

NATIONAL COURT REPORTERS ASSOCIATION



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# Statement of Investment Policies

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## Policies Regarding Disposition of Investment Funds

**Policies as of March 19, 2016;revises July 8, 2010**

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## GENERAL INFORMATION

Fund name: National Court Reporters Association Reserve Funds

Date: March 19, 2016, revises July 8, 2010

## SCOPE OF THIS INVESTMENT POLICY

This statement of investment policy reflects the investment policy, objectives, and constraints of the National Court Reporters Association Reserve Funds, both Long-Term and Short-Term.

## PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This statement of investment policy for the Fund is set forth by the Board of Directors of the National Court Reporters 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 for Fund(s) assets.
3. Offer guidance and limitations to all Investment Fund Managers regarding the investment of Fund assets.
4. Establish a basis for evaluating investment results.
5. Ensure that Fund assets are managed in accordance with the goals and objectives for Fund assets.
6. Establish the relevant investment horizon for which 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.

## DUTIES AND RESPONSIBILITIES

The Executive Director & CEO or the Senior Director, Finance and Administration, together with the Secretary-Treasurer, are authorized to invest NCRA's Reserve Funds which is not required to meet operational needs in accordance with this Statement of Investment Policy, Objectives, and Guidelines.

It is the duty of the Board of Directors to approve NCRA's investment policies and guidelines, to engage the service of investment advisor(s) to help achieve its investment objectives and guidelines, and to monitor performance of the investments.

Investment policy guidelines may be modified from time to time by NCRA Board of Directors after consideration of the advice and recommendations of the Investment Management Consultants, Investment Fund Manager(s) and others. Any modification of policy guidelines shall be in writing and signed by the Executive Director & CEO or the Senior Director, Finance and Administration, together with the Secretary-Treasurer.

Investment Fund Managers will be responsible for making all investment decisions pertaining to the assets under their direction and will be accountable for the objectives indicated herein.

## DELEGATION OF AUTHORITY

The Board of Directors of the National Court Reporters Association are fiduciaries and are responsible for directing and monitoring the investment management of the Fund assets. As such, the Board of Directors are authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. Investment Management Consultant. The Investment Management Consultant may assist the Board of Directors in: establishing investment policy, objectives, and guidelines; selecting Investment Fund Managers; reviewing such Investment Fund Managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
2. Investment Fund Manager(s). Each Investment Fund Manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Fund's investment objectives. At the request of the Finance Committee and/or The Board of Directors, meetings with Investment Fund Managers can be facilitated via the Investment Management Consultant.
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.

Additional specialists such as attorneys, auditors, and others may be employed by the Board of Directors to assist in meeting its responsibilities and obligations to administer Fund assets prudently. The Board of Directors delegate day-to-day investment decisions to selected Investment Fund Managers, with the exception of specific limitations described in these statements. While it is not the intent that current or future limitations will hamper Investment Fund Managers, each Investment Fund Manager (in the case of a custom, separate account) should request modifications to the policy and guidelines for their specific strategy, which they deem appropriate.

## DEFINITIONS

1. "Fund" shall mean the National Court Reporters Association Reserve Funds.
- a. "Long-Term Portfolio" refers to the invested portfolio that is intended to maintain purchasing power over time
- b. "Short-Term Portfolio" refers to the funds that have been set aside in cash and cash equivalents, and that is intended to provide short-term liquidity to the Association if necessary.
2. "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.
3. "Board of Directors" shall mean the NCRA president, president-elect, vice president, secretary-treasurer, immediate past president, and nine directors who constitute the NCRA Board of Directors.
4. "Investment Fund Manager" shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Fund assets.
5. "Investment Management Consultant" shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, Investment Fund 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" for the Long-Term Portfolio 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 the Long-Term Portfolio is long-term, meaning that investment decisions are made with a time horizon greater than 10 years (a full market cycle).
8. "Standard Deviation" is a measure that is used to quantify the amount of variation or dispersion of a set of data values. A standard deviation close to 0 indicates that the data points tend to be very close to the mean (or average) of the set, while a high standard deviation indicates that the data points are spread out over a wider range of values.

