**Crisis Fund Investment Policy**

**Board of Directors Approval Dates:** 2/19/2016, 7/21/2017, 2/15/2019

**Summary:**

The MAPE Crisis Fund (hereafter referred to as the “Fund”) was established to provide financial support in the event of a job action, such as a strike or a shutdown. The purpose of this Investment Policy Statement is to establish guidelines for the Fund’s investment portfolio (the “Portfolio”). The statement also incorporates accountability standards that will be used for monitoring the progress of the Portfolio’s investment program and for evaluating the contributions of the Fund Advisor hired on behalf of the Fund and its beneficiaries.

**Role of the Investment Review Board:**

The Board of Directors' Finance Workgroup shall serve as the Investment Review Board (IRB). The Statewide Treasurer will chair the IRB and may appoint up to two additional members at large.

The IRB is acting in an oversight capacity with respect to the Portfolio, and is accountable to the MAPE Board of Directors, for overseeing the investment of all assets owned by, or held in trust for, the Portfolio.

* This Investment Policy Statement sets forth the investment objectives and guidelines that govern the activities of the IRB and any other parties to whom the MAPE Board of Directors has delegated investment management responsibility for Portfolio assets.
* The investment policies for the Fund contained herein have been formulated consistent with the organization’s anticipated financial needs and in consideration of the organization’s tolerance for assuming investment and financial risk, as reflected in the majority opinion of the MAPE Board of Directors.
* Policies contained in this statement are intended to provide guidelines, where necessary, for ensuring the Portfolio’s investments are managed consistent with the short-term and long-term financial goals of the Fund. At the same time, they are intended to provide for sufficient investment flexibility in the face of changes in capital market conditions and in the financial circumstances of the organization.
* The IRB will review this Investment Policy Statement at least once per year. Changes to this Investment Policy Statement can be made only by affirmation of a majority of the MAPE Board of Directors, and written confirmation of the changes will be provided to all IRB members and to any other parties hired on behalf of the Portfolio as soon thereafter as is practical.

**Investment Goals, Objectives and Guidelines:**

As the purpose of the Fund is to provide financial resources in the event of a job action, the Fund is to be invested with the objective of preserving the long-term, real purchasing power of assets, while maintaining a significant amount of liquidity.

As a result, 50% of the Fund will be held in fully insured cash, cash equivalents or certificates of deposit.

The other 50% of the Fund will be invested in a balanced portfolio of equity, fixed income and cash equivalent securities that seeks to achieve an average annual rate of return (over a period of at least 10 years) of the Consumer Price Index plus 4% to 6%. No less than 15% of the total holdings of this balanced portfolio will be invested in socially responsible instruments and mutual funds.

**Cash Portfolio Investment Policy (50%)**

A fundamental difference exists between the management of the cash portfolio and the balanced portfolio. As stated above, 50% of the Fund will be held in fully insured cash, cash equivalents or certificates of deposit. MAPE’s Business Manager has the authority to work with the Fund Advisor in determining the appropriate ongoing allocation of cash, cash equivalents and certificates of deposit based on Fund needs and market conditions. Within 5 days of any changes the Business Manager will notify the Investment Review Board (IRB).

**Balanced Portfolio Investment Policies (50%)**

**Asset Allocation Policy:**

* The IRB recognizes that the strategic allocation of Portfolio assets across broadly defined financial asset categories with varying degrees of risk, return, and return correlation will be the most significant determinant of long-term investment returns and Portfolio asset value stability.
* The IRB expects that actual returns and return volatility may vary from expectations and return objectives for periods of time that can range from one to three years. While the IRB wishes to retain flexibility with respect to making periodic changes to the Portfolio’s asset allocation, it expects to do so only in the event of material changes to the Fund, to the assumptions underlying Fund spending policies, and/or to the capital markets and assets in which the Portfolio invests.
* Fund assets in the balanced portfolio will be comprised of two major components: an equity portion and a fixed income portion. The expected role of the equity investments will be to maximize long-term real growth of Portfolio assets, while the role of fixed income investments will be to provide for more stable periodic returns, and provide some protection against a prolonged decline in the market value of the equity investments.
* Outlined below are the long-term strategic asset allocation guidelines of the balanced portfolio (excluding the cash portfolio), determined by the IRB to be the most appropriate, given the Fund’s long-term objectives and short-term constraints.

