

# TENNESSEE MEDICAL ASSOCIATION

## Statement of Investment Policy

### Objectives and Guidelines

Revised: January 10, 2017

## **SCOPE OF THIS INVESTMENT POLICY**

This statement of investment policy reflects the investment policy, objectives, and constraints of the Tennessee Medical Association.

## **PURPOSE OF THIS INVESTMENT POLICY STATEMENT**

This statement of investment policy is set forth by the Board of Trustees of the Tennessee Medical Association in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives of Fund assets.
3. Offer guidance and limitations to the Investment Manager(s), regarding the investment of Fund assets.
4. Establish a basis for evaluating investment results.
5. Manage Fund assets according to prudent standards as established in common trust law.
6. Establish the relevant investment horizon (see page 3, item #7) for which the Fund assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

## **DELEGATION OF AUTHORITY**

The Board of Trustees of the Tennessee Medical Association is a fiduciary, and is responsible for directing and monitoring the investment management of Fund assets. As such, the Board of Trustees is authorized to delegate certain responsibilities to the Finance Committee that is, in turn, empowered to select and hire:

1. Investment Advisor. The consultant may assist the Finance Committee and Board of Trustees in establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
2. Investment Manager. The investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Fund's stated and written investment objectives.

3. Custodian. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts.
4. Co-Trustee. The Board of Trustees may appoint an outside individual or entity, such as a bank trust department, to be co-trustee. The Co-trustee will assume fiduciary responsibility for the administration of Fund assets.
5. Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants, and others may be employed by the Board of Trustees to assist in meeting its responsibilities and obligations to administer Fund assets prudently.
6. A separate volunteer decision-making and investment review body such as an Investment Committee. This committee will possess the same authority and responsibility as the aforementioned Investment Manager.

The Board of Trustees will not reserve any control over investment decisions, with the exception of specific limitations described in these statements. Managers will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment managers, each manager should request modifications, which they deem appropriate.

## **DEFINITIONS**

1. "Fund" shall mean the Tennessee Medical Association Reserve and Operating Funds.
2. "Board of Trustees" shall refer to the governing board established to administer the Fund as specified by applicable ordinance.
3. "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Fund assets.
4. "Investment Manager" shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Fund assets.
5. "Investment Advisor" shall mean any individual or organization retained to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
6. "Securities" shall refer to the marketable investment securities, which are defined as

acceptable in this statement.

7. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Fund is a minimum of 5 years.

## **ASSIGNMENT OF RESPONSIBILITY**

### **Responsibility of the Investment Manager(s)**

Each Investment Manager must acknowledge in writing its acceptance of responsibility as a fiduciary. Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
2. Reporting, on a timely basis, quarterly investment performance results.
3. Communicating any major changes to economic outlook, investment strategy, or any other factors, which affect implementation of investment process, or the investment objective progress of the Fund's investment management.
4. Informing the Finance Committee regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
5. Voting proxies, if requested by the Board of Trustees, on behalf of the Fund, and communicating such voting records to the Board of Trustees on a timely basis.

### **Responsibility of the Investment Advisor(s)**

The Investment Advisor's role is that of a non-discretionary advisor to the Finance Committee of the Board of Trustees of the Tennessee Medical Association. Investment advice concerning the investment management of Fund assets will be offered by the Investment Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the Investment Consultant include:

1. Assisting in the development and periodic review of investment policy.
2. Conducting investment manager searches when requested by the Board of Trustees or Finance Committee.

3. Monitoring the performance of the Investment Manager(s) to provide the Board of Trustees with the ability to determine the progress toward the investment objectives.
4. Communicating matters of policy, manager research, and manager performance to the Board of Trustees, reviewing Fund investment history, historical capital markets, performance and the contents of this investment policy statement to any newly appointed members of the Board of Trustees.

#### **GENERAL INVESTMENT PRINCIPLES**

1. Investments shall be made solely in the interest of the beneficiaries of the Fund.
2. The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
3. Investment of the Fund shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
4. The Board of Trustees may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives.
5. Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return.

#### **INVESTMENT MANAGEMENT POLICY**

1. Preservation of Capital: Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.
2. Risk Aversion: Understanding that risk is present in all types of securities and investment styles, the Board of Trustees recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Fund's objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
3. Adherence to Investment Discipline: Investment managers are expected to adhere to the investment management styles for which they were hired or appointed. Managers will be evaluated regularly for adherence to investment discipline.

