Investment Policy

Approved 27 July 2012; Amended 16 June 2014

PREAMBLE

This document outlines the investment objectives of the Executive Board of the Society for Music Theory and serves as a guideline for the Investment Committee, which is appointed by the Executive Board to oversee the management of funds the Executive Board may establish. For each investment account, it describes the purpose of the account and policies for distribution of its assets, and summarizes the performance standards that will be used by the Investment Committee to evaluate investment performance on a regular basis. Finally, it describes the strategies approved by the Executive Board for the Society's investments and the broad parameters by which the Investment Committee proposes to implement them. This document will be reviewed each year at the annual meeting of the Executive Board.

INVESTMENT POLICY

ORGANIZATION AND OPERATION

The powers and duties of the Investment Committee are prescribed by the Executive Board of the Society in its Governance Guidelines. Per these Guidelines, the Investment Committee shall be composed of at least three persons: a chair and at least two members at large, none of whom shall be members of the Executive Board. The Investment Committee shall correspond regularly and review investments on a quarterly basis, with subsequent reports to the Executive Board. The Investment Committee shall also meet each year at the Annual Meeting of the Society for Music Theory to ensure that its investment strategies are relevant to market returns, and that asset allocation and purpose and timing of cash flows are in accordance with the investment policy. At the Annual Meeting, the Board shall, for each investment account, review the Investment Directives (in which the Board's objectives for investments are outlined for the Committee) and the Investment Strategies (in which the Committee shall set out appropriate risk levels on the basis of these objectives), and shall vote on any recommended changes.

Two individuals shall be designated signatories of any investment account: one member of the Investment Committee and the Treasurer of the Executive Board. The term of the signatory from the Investment Committee should not end in the same year as the term of the Treasurer.

The primary task of the Investment Committee is to determine investment strategies and target asset allocation ranges, based on the preferred investment goals and cash flow needs of the Society as outlined in the Investment Directives for each account. When the amount in any account exceeds $100,000, the Committee shall, in consultation with the Treasurer, either engage a professional investment firm to select actual investments or, particularly when the size of the total investments renders the expense of hiring an investment manager uneconomic, favor investments in index-managed balanced funds or similar instruments.

Regular Investment Fund

Approved 27 July 2012; revised 31 October 2013; revised 16 June 2014

This Regular Investment Fund shall serve as a "rainy-day" fund for the Society.

Disbursement

The treasurer shall seek to maintain a balance of approximately 12 months operating expenses. Balances in excess of this amount will be distributed at least once annually. Ordinarily, these disbursements will be directed to the Endowment Fund, though in emergency circumstances the treasurer may use them to cover projected cash shortfalls.

General Investment Directives

The Investment Committee is charged with investing funds according to a **moderate risk strategy**, emphasizing total return (i.e., the aggregate return from capital appreciation and dividend and interest income) over a 3- to 5-year investment horizon. This risk level is intended to support the aim of increasing the size of SMT's funds for future use in grants or other programs for the membership, rather than in funding short-term cash-flow needs of the Society. Any modifications to this *general* policy will be made on a 3-year rolling basis and will be outlined specifically in the Investment Directives addendum for each year.

Explanation of Risk Levels

Generally speaking, one expects long-term correlation between investment return and volatility of returns, or risk. "Moderate risk" means that the portfolio will not be invested primarily in cash equivalents, in which the risk of loss is usually very small, but would be majority-weighted in some asset classes as equities, in which, in exchange for greater volatility (i.e., the risk represented by the market going up or down), investors normally expect a higher return over the longer term than in cash equivalents or fixed income. "Moderate risk" also means that the portfolio will not be heavily weighted in high-risk asset classes.

This moderate-risk stance is reflected in the proposed target asset allocation range, which recommends a larger weighting in equities over bonds over the longer term. A reasonable way to assess the returns of the portfolio would be to compare them against market indices of broad asset classes (e.g., S&P 500, Russell 1000, Barclays, etc.), weighted in accordance with actual asset allocation of the portfolio.

