



INVESTMENT POLICY

Revised Nov. 2, 2017

PREAMBLE

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

GENERAL POLICY

The powers and duties of the IC are prescribed by the EB of the Society in its Governance Guidelines. Per these Guidelines, the IC 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 EB. The members of the IC shall correspond regularly and review investments on a quarterly basis, and the chair will provide annual reports to the EB. At the Society's Annual Meeting, the EB shall, for each investment account, review its performance, 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. The EB will also issue an Investment Directives

Addendum; this addendum will outline any changes in overarching strategy for the use of funds generated from the investment accounts along with specific disbursement instructions.

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

The primary task of the IC 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. The IC shall favor investments in index, minimal or no-fee funds or similar instruments until the aggregate investment amount exceeds \$1 Million, at which point, the IC shall, in consultation with the Treasurer, explore professional management options.

CONTINGENCY FUND

PURPOSE

The Contingency Fund seeks long-term growth of its funds. It shall serve as a “rainy-day” fund for the Society in the case that something catastrophic were to occur (e.g., the cancellation of an Annual Meeting). The goal of the Contingency Fund is to contain an amount equal to one year of the Society’s operating expenses (as reported to the IC by the Treasurer).

DISBURSEMENT POLICY

If the Contingency Fund exceeds an amount equal to one year of the Society’s operating expenses, the EB may recommend, through the annual Investment Directives Addendum, that (1) some or all of the surplus funds to be used for special projects of the Society in the subsequent fiscal year or (2) that some or all of the surplus funds be transferred to the Endowment Fund.

GENERAL INVESTMENT DIRECTIVES

The IC 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 the fund so that it can cover the monetary needs of any emergency. 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 IC 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. |

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.

ENDOWMENT FUND

PURPOSE

The Endowment Fund seeks long-term growth of its funds. It is structured as an FFE (Funds Functioning as an Endowment). The EB shall use the disbursements from this fund 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 operational means.

ENDOWMENT FUNDING

Funds added to the Endowment are generated from two main sources: (1) surplus from Society's general operating funds (e.g., income from donations, annual meetings, membership fees); (2) surplus from the Contingency Fund.

Surplus of Operating Expenses

The Treasurer shall seek to maintain a balance of approximately 12 months operating expenses in the operating funds of the Society. With the goal of insuring maximum potential growth and of adhering to sound fiscal principles, the Treasurer should endeavor regularly to transfer balances in excess of this amount to the Endowment Fund during the first month of each fiscal year. The Treasurer may use his/her discretion to alter the surplus total transferred to cover projected cash shortfalls.

Surplus of Contingency Fund

As outlined in the "Disbursement Policy" of the Contingency Fund, the Treasurer may, as per the annual Investment Directives Addendum, transfer any surplus from that fund to the Endowment Fund during the first month of each fiscal year.

DISBURSEMENT POLICY

Each year, the fund may disburse a percentage of its assets, using a three-year moving average of the balance of the fund as of the last day of the fiscal year (12/31). During (rare)

periods of prolonged market volatility in which the annualized return is less than the disbursement percentage, the EB may choose to forego disbursement at the suggestion of the IC. Any proposal to increase the disbursement percentage must be announced to the Society membership at least one week before a vote by the EB and requires a supermajority (2/3) vote of the EB for approval.

The disbursement percentage varies with 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 EB will set the maximum disbursement percentage for the following year at its annual meeting.

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