



### **3.3.3.5 Investment Policy**

Purpose: The purpose of the MRS investment policy is to establish and document the overall framework for managing MRS's investment portfolio including providing guidance for informed decision making.

Applies to: Volunteer leaders including the Board of Directors and the Finance and Audit committee, Executive Staff, Investment Advisor

#### **Introduction**

It is the policy of **Materials Research Society (MRS)** to treat all assets of the organization as though they are held by MRS in a fiduciary capacity for the purpose of: 1) accomplishing the Society's tax-exempt mission to provide educational and other services to its members and community; and 2) maintaining and strengthening the Society's overall financial position. The investment objectives and directions set forth in this policy are understood in light of that overall sense of stewardship. In that regard, the basic investment standards shall be those of a "prudent investor."

For purposes of this policy, investment assets are those assets of MRS that are available for investment in the public securities markets as stocks, bonds, cash or cash equivalents, either directly or through intermediate structures such as mutual funds or exchange traded funds (ETF) or other investment structures approved by the Board of Directors.

#### **Authority**

The Board of Directors (BoD) of MRS is ultimately responsible for the oversight of the MRS investment portfolio including determining the tolerance of risk to principal and determining the performance benchmarks to be used to evaluate performance. As such, the BoD has adopted this policy and delegated authority to the Finance and Audit Committee of the BoD. Management at MRS shall adhere to this policy which ensures transparency of investment related processes and clear guidelines that will facilitate Committee and BoD oversight. The BoD reserves the right to amend or revise this policy at any time.

#### **Finance And Audit Committee**

The Finance and Audit Committee is appointed annually by the BoD and consists of the Treasurer (who will act as Chair), two to four BoD members, and the Executive Director. The Director of Finance and Administration (or the top financial manager as designated by the Executive Director) acts as the HQ liaison to the committee. It shall be the responsibility of the Committee to:

1. Oversee the development and implementation of MRS's investment policies by MRS's outside investment advisor and management.
2. Monitor and evaluate the performance of MRS's investment portfolio within the authorized risk/return parameters.

3. Approve any portfolio re-allocation or fund adjustments as recommended by the Investment advisor.
4. Report regularly on MRS investment matters to the BoD.
5. Recommend to the BoD any changes in approved policy, guidelines, and objectives as necessary. The policy is to be reviewed at least every three years.
6. Recommend to the BoD the hiring of an Investment Advisor to assist the Committee or the termination of the Advisor if necessary.
7. Execute such other duties as may be delegated by the BoD.

The Director of Finance and Administration (or the top financial manager as designated by the Executive Director) will be the Secretary to the Committee and shall maintain minutes of any meetings. All Finance and Audit Committee recommendations to the BoD must be appropriately noted within the BoD meeting minutes.

#### **Investment Advisors and Agents**

The BoD, upon recommendation of the Finance and Audit Committee, may retain one or more Investment Advisors (Advisor) as well as any administrator, custodian or other investment service provider required for the proper management of MRS Funds. The Committee will utilize the Advisor to advise and assist the Committee in the discharge of its duties and responsibilities. In that regard, the Advisor will help the Committee:

1. Develop and maintain the Investment policy, including asset allocation strategies, risk-based fund objectives, and appropriate investment management structures.
2. Select, monitor, and evaluate the investment options utilized.
3. Review quarterly performance measurement reports and assist the Committee in interpreting the results.
4. Review and assess current market trends.
5. Review the investment portfolio at least quarterly and recommend actions, as needed, to maintain proper asset allocations and investment strategies for the objectives of each investment pool.
6. Execute such other duties as may be mutually agreed.

The Advisor shall be required to maintain appropriate professional registration and licensure. The Director of Finance and Administration (or the top financial manager as designated by the Executive Director) shall maintain a file with such documentation.

**Investment Objective**

MRS's primary investment objective is to preserve and protect its investment assets as well as generate investment returns including providing income necessary to perform its mission and to ensure MRS financial sustainability.

It will accomplish this objective through prudent management of the portfolio, earning a total return (net of fees) for each investment pool which is appropriate for their individual time horizon, risk tolerance and distribution requirements.

