

Washington Association of Conservation Districts Investment Fund Policy

Adopted: June 20, 2022

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OVERVIEW

This Investment Fund Policy documents the overarching philosophy, objectives, and specific practices that shall guide the Board in their responsibility as stewards of the Washington Association of Conservation District's (WACD) resources and will guide employed Investment Manager(s) and Investment Consultant(s) as they manage the Association's Investment Fund.

The Association's investment philosophy is to preserve capital while optimizing returns through prudent management at moderate risk levels. The investment approach is to grow the long-

term, real purchasing power of assets while providing a relatively predictable and growing stream of annual distributions.

WACD's investment objective is to provide funds for the benefit of the Association's membership (such as dues reduction), special projects, and the long-term financial stability of the Association.

This policy covers WACD's Investment Fund, which currently includes three investment accounts:

- IRS Reserve Account
- Money Market Reserve Account
- Investment Account

Except as they relate to the WACD investment accounts, this policy does not cover WACD's cash accounts, which are currently held in the:

- Plant Materials Center checking and savings accounts
- Executive checking and savings accounts

INVESTMENT FUND MANAGEMENT GUIDELINES

The following sections provide describes the Association's risk management approach. These sections provide guidance to Investment Managers and Consultants employed by WACD to manage it's funds.

Risk Management

Investment risk is defined as the unpredictability of investment returns, the chance that actual investment returns are different from expected returns, and the possibility that overall portfolio performance does not meet target expectations. Higher returns are typically associated with higher risk.

Risk Tolerance - Moderate

The Association accepts moderate risk for the Investment Fund, meaning that the Association accepts some volatility in the Fund to achieve the return objectives as set forth in this policy. The Association understands that actual risk and returns may be higher or lower than the stated risk tolerance and return objective.

Asset Allocation - 60% Equity / 40% Fixed Income

Asset allocation refers to how monies are invested across different financial asset categories and sub-categories - stocks versus fixed income securities, large-capitalization versus small-capitalization, growth versus value, U.S. versus international, developed markets versus emerging markets, etc. Different assets have varying degrees of risk and return. Diversifying assets in these different categories and sub-categories is the way Investment Managers manage

risk. Strategic allocation of portfolio assets is the most significant determinant of long-term investment returns and portfolio asset value stability.

The Association expects that actual returns and return volatility may vary from expectations and return objectives over time, particularly in the short term. The Association only expects to make changes to the asset allocation in the event of material changes to the Investment Fund, to the Regular Annual Disbursement Calculation, and/or to the capital markets and asset classes in which the Investment Fund invests.

Fund assets will be managed as a balanced portfolio composed of two major components: an equity portion and a fixed income portion. The expected role of equity investments is to maximize the long-term real growth of the Investment Fund. Fixed-income investments generally provide for more stable periodic returns and provide some protection against a prolonged decline in the market value of equity investments.

Cash investments (like money market funds or other stable-value instruments) will be considered temporary, not strategic portfolio holdings. Cash may be used for fund liquidity needs or to facilitate a planned program of dollar-cost averaging into the portfolio.

The following targets represent a general expectation. However, market fluctuations and the Investment Manager's strategic allocations may result in some deviation from the targets.

- Equity 60% (Minimum 50%, Maximum 70%)
 - Equity holdings shall include a diversified mix of U.S. and foreign large-, mid-, and small-capitalization stocks.
- Fixed Income 40% (Minimum 25%, Maximum 50%)
 - Investment Grade, 35%
 - Non-investment grade, 5%
- Fixed income investments shall include a diversified mix of short-, medium-, and long-term holdings and may include foreign bond holdings hedged to minimize currency exposure.
- Cash, 0% target.

Tactical assets may comprise no more than 20% of total fund assets. Tactical assets may include Exchange Traded Funds (ETFs) or other liquid investments. Their purpose is to 1) provide exposure to alternative assets, such as commodities or real estate, or 2) temporarily increase exposure to traditional asset classes to take advantage of short-lived anomalies.