## INVESTMENT OBJECTIVES

In order to meet its needs, the investment strategy of the Tennessee Medical Association is two-fold:

1. TMA's **Operating Fund** is to emphasize current income with the preservation of principal; that is, to generate a predetermined level of investment income to meet the cash flow needs on a periodic basis for various financial requirements.
2. TMA's **Reserve Fund** is to emphasize achieving growth of principal and income, with a risk tolerance designated by the Tennessee Medical Associations Board of Trustees through its Finance Committee.
3. TMA's **Building Fund** (2016) –formed with the profits from the sale of the TMA building in 2016, the goal of this account is to preserve the capital investment while generating 4-6% annually to help in operation of the new TMA headquarters (\$2 million).

## SPECIFIC INVESTMENT GOALS

Over the investment horizon established in this statement, it is the goal of the Reserve Fund asset classes to exceed:

### FIXED INCOME INVESTMENTS

The return of the Barclays Capital U.S. Aggregate Bond Index by 1 %

### EQUITY INVESTMENTS

1. The Return of the S&P 500.
2. Meet or exceed the market index, or blended market index, selected and agreed upon by the Board of Trustees that most closely corresponds to the style of investment management.
3. Display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.

Specific investment goals and constraints for each investment manager, if any, shall be incorporated as part of this statement of investment policy. Each manager shall receive a written statement outlining his specific goals and constraints as they differ from those objectives of the entire Fund.

## DEFINITION OF RISK

The Board of Trustees realizes that there are many ways to define risk. It believes that any person

or organization involved in the process of managing the Tennessee Medical Association assets understands how it defines risk so that the assets are managed in a manner consistent with the Fund's objectives and investment strategy as designed in this statement of investment policy. The Board of Trustees defines risk as:

The probability of losing money over the Fund's investment time horizon.

## **LIQUIDITY**

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Board of Trustees will periodically provide investment counsel with an estimate of expected net cash flow. The Board of Trustees will notify the investment consultant in a timely manner, to allow sufficient time to build up necessary liquid reserves.

## **MARKETABILITY OF ASSETS**

The Board of Trustees requires that all of Fund assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Fund, with minimal impact on market price.

## **INVESTMENT GUIDELINES**

### **Allowable Assets**

1. Cash Equivalents
  - Treasury Bills
  - Money Market Funds
  - STIF Funds
  - Commercial Paper
  - Banker's Acceptances
  - Repurchase Agreements
  - Certificates of Deposit

2. Fixed Income Securities
  - U.S. Government and Agency Securities
  - Corporate Notes and Bonds
  - Mortgage Backed Bonds
  - Preferred Stock
  - Fixed Income Securities of Foreign Governments and Corporations
  - Planned Amortization Class Collateralized Mortgage Obligations (PAC CMOs) or other “early tranche” CMOs
3. Equity Securities
  - Common Stocks
  - Convertible Notes and Bonds
  - Convertible Preferred Stocks
  - American Depository Receipts (ADRs) of Non-U.S. Companies
  - Stocks of Non-U.S. Companies (Ordinary Shares)
4. Mutual Funds
  - Mutual Funds which invest in securities as allowed in this statement.
  - ETF’s
5. Other Assets
  - GIC’s
  - REIT’s

### **Derivative Investments**

Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, CMOs (PAC bonds, IOs, POs, residual bonds, etc.), and interest rate swaps, among others. The Board of Trustees feels that many derivative securities are relatively new and therefore have not been observed over multiple economic cycles, with this in mind, Derivative Investments are NOT authorized investments for the Tennessee Medical Association.

### **Stock Exchanges**

To ensure marketability and liquidity, investment advisors will execute equity transactions through the following exchanges: New York Stock Exchange; American Stock Exchange; and NASDAQ over-the-counter market. In the event that an Investment Manager determines that there is a benefit or a need to execute transactions in exchanges other than those listed in this statement, written approval is required from the Board of Trustees.