**Investment Guidelines**

To accomplish its investment objectives, MRS may invest in the following asset types: cash and equivalents; domestic and international fixed income securities; and domestic and international equity securities (including publicly traded REIT's). Additionally:

- All securities/funds purchased are to be fully negotiable and marketable using principal security exchanges. Such securities are to be limited to those listed on the NYSE, AMEX, or NASDAQ National Market or comparable international exchanges.
- There shall be no purchase of unregistered stock or private placements.
- There shall be no margin purchases or other uses of borrowed funds.
- Purchases of commodities, commodity indexes or commodity futures are permitted only with the specific approval of the BoD.
- Investment structures used specifically to implement short sales or hedging investment methods are permitted only with the prior specific approval of the BoD.

When utilizing mutual funds or other commingled entities, the Committee shall ensure that the Advisor has selected the investment entity appropriately based on the strategies and provisions contained in the entity's prospectus.

**Investment Pools**

MRS investments shall be segregated into four investment pools. The Reserve Funds Policy, the annual budget, and the ongoing "cash needs" analysis performed by the Director of Finance and the Finance Committee, will serve as the guideline for the allocation of funds into each of the four pools according to MRS's anticipated need for funding in the short (1-2 years), medium (2-5 years) and long (greater than 5 years) term.

1. Short Term Pool Investments/Cash - These assets are intended to fund strategic or operational initiatives generally within two years of Board approval and as a resource to cover unforeseen contingencies. Funds in this pool shall typically be comprised of cash, cash equivalents, or bond funds of appropriate duration.
2. Medium Term Pool Investments -These assets are targeted for specific operational or strategic projects/programs designated by the Board that may require specific funding (i.e., IT infrastructure, etc.). Funds in this pool shall typically be comprised of short to medium term fixed income holdings, although appropriate equity holdings are not excluded.
3. Long Term Pool Investments - These assets are unrestricted and not anticipated to be required within a five year period. This pool shall be managed in a balanced approach consistent with the return/risk guidelines established by the BoD. The investments shall

typically be comprised of a diversified portfolio of fixed income and equity investments, both domestic and international.

4. Restricted Funds—At times, donations to the MRS may be accompanied by donor restrictions. For example, a donation may be identified to provide for an annual MRS award, or a special prize or program. Restricted funds shall be prudently invested so as to generate income to execute the intentions of the donor and limit volatility of the principal if specified by the donor. Restricted funds shall be invested within the restricted fund pool of the portfolio. Funds in this pool shall have separate reporting and disclosure for financial statement purposes.

#### **Segregation of Investment Pools / Asset Allocation**

In conjunction with HQ, the Finance and Audit Committee will determine the amount of investments in each investment pool based on an appropriate time horizon and those factors noted in the previous section. The Committee will establish appropriate benchmarks for each investment pool by first determining an appropriate level of risk and desired target return (based on historical returns) for each pool. These will be utilized by the Advisor in determining appropriate asset allocations by pool and will be reflected in an *Appendix* to this policy.

The Committee will monitor the asset allocation of each pool based on reports provided by the Advisor. The Committee may establish any reasonable rebalancing procedure based on either periodic reviews or departures from a range and may use its discretion to determine the timing of rebalancing actions. To achieve rebalancing, MRS may either move money from one asset class to another or may direct future contributions to and expenditures from particular classes as is most convenient.

#### **Custody of Securities and Record Keeping**

MRS shall designate a custodian(s) for its investment portfolio assets. The custodian must comply with all rules and regulations of the regulatory agencies including the requirement for an annual independent audit and maintaining minimum net capital at established levels. In addition, the custodian must have established continuity and disaster recovery plans and must maintain the maximum insurance coverage through the Securities Investor Protection Corporation (SIPC).

Monthly reports shall be provided by the custodian and shall include a transaction summary of all activity in the account for the month. The custodian shall provide safekeeping of all securities in a segregated account which will not be commingled with the custodian's assets. If common funds or mutual funds are used, net asset values shall be computed in a timely fashion and reported in the time frame noted above.