Target Asset Allocation and Benchmarks

The Investment Committee is charged with overseeing a portfolio of mutual funds, index funds, or Exchange-traded Funds (ETFs)[1] aimed at balancing investment returns against risk and expenses over a 3- to 5-year investment horizon. The portfolio should hold a diversified mix of assets, where asset classes with different levels of risk are balanced against each other to achieve long-term growth and income. The targeted asset allocation among funds of this type should be according to the following guidelines:

Fund Type	Definition	Allocation Range	Target Range	Rating/ Performance
Bond Funds/Bond ETF	Invest in corporate, municipal, or U.S. government debt. The goal is to provide income.	30–55%	40%	Relevant index benchmark tied to fund.
Stock Funds/Stock ETF	Invest in securities that represent part-ownership in companies. The goal is to provide investment growth.	45–70%	60%	Relevant index benchmark tied to fund.

Investment Directive Addendum for Fiscal Year 2012

There are no modifications to the general directive of investment for growth, rather than cash disbursement, for this year.

Investment Directive Addendum for Fiscal Year 2013

There are no modifications to the general directive of investment for growth, rather than cash disbursement, for this year.

Investment Directive Addendum for Fiscal Year 2014

There are no modifications to the general directive of investment for growth, rather than cash disbursement, for this year.

[1] Exchange-traded funds are built like conventional mutual funds but are priced and traded throughout the day like individual stocks. They create new opportunities for investors by offering the advantages of indexing with the trading features of individual stocks and bonds, as well as generally lower expense ratios. All definitions paraphrased from www.Vanguard.com.

SMT ENDOWMENT FUND

Approved 16 June 2014

The SMT Endowment Fund seeks long-term growth of its funds. The Endowment Fund is structured as an FFE (Funds Functioning as an Endowment). The Executive Board shall use the disbursements to support and enhance the ongoing mission of the Society, with particular emphasis on programming that benefits its members professionally, whether individually, through awards, grants, and subventions; collectively, through support for workshops or conference sponsorship; or through other means.

DISBURSEMENT

Each year, the fund will disburse a percentage of its total value, using a three-year moving average of the balance of the fund as of the last day of the fiscal year. The disbursement percentage is dependent upon the average balance:

$200,000+	2% or the approved maximum, whichever is less
$300,000+	3% or the approved maximum, whichever is less
$400,000+	4% or the approved maximum, whichever is less
$500,000+	the approved maximum

The SMT Executive Board will set the maximum disbursement percentage for the following year at its annual meeting. Any proposal to increase the disbursement percentage to a value greater than 6% must be announced to the SMT membership at least one week before a vote by the Board and requires a supermajority (2/3) vote of the Board for approval.

GENERAL INVESTMENT DIRECTIVES

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EXPLANATION OF RISK LEVELS

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TARGET ASSET ALLOCATION AND BENCHMARKS

The Investment Committee is charged with overseeing a portfolio of mutual funds, index funds, or Exchange-traded Funds (ETFs)[2] aimed at balancing investment returns against risk and expenses over a 3- to 5-year investment horizon. The portfolio should hold a diversified mix of assets, where asset classes with different levels of risk are balanced against each other to achieve long-term growth and income. The targeted asset allocation among funds of this type should be according to the following guidelines:

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INVESTMENT DIRECTIVE ADDENDUM FOR FISCAL YEAR 2014

There are no modifications to the general directive of investment for growth, rather than cash disbursement, for this year. The maximum disbursement is set at 4.5%.

[2] Exchange-traded funds are built like conventional mutual funds but are priced and traded throughout the day like individual stocks. They create new opportunities for investors by offering the advantages of indexing with the trading features of individual stocks and bonds, as well as generally lower expense ratios. All definitions paraphrased from www.Vanguard.com.