## ASSIGNMENT OF RESPONSIBILITY

### *Responsibility of the Board of Directors*

The Board of Directors are charged with the responsibility for the management of the assets of the Fund. The Board of Directors shall discharge their duties solely in the interest of the Fund, with the care, skill, prudence and 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 a like character with like goals and objectives. The specific responsibilities of the Board of Directors relating to the investment management of Fund assets include:

1. Adhering to the guidelines as defined in all applicable regulations.
2. Projecting the Fund's financial needs, and communicating such needs to the Investment Fund Managers on a timely basis.
3. Determining the Fund's risk tolerance and investment horizon, and communicating these to the appropriate parties.
4. Establishing reasonable and consistent investment objectives, policies and guidelines which will direct the investment of the Fund's assets.
5. Prudently and diligently selecting qualified investment professionals, including Investment Fund Manager(s), Investment Management Consultant(s), and Custodian(s).
6. Regularly evaluating the performance of the Investment Fund Manager(s) to assure adherence to policy guidelines and monitor investment objectives progress.
7. Developing and enacting proper control procedures: For example, replacing Investment Fund Manager(s) due to fundamental change in investment management process, or failure to comply with established guidelines.

### ***Responsibility of Investment Management Consultants***

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

1. Assisting in the development and periodic review of investment objectives, policy, and asset allocation.
2. Conducting Investment Fund Manager searches.
3. Providing "due diligence," or research, on the Investment Fund Manager(s).
4. Monitoring the performance of the Investment Fund Manager(s) to provide the Board of Directors with the ability to determine the progress toward the investment objectives.
5. Communicating matters of policy, Investment Fund Manager research, and Investment Fund Manager performance to the Board of Directors.
6. Reviewing Fund investment history, historical capital markets performance and the contents of this investment policy statement to any newly elected Board of Directors.

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

Each Investment Fund 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 Fund 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 Board of Directors regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
5. Voting proxies on behalf of the Fund, and communicating such voting records to the Board of Directors on a timely basis.

## GENERAL INVESTMENT PRINCIPLES

1. Investments shall be made solely in the interest of and for the benefit of the National Court Reporters Association and defraying the reasonable expenses of administration.
2. The Funds shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like goals and objectives .
3. Investment of the Long-Term Portfolio 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 Directors may employ one or more Investment Fund Managers of varying styles and philosophies to attain the Long-Term Portfolio'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. Investment Fund Manager Selection – In its Investment Fund Manager process, the NCRA Finance Committee believes qualitative factors are also important indicators of an Investment Fund Manager's worthiness than past performance by itself. Manager retention includes judgments relating, but not limited to, personnel, investment process, research capabilities, implementation of process, and business operations. The Finance Committee shall also make quantitative assessments based on an Investment Fund Manager's absolute performance, performance versus a benchmark, performance versus a peer group, if available, sources of investment performance, risk characteristics, and reliability of track record, including the quality of the composite performance of all clients as reported by the Investment Fund Manager.
2. Preservation of Purchasing Power - Consistent with their respective investment styles and philosophies, Investment Fund Managers shall make reasonable efforts to preserve long-term purchasing power, understanding that losses will/may occur in individual securities either temporarily or permanently in the course of managing a long-term strategy.

3. Risk Mitigation - Understanding that risk is present in all types of securities and investment styles, the Committee recognizes that a quantity of short- and intermediate-term investment risk is necessary to produce long-term investment results sufficient to meet the Fund objectives. However, the Investment Fund Managers are to make all reasonable efforts to control risk, and shall be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives. Diversification of asset classes and Investment Fund Managers is intended to minimize risks associated with concentration in a given asset class, manager style, and individual manager.
4. Adherence to Investment Discipline - Investment Fund Managers shall adhere to the investment management strategies for which they were hired. Managers shall be evaluated regularly for adherence to investment discipline.

### OVERALL INVESTMENT STRATEGY

In order to meet its needs, the investment strategy of the Long-Term Portfolio is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income.

Specifically, the primary strategy for the Investment Management of Long-Term Portfolio assets shall be:

**Long-Term Growth of Capital**-To emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated inasmuch as it is consistent with the volatility of a comparable market index.

The secondary strategy in the investment management of Fund assets shall be:

**Preservation of Purchasing Power** - To minimize the probability of loss of purchasing power over the investment horizon, emphasis is placed on minimizing return volatility rather than maximizing total return.

**In order to meet its needs, the investment strategy of the Short-Term Portfolio is to maintain liquidity and safety of assets.**

### SPECIFIC INVESTMENT GOALS

#### Real Rate of Return Objective

The investment objective of the Long-Term Portfolio is to produce a total rate of return of at least 4% above inflation as measured by the Consumer Price Index, net of expenses over the investment time horizon.

The investment objective of the Short-Term Portfolio is to maintain liquidity and maximum security of assets to be used in the short-term.