On a periodic basis, the Investment Advisor will provide the Director of Finance and Administration (or the top financial manager as designated by the Executive Director) with a summary memo of the most recent SSAE 18 /SOC-1 operational controls review report of the custodian, as appropriate. Any significant findings or issues should be brought to the attention of the Finance and Audit Committee.

***[It should be noted that MRS must communicate directly with its Investment Advisor in order to execute any transaction in the Investment portfolio. Electronic or voice execution and authorization of transactions is not available or permissible.]***

**Cash Flow Requirements**

MRS will be responsible for informing the Advisor in a timely manner of MRS's cash distribution requirements from any pool.

[Note: MRS may establish and maintain funds for Awards which may be restricted or unrestricted. Restricted Awards are segregated and invested in separate accounts which coincide with the funding and intentions of the award. Budgeted distributions from the Restricted Awards can be made from investment income generated in the segregated account or from investment income generated on the total portfolio.

**Signature Authority**

Execution of any investment advisory agreements shall require the signature of the Executive Director and at least one of the following officers: President, Vice-President, Past President (in good standing with the MRS) or Secretary.

**Authorization Basis**

Withdrawals from the investment portfolio shall be authorized by a vote of the BoD. In most instances, such authorization will be part of the annual budget approved by the BoD. In any case, withdrawals must be approved by the BoD in advance of the withdrawal. Additions to the portfolio may be made at any time and reported to the BoD on a timely basis thereafter.

The Finance and Audit Committee may elect to change or remove funds in order to re-balance the portfolio (to stay within the return/risk parameters identified by the BoD) or to replace poorly performing funds as recommended by the Investment Advisor.

The Finance and Audit Committee, through the Director of Finance and Administration (or the top financial manager as designated by the Executive Director), shall provide written instructions to the Investment Advisor authorizing the transfer, purchase, or sale of funds within the investment pools or to/from the portfolio.

**Accounting Treatment**

All purchased investments will initially be recorded at cost. All investments acquired by donation to MRS will initially be recorded at their fair market value as of the date of donation. Donated investments will be recorded as unrestricted, temporarily restricted, or permanently restricted income and net assets based on the existence or absence of such restrictions.

Subsequent to acquisition, it will be the policy of MRS to carry all equity securities with readily determinable fair market values and all debt securities at their market values in accordance with Generally Accepted Accounting Principles (GAAP). Adjustments to market value will be made in the accounting records/financial statements of MRS on a quarterly basis.

Adjustments to market value result in unrealized gains and losses on investments. Such gains and losses resulting from contributed investments will be classified as unrestricted (net assets without donor restriction) or restricted (net assets with donor restriction) based on the existence or absence of explicit restrictions on such appreciation and depreciation from the donor.

## **Reporting Requirements**

The following reporting requirements will be followed to ensure that MRS investments are properly managed, and that these investment policies are consistent with the mission of MRS and accurately reflect the current financial condition of the organization:

- 1) Monthly — The Director of Finance (or the top financial manager as designated by the Executive Director) will obtain written monthly custodial statements electronically. Such statements should contain all pertinent transaction details for each account that holds all or a portion of any MRS Funds.

The monthly review of custodial statements will be done by the Director of Finance and the MRS accounting staff.

- 2) Quarterly — The Finance and Audit Committee shall communicate with the Investment Advisor quarterly to consider all aspects of MRS's investment assets. Such a review should include: (1) investment performance, (2) current market trends and future investment strategies, (3) strategic asset allocation (4) anticipated additions to or withdrawals from pools, and (5) any other matters of interest to the Committee.

The Committee should receive a detailed review of MRS's investment portfolio performance from the Advisor for the preceding quarter and for longer trailing periods as appropriate. Such reports should be provided as to each pool and as to MRS investment assets in the aggregate. The Committee should establish, with the assistance of the Advisor, the specific criteria for monitoring each pool's performance including the index or blend of indices that are appropriate for the objectives of each pool and for the investment style or asset class of each portfolio within a pool.

The MRS Accounting department will maintain a schedule of investments and reconcile this schedule with the general ledger and with investment account statements on a quarterly basis.

