 2: Fixed Income

Allowable Range: Minimum 0%; Maximum 75% of total assets.

Public Debt may include liquid securities including, but not limited to, investments in U.S. Treasury and Agency obligations, sovereign bonds, investment grade corporate securities and mortgage and asset backed securities. Exposure can also include below investment grade companies, non-U.S. and emerging market debt.

#### Subsection 3: Alternative Investments

Allowable Rage: Minimum 0%; Maximum 20% of total assets.

Alternative investments may include:

* Hedge Funds.
* Private Equity, including investments in buyout funds, growth equity and other similar illiquid investments.
* Commodities, including commodity-linked derivatives or [equity investments](https://www.blackrock.com/investing/products/equities) in commodity-related companies, including mining, energy and agricultural companies.
* Real Estate, including investments in ETF or REITs.

#### Subsection 4: Money Market Funds and other Cash Equivalents

Allowable Rage: Minimum 0%; Maximum 10% of total assets.

A quality money market fund will be utilized for the liquidity needs of the portfolio whose objective is to seek to provide current income and preserve the principal investment. The fund will invest in cash equivalents or money market instruments that are short-term and high quality.

### Section B: Investing Reserve Funds

The philosophy to be considered in exercising our investment strategy of funds that may be made available for operations shall be:

* Investment Objective: Seeks preservation of capital by investing in money market funds and short-term cash equivalents with low appreciation expectations.
* Risk Profile: Provides low volatility.
* PerformanceMeasurements Standards: reference money market fund index for equivalent performance.

100% of total assets are to be held in Cash or Cash Equivalents. A quality money market fund may be utilized. The fund will invest in cash equivalents or money market instruments that are short-term and high quality.

## Article V: Windfall Considerations

The Board of Directors recognizes their responsibility to manage all funds entrusted to Arizona Trail Association in a prudent manner, with the understanding that donated funds will be put to use as designated by the donor. If the donor does not specify a restriction, the Board will make responsible decisions regarding the use of these funds. The purpose of these considerations are to protect and manage gifts in a manner consistent with the long-term goals and short-term needs of the Arizona Trail Association. It is Arizona Trail Association’s policy that Windfall gifts be allocated as set forth below, in the order and priority indicated.

1. Specific allocations shall be made at the recommendation of the Finance Committee with the approval of the Board of Directors.
2. For gifts specified by the donor to be an endowment, either through outright gift, Gift Agreement, or estate documents, 100% of the gift will be governed by the Arizona Trail Association’s Endowment Funds Spending Policy.
3. For all Significant Accumulated Donations, Major Gifts, Bequests and/or Remaining Windfall gifts as defined herein, no less than sixty-percent (60%) of all gifts during any budget year will be subject to Endowment Funds Spending Policy and no more than forty-percent (40%) of the aforementioned gifts during any budget year will be allocated to capital or operational needs of Arizona Trail Association.
4. Exceptions to this policy allowing less than sixty-percent (60%) allocation to a Arizona Trail Association Investments will require a two-thirds majority vote of the Board of Directors and must adhere to legal guidelines outlined by the Arizona “Management of Charitable Funds Act” ARS 10-11801 through 10-11806 and the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

### Definitions

#### Major Gift: an unrestricted, unbudgeted gift of $100,000 or more made in the form of cash, pledges, securities, partnership interests, commercial property (contracts, promissory notes, mortgages, deeds of trust), insurance and benefits (life insurance, annuities, IRAs and pension benefits), real property and tangible personal property.

#### Significant Accumulated Donations: the accumulation of unrestricted Individual Donations in excess of $100,000 of the annual budgeted amount of Individual Donations in the same fiscal year, paid in the form of cash, pledges, securities, partnership interests, commercial property (contracts, promissory notes, mortgages, deeds of trust), insurance and benefits (life insurance, annuities, IRAs and pension benefits), real property and tangible personal property.

#### Bequest: any gift, intended to take effect at or after death, by a donor through a Will, a Trust, an IRA, pension plan or similar benefit plan, an annuity or insurance policy of any type, any type of survivorship account, or similar wealth transfer document or plan.

#### Remaining Windfall: an unrestricted, unbudgeted gift or accumulation of gifts not defined herein and greater than 20% of the Arizona Trail Association’s Annual Budget.

## Article VI: Donor Restrictions

In all instances, donor intent shall be respected when decisions are rendered concerning the investment or expenditure of donor restricted funds. If a donor, in the gift instrument, has directed that appreciation not be spent, Arizona Trail Association shall comply with that directive and consider it when making decisions regarding the management and investment of the fund. Any attempt to lift restrictions on any fund shall be conducted in full compliance with the law.