## Relative Rate of Return Objective

A complementary investment objective of the Long-Term Portfolio is that the total rate of return achieved by the Long-Term Portfolio competes favorably, when compared over comparable periods, to other trust funds and/or relevant market indices having similar objectives and constraints and using similar investment media.

The investment goals above are the objectives of the aggregate Long-Term Portfolio and are not meant to be imposed on each investment account and/or Investment Fund Manager (if more than one is used). The goal of each Investment Fund Manager, over a full market cycle, shall be to:

1. Meet or exceed a market index, or blended market index, selected and agreed upon by the Board of Directors that most closely corresponds to their style of investment management.
2. 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.

## Time Horizon

Based on historical data, it is anticipated that the Long-Term Portfolio will have a strong probability of achieving its stated objectives over a full market cycle. Since it is assumed that the Fund and its purpose will exist over a relatively long period of time, the Board of Directors have used long-term investment time horizons (>10 years) to establish the appropriate asset allocation policies and guidelines in order to attain these objectives. The Board of Directors recognizes that year by year and over shorter-term time horizons these objectives may not always be attainable. Nevertheless, the portfolio will be evaluated over rolling three-year and five-year periods to determine the Portfolio's progress towards its objectives.

The time horizon of the Short-Term Portfolio is 0-365 days.

## DEFINITION OF RISK

The Board of Directors realizes that there are many ways to define risk. They believe that any person or organization involved in the process of managing the Fund 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 Directors defines risk as the probability of not meeting the Long-Term Portfolio's specific investment goals. For the Short-Term Portfolio, risk is any impairment of capital.

## LIQUIDITY

Sufficient liquidity and income should be maintained to pay the Fund’s expenses, and any predictable and/or reasonable contingencies. 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 Directors will, along with the Investment Management Consultant, take the necessary steps to provide sufficient liquidity on an ongoing basis. In the event of an unforeseen cash requirement, the Executive Committee will work with the Investment Management Consultant to provide the necessary liquidity. As a general rule, when accessing the portfolio to provide for liquidity, the strategic allocations as delineated in this document and accompanying exhibits should attempt to be maintained. The Board of Directors understands that there are liquidity constraints in Alternative Investments which are stated herein.

It is the Board of Director’s intention that the Short-Term Portfolio maintain maximum liquidity for any short-term operational needs.

## INVESTMENT GUIDELINES

### *Allowable Assets*

1. Cash Equivalents	<ul style="list-style-type: none"> <li>• Treasury Bills</li> <li>• Money Market Funds</li> <li>• Commercial Paper</li> <li>• Banker's Acceptances</li> <li>• Repurchase Agreements</li> <li>• Certificates of Deposit</li> </ul>
2. Fixed Income Securities	<ul style="list-style-type: none"> <li>• U.S. Government and Agency Securities</li> <li>• Corporate Notes and Bonds</li> <li>• Mortgage Backed Bonds</li> <li>• Preferred Stock</li> <li>• Fixed Income Securities of Foreign Governments and Corporations</li> <li>• Funded Amortization Class Collateralized Mortgage Obligations (PAC CMOs) or other "early tranche" CMOs</li> </ul>
3. Equity Securities	<ul style="list-style-type: none"> <li>• Common Stocks</li> <li>• Convertible Notes and Bonds</li> <li>• Convertible Preferred Stocks</li> <li>• American Depository Receipts (ADRs) of Non-U.S. Companies</li> <li>• Stocks of Non-U.S. Companies (Ordinary Shares)</li> </ul>
4. Alternative Investment	<ul style="list-style-type: none"> <li>• Long/Short Equity</li> <li>• Convertible Arbitrage</li> <li>• Merger/Risk Arbitrage</li> <li>• Fixed-Income Arbitrage</li> </ul>

	<ul style="list-style-type: none"> <li>• Distressed Securities</li> <li>• Mutual funds/hedge funds</li> </ul>
5. Other Assets	<ul style="list-style-type: none"> <li>• Guaranteed Insurance Contracts (“GICs”)</li> <li>• Limited Partnerships which invest in securities as allowed in this statement</li> </ul>

### *Prohibited Assets*

Consistent with the objective of maintaining a liquid portfolio, “illiquid investments” are currently prohibited. These include, but are not limited to, the following:

1. Venture-capital investments
2. Direct investments in private real estate properties that are not occupied and used by NCRA. Sub-investments in real estate in a managed investment fund are permissible investments pursuant to the alternative investment guidelines.