- 3) Annually — A report on the MRS investment portfolio will be presented to the BoD by the Treasurer on at least an annual basis, outlining in detail the portfolio's composition and performance for the period or fiscal year, along with a comparison to appropriate market indices.

## **Summary of Key Responsibilities**

The following are the minimum expectations for duties performed annually by the BoD and various committees of MRS as it relates to the investment portfolio:

The **Board of Directors (BoD)**, in conjunction with the Finance and Audit Committee:

- Determines the target return and benchmarks to evaluate performance for each investment pool of MRS.

- Determines the tolerance of risk to principal for each investment pool in the investment portfolio. Exception is allowed for the case of restricted funds which are typically provided by a donor and may have constraints on performance and tolerance of risk imposed by the donor.
- Approves the annual plan for potential use of investment funds as part of the annual budget and withdrawals from the investment portfolio proposed outside the approved budget.

**Finance and Audit Committee:**

- Communicates quarterly with the Investment Advisor to review the Investment Portfolio.
- Identifies contributions to and/or planned usage of funds from the investment portfolio, and the distribution of funds amongst the investment pools in the MRS' one and three-year Operations budgets/cash flow forecasts. (Annual budget is subject to Board approval.)
- Executes its intention as defined in the annual Operations budget by directing the Director of Finance (or the top financial manager as designated by the Executive Director) to communicate in writing the necessary actions to the Investment Advisor.

**Treasurer (or Finance and Audit Committee Chair):**

- Communicates with the Investment Advisor as necessary.
- Reports on the performance of the portfolio at least annually during the Financial Report to the Board.
- Communicates any authorized transfer of funds within the investment portfolio, or any planned and budgeted contributions to, and/or withdrawals from, the portfolio to the Board.

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## Appendix A

### Materials Research Society Investment Parameters and Instructions

The following characteristics will be viewed as guidelines for the management of the MRS Investment portfolio as set forth by the Board of Directors and the Finance and Audit Committee.

#### 1. **Objective**

The investment objective is to preserve and protect the investment assets of MRS as well as generate income and overall investment returns that meet or exceed target returns and benchmarks commensurate with the level of assumed risk. The portfolio will be segregated into four investment pools depending on MRS needs/goals at any particular time:

##### *Unrestricted funds*

*Cash / Short Term*—managed for potential near term use (0-2 years)

*Medium Term*—managed for potential use in 2-5 years

*Long Term*- core holdings managed for growth; no anticipated use within 5 years

*Restricted funds*—managed as required by donor or other agreement

#### 2. **Investment Horizon**

The investment strategy will be based on a rolling time horizon based on the specific pool of funds.

#### 3. **Asset Types**

The funds will be managed utilizing the following classes of assets:

- *Cash and equivalents*
- *Fixed Income securities*
- *Equities and their equivalents*

#### 4. **Investment Pools**

|                     |                            |  | Target                                      |                                    |                                     |
|---------------------|----------------------------|--|---|------------------------------------|-------------------------------------|
| <b><u>Pool</u></b>  | <b><u>Time Horizon</u></b> | <b><u>Portfolio segregation (\$k) at 6/30/22<sup>1</sup></u></b> | <b><u>Annual return (%)<sup>3</sup></u></b> | <b><u>Risk (%)<sup>4</sup></u></b> | <b><u>Asset mix<sup>5</sup></u></b> |
| <i>Unrestricted</i> |                            |  |   |                                    |                                     |
| Short               | <2 years                   | \$ 622k  | <b>0-2%</b>                                 | --                                 | <i>Cash /cash equivalents</i>       |
| Medium              | 2-5 years                  | \$ 2,137k  | <b>3-4%</b>                                 | <b>3.4%</b>                        | <i>Fixed income</i>                 |
| Long                | >5 years                   | \$ 4,745k  | <b>7%</b>                                   | <b>13.3%</b>                       | <i>Fixed income and equities</i>    |
| <i>Restricted</i>   |                            | \$ 920k  | <b>6%</b>                                   | <b>9.7%</b>                        | <i>Fixed income and equities</i>    |
| \$8,424k            |                            |  |   |                                    |                                     |



<sup>1</sup> The Finance and Audit Committee in conjunction with the Director of Finance (or the top financial manager as designated by the Executive Director) determines the segregation of investments among each pool which is authorized by the BoD and is based on the organization's funding needs and goals as set forth in the annual budget.