## Prohibited Assets

Prohibited investments include, but are not limited to the following:

1. Commodities and Futures Contracts
2. Private Placements
3. Options
4. Limited Partnerships
5. Venture-Capital Investments
6. Real Estate Properties (excluding the TMA Headquarters Building @ 701 Bradford Avenue)
7. Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs

## Prohibited Transactions

Prohibited transactions include, but are not limited to the following:

1. Short Selling
2. Margin Transactions

## Asset Allocation Guidelines

Investment management of the assets of the Tennessee Medical Association shall be in accordance with the following asset allocation guidelines:

1. Reserve Fund Asset Allocation Guidelines (at market value)

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Preferred</u>
Equities		70 %	70 %*
Fixed Income	30%	80 %	30 %
Cash and Equivalent	0%	100 %	0 %

***\*Up to 5% of equities may be held in individual stocks***

2. Operating Fund Asset Allocation Guidelines (at market value)

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Preferred</u>
Equities	0%	0 %	0 %
Fixed Income	0%	100 %	80 %
Cash and Equivalent	0%	100 %	20 %

3. The Board of Trustees may employ investment managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Fund, such disciplines must fit within the overall asset allocation guidelines established in this statement. Such investment managers will receive written direction from the Board of Trustees regarding specific objectives and guidelines.
4. In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Board of Trustees will instruct the Investment Manager(s) to bring the portfolio(s) into compliance with these guidelines as promptly and prudently as possible. In the event that any individual Investment Manager's portfolio is in violation with its specific guidelines, for reasons including but not limited to market price fluctuations, the Board of Trustees expects that the Investment Manager will bring the portfolio into compliance with these guidelines as promptly and prudently as possible without instruction from the Board of Trustees.

### **Diversification for Investment Managers**

The Board of Trustees does not believe it is necessary or desirable that securities held in the Fund represent a cross section of the economy. However, in order to achieve a prudent level of portfolio diversification, the securities of any one company or government agency should not exceed 25% of the total fund, and no more than 10% of the total fund should be invested in any one industry. Individual treasury securities may represent 50% of the total fund, while the total allocation to treasury bonds and notes may represent up to 100% of the Fund's aggregate bond position. Investment Managers may find it necessary to exceed these preferred diversification limits. Such exceptions should be documented for the review of the Finance Committee.

### **Guidelines for Fixed Income Investments and Cash Equivalents**

1. Fund assets may be invested only in investment grade bonds rated a (or equivalent) or better.
2. Fund assets may be invested only in commercial paper rated A1 (or equivalent) or better.
3. Fixed income maturity restrictions are as follows:
  - Maximum maturity for any single security is 10 years.
  - Weighted average portfolio maturity may not exceed 5 years.
4. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poors, and/or Moody's.

## **SELECTION OF INVESTMENT MANAGERS**

The Board of Trustees' selection of Investment Manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. The Board of Trustees requires that each investment manager provide, in writing, acknowledgment of fiduciary responsibility to the Tennessee Medical Association.

In the event that an Investment Committee is used, it shall consist of a majority number of member physicians; one, of which, will be the Finance Committee Chairman.

## **INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION**

Performance reports generated by the Investment Consultant shall be compiled at least quarterly and communicated to the Board of Trustees for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Board of Trustees intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate a manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

## **INVESTMENT POLICY REVIEW**

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Board of Trustees will review investment strategies at least annually.

## TMA Investment Strategy

Reaffirmed January 2021

### Overview

The investment strategy for TMA reserve fund is capital appreciation and growth with some cash generation to support operations on an annual basis. We seek to protect our base principal and produce market comparable returns to grow our assets.

Beginning in 2021, the TMA maintains one investment account, having merged the assets from the sale of the building in 2017 into the general investment account.

There was a separate **building fund** established after the sale of the 21<sup>st</sup> Avenue building and purchase of the Bradford building. The excess capital was invested to provide annual supplemental cash returns to supplement TMA regular operations, primarily the operations of the new building, with a goal to preserve the initial capital while generating cash flow equivalent to 5% of principal.

### Current Investments Direction

Investment mix of 70 % equities, 30% bonds/cash equivalent, allowing for up to 5% of total funds to be held in individual stocks.

Foreign exposure is to be less than 7% in total holdings.

### Benchmarks

55% Russell 1000 + 15% EFA (World/Foreign) + 30% AGG (Bond)