### **ASSET ALLOCATION GUIDELINES**

Given the previously stated investment objectives, the Board of Directors recognize that it is important to stipulate that the following asset mix and ranges shall be adhered to by the total Fund. Each individual Investment Fund Manager will be made to clearly understand their role as regards the overall investment objectives and asset allocation guidelines for the total Fund. However, they will not be made to adhere individually to such allocation guidelines. It will be the responsibility of the Board of Directors (and therefore the responsibility of their Investment Management Consultant) to ensure total Fund adherence to these allocation guidelines. Investment management of the assets of the Fund shall be in accordance with the following asset allocation guidelines:

1. Aggregate Long-Term Portfolio Asset Allocation Guidelines (at market value): In general, the asset allocation should average, over a full market cycle, approximately 60% equities (or equivalents) and 40% fixed income (or equivalents) and cash (or equivalents).

	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>
<b>Global Equities</b>	45	60	75
<b>Fixed Income &amp; Cash</b>	25	40	55

The Short-Term Portfolio Asset Allocation Guidelines: In general, the asset allocation should always be 100% in short-term cash and cash equivalents (i.e. money market, short-

term treasuries, short-term CDs, and other available instruments with short-term maturities).

2. The comparative index (NCRA Policy Index) for the total fund, based on the asset allocation targets shall be 36% Russell 3000 (US Domestic Stocks), 24% MSCI EAFE (International Stocks), and 40% BC Aggregate Bond Index (US Bond Index). The target policy allocation to equities is 60% US Domestic Stocks and 40% International Stocks (36% and 24%, respectively), for comparative purposes.
3. The Board of Directors may employ Investment Fund 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.
4. Alternative Investments are allowable as complementary and/or replacements for equity and fixed income asset classes. There is a 20% limitation on alternative investments as a percentage of the whole investment portfolio.
5. In addition to the above broad asset allocations, the Board of Directors will, on an ongoing basis, determine the number and types of style and Investment Fund Manager allocations necessary and desirable to achieve proper and prudent Long-Term Portfolio diversification.
6. The Board of Directors should, on an ongoing basis, review the broad asset allocations as described above, in addition to the prescribed allocation to the various styles and Investment Fund Managers and toward the goal of rebalancing back within these guidelines. As a general rule, once asset, style, and/or Investment Fund Manager allocations stray more than 5% for two consecutive quarters from these stated ranges and/or allocations, the Board of Directors should specifically address this issue, with a bias toward rebalancing back towards prescribed norms.

### *Guidelines for Alternative Investments*

1. The Board of Directors may consider investments in alternative investment strategies within the context of an overall investment plan.
2. The objective of such strategies will be to diversify the Long-Term Portfolio, complementing traditional equity and/or fixed-income investments to improve the overall performance consistency of the portfolio, understanding that there is no guarantee that this objective will be realized.
3. Alternative Investments may include hedge funds, consisting of single manager or fund of funds products.
  - a. The Board of Directors understands that hedge fund investments are less transparent than traditional investments, but will expect reasonable levels of transparency in order to monitor the investments appropriately.
  - b. The Board of Directors understands that liquidity in such investments may be limited to specific time periods. Liquidity constraints, including lock-up provisions, will be taken into consideration when making allocations to such investments.
  - c. Allowable hedge fund investments may include, but are not limited to investments in the following: common and preferred stocks, options, warrants, convertible securities, foreign securities, foreign currencies, commodities, commodity futures, financial futures, derivatives, mortgage-backed and mortgage-related securities, real estate, bonds (both investment-grade and noninvestment-grade, including high-yield debt, distressed, or other securities) and other assets. Strategies may utilize short-selling and leverage.
4. It is the goal of the Board of Directors to maintain at least 75% of its hedge funds allocation in fund of funds managers.

#### **SELECTION OF INVESTMENT FUND MANAGERS**

The Board of Directors' selection of Investment Fund Manager(s) must be based on prudent due diligence procedures. A qualifying Investment Fund Manager must be a registered investment advisor under the Investment Advisors Act of 1940 (unless otherwise exempt), or a bank or insurance company.

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

Performance reports generated by the Investment Management Consultant shall be compiled at least quarterly and communicated to the Board of Directors for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks as described throughout this document. 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 Directors intends to evaluate the portfolio(s) over a full market cycle, but reserve the right to terminate an Investment Fund 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 Fund Managers shall be reviewed annually 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 Directors will review investment policy at least annually.

This statement of investment policy, as amended, is adopted effective March 19, 2016, by the Board of Directors of the National Court Reporters Association.