Rebalancing

- The Investment Manager will use incoming and outgoing funds to realign the current weightings of the portfolio closer to the asset allocation guidelines, or to the Investment Manager's strategic weightings within those guidelines.
- The Investment Manager will review the portfolio as of June 30th and December 31st each year to determine the deviation from target/strategic weightings.

- If any asset class (equity or fixed income) is +/- more than 5% from its target at the semi-annual review, the portfolio will be rebalanced within a reasonable period of time.
- The Investment Manager may rebalance at any time, reporting to the Association within 10 days when this has occurred outside of the semi-annual review.

Diversification across and within asset classes is the primary means by which the Association expects to avoid undue risk of large losses over long time periods. To protect the portfolio against unfavorable outcomes within an asset class due to the assumption of large risks, the following guidelines will be in place:

- Except for fixed income assets explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of the total portfolio assets.
- Except for passively managed investment vehicles seeking to match the returns of a broadly diversified market index, no single investment pool or investment company (mutual fund) shall represent more than 20% of the total portfolio assets.
- With respect to fixed income assets, the portfolio may allocate no more than 10% to securities below investment grade (Standard & Poor's BBB or Moody's Baa or higher).

Prohibited Assets

Investment Managers are prohibited from investing in the following:

1. Direct investment in commodities
2. Private Placements
3. Direct investment in derivatives
4. Venture-Capital Investments
5. Direct investment in real estate properties
6. Interest-Only (IO), Principle-Only (PO), and Residual Tranches Collateralized Mortgage Obligations (CMO)
7. Cryptocurrencies
8. Other investments that are not appropriate to WACD's moderate risk tolerance

Transaction Restrictions

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. If 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 Directors.

Prohibited Transactions

Investment Managers are prohibited from the engaging in the following transactions:

1. Short Selling

2. Margin Transactions
3. Other transactions that are not appropriate to WACD's moderate risk tolerance

Large Fund Contributions

To avoid undue impact on investment performance caused by the timing of contributions to the Investment Fund, contributions that are relatively significant in relation to the total balance of the Investment Fund should be made gradually. No more than the greater of (a) \$50,000 or (b) 1/12 (8.33%) of the total amount to be invested should be moved into the Investment Fund in a given month. The Investment Manager(s) may use their discretion as to when the money is moved into the Investment Fund within a given calendar month.

REGULAR ANNUAL DISBURSEMENTS

As part of the annual budgeting process, the Board will determine whether to withdraw funds from the Investment Fund. If funds will be disbursed from the Fund, the following calculation will be used.

Annual withdrawals shall be calculated as 2% of the average market value of the previous 16 rolling quarters, as measured on March 31 of the prior fiscal year. Based on long-term historical net returns of a moderate risk portfolio, this policy is weighted somewhat in favor of long-term Investment Fund growth over current benefits to members. In the short- and medium-term, however, the reverse may be true.

This withdrawal calculation represents guidance. As with any other budget item, fund use must be approved by the Board. Extreme circumstances which affect WACD operations may make a deviation from the annual disbursement calculation in any given year advisable. Withdrawals should not be subject to fine-tuning based on market fluctuations.

EXCEPTIONAL DISBURSEMENTS

Exceptional disbursement requests to disburse funds from the Investment Fund to the reserve accounts may be made to manage operational shortfalls, contingencies, or special projects. Exceptional disbursement requests must be submitted to the full board for approval.

CONTRIBUTIONS

As per the WACD Reserve Policy, funds must be contributed to the Investment Fund account once the Reserve Accounts have reached their balance targets.

INVESTMENT PERFORMANCE REVIEW & EVALUATION

The Finance Committee will review the performance of the Investment Manager at least annually and compare account performance with the objectives of this policy. Any change in the Investment Manager's organization, personnel, or investment philosophy must be fully disclosed to the Finance Committee immediately.