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| --- | --- |
| Asset Class | Target Allocation |
| US Equities | 55% |
| Non-US Equities | 30% |
| Fixed Income | 15% |

**Diversification Policy:**

Diversification across and within asset classes is the primary means by which the IRB expects the Portfolio to avoid undue risk of large losses over long periods of time. To protect the Portfolio against unfavorable outcomes within an asset class due to the assumption of large risks, the IRB will take reasonable precautions to avoid excessive investment concentrations. Specifically, the following guidelines will be in place:

* With the exception of cash or fixed income investments explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of total Portfolio assets.
* With the exception of passively managed investment vehicles seeking to match the returns of a broadly diversified market index, no single investment pool or mutual fund shall comprise more than 20% of total Portfolio assets.
* With respect to fixed income investments, for individual bonds, the minimum credit quality of these investments shall be rated A or higher on a major U.S. exchange.

**Permissible Asset Classes:**

* Cash and Cash Equivalents
* Fixed Income – Domestic Bonds
* Fixed Income – Non-U.S. Bonds
* Equities – U.S.
* Equities – Non-U.S.
* Equities – Emerging Markets
* Equities – REITs

**Permissible Security Types:**

* Mutual Funds
* Individual Stocks – Publicly traded on New York, American or NASDAQ Stock Exchanges
* Individual Bonds – Rated A or higher and traded on a major U.S. exchange
* Closed End Funds
* Deferred Annuities – Issued by an insurance company with a Best rating of A- or higher

**Prohibited Asset Classes:**

* Venture Capital
* Purchases of Letter Stock, Private Placements, or Direct Payments
* Puts, Calls, Straddles, or Other Option Strategies
* Direct Purchases of Real Estate

**Other Investment Policies:**

The Portfolio and its Fund Advisor are prohibited from:

* Purchasing securities on margin or executing short sales.
* Purchasing or selling derivative securities for speculation or leverage.
* Engaging in levered investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected, given the objectives of the Portfolio.

**Rebalancing Policy:**

It is expected that the Portfolio’s actual asset allocation will vary from its target allocation as a result of the varying periodic returns earned on its investments in different asset classes. The Portfolio will be rebalanced to its target normal asset allocation under the following procedure:

* The Fund Advisor will review the Portfolio quarterly to determine the deviation from target weightings. During the quarterly review, the following parameters will be applied:
  + If the actual weighting differs from the target weighting by +/- 5 percentage points from its target weighting, unless due to a strategist recommendation, the Fund Advisors shall rebalance the portfolio back to the recommended weighting within 10 days of the quarterly meeting.
  + The Fund Advisor will notify the IRB seven business days before rebalancing occurs. If so directed, the Fund Advisor will not perform or authorize the rebalancing.

**Monitoring Portfolio Investments and Performance:**

The IRB will monitor the Portfolio’s investment performance against the Portfolio’s stated investment objectives.

The Fund Advisor will meet with the IRB at least once per year and will provide the IRB with a quarterly report that lists all of the assets held by the Portfolio, the values for each asset and all transactions affecting the assets, including additions and withdrawals.

In addition, the Fund Advisor will provide the following quarterly management reports:

* Portfolio performance results over the last quarter, year, three years and five years.
* Performance results of each individual manager for the same periods.
* Performance results of comparative benchmarks for the same periods.
* End of quarter status regarding asset allocation – current vs. policy.
* Any recommendations for changes.

The balanced portfolio’s (excluding cash and cash equivalents) composite investment performance (net of fees) will be judged against a composite benchmark consisting of the following unmanaged market indexes weighted according to the expected target asset allocations stipulated by the Portfolio’s investment guidelines:

* 55% Vanguard Total Stock Market Index Fund (VTSMX)
* 30% Vanguard Total International Stock Index Fund (VGTSX)
* 15% Vanguard Total Bond Market Index Fund (VBMFX)

In keeping with the Portfolio’s overall long-term financial objective, the IRB will evaluate the Portfolio and the Fund Advisor over a suitably long-term investment horizon, at a minimum, on a rolling five-year basis.