<sup>2</sup> The Finance and Audit Committee will review these benchmarks regularly and the BoD will adjust these benchmarks and update this policy on an as needed basis.

<sup>3</sup> The annual return that may be realized for an investment performing on par with the corresponding benchmark based on historical returns. Information in the "annual return" and "risk" columns provide guidance for decision making.

<sup>4</sup> A measure of how widely the returns for a portfolio might fluctuate over a year, measured using current holdings. Risk in Aladdin is calculated based on the current holdings in the portfolio and their exposure to risk factors. This is a more forward-looking view of risk because it is based on current exposures, as compared to the historical volatility of portfolio returns. An estimated risk of 5% means that a portfolio's return is likely to vary between -5% and +5% over the course of a year. Estimated Risk is a holdings based ex-ante, or forward looking, annualized volatility (one standard deviation) of the portfolio, which provides an estimate of the range of outcomes that the portfolio may experience over a one year horizon. It is based on BlackRock's proprietary risk model in Aladdin. The risk model measures currently observable, fundamental characteristics of the portfolio's holdings ("risk factors") that are demonstrated to explain the volatility of securities prices. The composition of the portfolio's exposure to these risk factors, the volatility levels of the risk factors themselves, and the correlation between them all come together to determine the risk estimate. This risk estimate may differ (sometimes significantly) from historical, realized volatility, depending on the time period and assumptions of the risk model. In order to estimate a portfolio's ex-ante, or forward looking, risk, the model decomposes a fund's holdings into their underlying risk factors. The level of exposure to a factor for a given security corresponds to the location of that security in the distribution across all securities in the universe for the characteristic in question. Historical volatility and correlations across the factors is taken into account in order to estimate the total risk of the overall portfolio. The model uses 10 years of monthly history and applies a 36-month half-life in order to estimate the volatility and correlations between factors. This half-life places more emphasis on the last 3 years in the analysis. Neither BlackRock nor the Aladdin portfolio risk model can predict a portfolio's risk of loss due to, among other things, changing market conditions or other unanticipated circumstances. The Aladdin portfolio risk model is based purely on assumptions using available data and any of its predictions are subject to change. For BlackRock and iShares funds, data about the specific underlying holdings are used when applying the Aladdin risk model. For third party funds, BlackRock uses underlying holdings, or in certain cases, determines appropriate proxies for relevant holdings using a combination of Morningstar and other publicly available data sources. Product specific inputs for BlackRock, iShares and third-party funds are typically based on the latest disclosed data, which may be lagged.

After the BoD establishes the desired return/risk profile, upon the recommendation of the Finance and Audit committee, the Investment advisor allocates the investments among various asset classes to achieve or exceed the desired performance while maintaining an acceptable level of risk.

Restricted Investments

Restricted investments are invested per directions provided by the donor. If the donor has not provided guidance on how the investment shall be managed, the BoD shall provide such guidance to the Finance and Audit committee who will inform the Investment Advisor.

\_\_\_\_\_  
Signed

**MATERIALS RESEARCH SOCIETY**

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signed

**NewEdge Wealth  
INVESTMENT ADVISOR**

\_\_\_\_\_  
Date

Deliverables: N/A; Review every three years or as needed

Who: Secretary/GovCom

When: At least 8 weeks before the Board meeting at which amendments should be considered.

To: President

Policy first adopted: Original policy amended 12/2/94

Last modified: July 30, 2018; November, 2022

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Enacting Legislation: C:2000:40; C:2000:41; B:2002:35; B:2007:20; B:2010:46; B:2011:17; B:2014:32, B:2018:15; B:2022:22 (Consent Agenda)

Policy created by: Beth Stadler, MRS Secretary Party responsible for this policy: Finance Cte