The Committee will designate a Benchmark roughly representing the target risk/return profile of the Investment Fund. Initially, the benchmark selected is the Institutional class shares of Vanguard's LifeStrategy Moderate Growth Fund (VSMGX). The Committee acknowledges that Fund performance will diverge somewhat from benchmark performance as a rule. The Association may make a direct investment in the benchmark to facilitate a side-by-side comparison that incorporates differences in fee structures.

The benchmark is intended to provide a basis for discussing variance in performance and, over longer periods, to help in the evaluation of the Investment Manager.

INVESTMENT FUND ACCOUNT AUTHORITIES

The WACD Executive Director, Plant Materials Center Manager, WACD President and Treasurer, and the Bookkeeper will have read-only login access to the investment account data. The Executive Director or President has the authority to grant read-only access to other individuals as they deem appropriate.

The WACD Treasurer and Executive Director shall regularly monitor the Investment Fund and ensure that it is prudently and effectively managed according to this policy and its stated risk tolerance. They must review the performance of the Investment Fund at least quarterly. Any concerns or irregularities will be immediately discussed with the WACD Executive Committee.

No final action or change to any investment account may be completed without two written approvals – one approval from any two of these positions: WACD President, Treasurer, and Executive Director.

All disbursements or contributions to the Investment Fund accounts must be reported immediately to the Executive Committee and to the Board at the next scheduled Board meeting.

INVESTMENT FUND REPORTING

The WACD Finance Committee will obtain written monthly custodial statements from the Investment Manager providing transaction details for each account in the Investment Fund. Each monthly statement should include:

1. The name and quantity of each security purchased or sold, with the price and transaction date; and
2. A description of each security holding as of month-end, including its percentage of the total portfolio, purchase date, quantity, average cost basis, current market value, unrealized gain or loss, and indicated annual income (yield) at market.
3. If not included in the custodial reports, the Investment Manager shall provide a report for the portfolio showing the month-end allocation of assets.

The Executive Director will include Investment Fund account data as part of the WACD Monthly Financial Report, which will be made available to the WACD Board and Association members online.

Quarterly, the Investment Manager will provide an Investment Fund Report to the WACD Finance Committee, who will review the quarterly results against the Benchmark.

Annually, the Investment Manager will meet with the WACD Treasurer and Executive Director to review the Fund's performance and the Annual Investment Fund Report for the previous four quarters. This report will be presented to the WACD Board.

INVESTMENT FUND POLICY REVIEW AND REVISION

Every five years, or as directed by a vote of the WACD Board, the President, in consultation with the Treasurer, shall appoint a task force of at least 3 people to review the Investment Fund Policy and to make recommendations for revisions. The Investment Fund Policy Task Force will work with the Executive Director and Treasurer for guidance to create the revised Investment Fund Policy. The policy will then be submitted to the Board Executive Committee for their revisions. Finally, the revised Investment Fund Policy, including the Executive Committee revisions, will be submitted to the full Board for deliberation and final approval.

DEFINITIONS

1. "Investment Fund" or "Fund" shall mean the long-term investments of WACD currently managed by Edward Jones. The term does not include WACD or PMC checking accounts or other accounts dedicated to funding near-term operations or liabilities or "Reserve Funds" set aside to cover unexpected expenditures and emergencies.
2. "Finance Committee" shall refer to the governing body established by the board to administer the Investment Fund as specified by WACD policy.
3. "Investment Manager" shall mean any individual, or group of individuals, employed directly by WACD to manage the investments of all or part of the Investment Fund assets. The Investment Manager is currently Edward Jones.
4. "Investment Management Consultant" shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
5. "Securities" shall refer to the marketable investment securities which are defined as acceptable in this statement.
6. "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 Investment Fund is perpetuity.
7. Benchmark
8. WACD Reserve Fund Policy
9. Reserve Funds