

# Oakland County Medical Society Investment Policy Statement

As Approved by the Board of Directors  
7 November 2007

## Introduction

This Investment Policy Statement has been adopted by the Board of Directors of the Oakland County Medical Society (OCMS) to provide guidelines for the investment of funds held by the society.

For purposes of optimizing investment returns while simultaneously facilitating society operations, the OCMS funds will be divided into three separate investment pools. The dollar amount of funding for each investment pool may vary based on the Society's financial condition and requirements. The investment pools will consist of:

**Operating Fund:** Those funds required to maintain adequate liquidity to support OCMS in its day-to-day operations during any given fiscal year. These monies shall be known as the OCMS Operating Fund.

**Short-Term Reserve Fund:** Those funds held to meet expenses from unexpected shortfalls in the Operating Fund and/or unanticipated activities required of OCMS to fulfill its mission during any given fiscal year. These monies shall be known as the OCMS Short-Term Reserve Fund.

**Long-Term Investment Fund:** Those funds held for long-term investment and/or to replenish shortfalls in the Operating Fund or Short-Term Reserve Fund. These monies shall be known as the OCMS Long-Term Investment Fund.

Management of the various funds shall be the responsibility of the Treasurer and the Executive Director under the supervision of the Board of Directors. The responsibilities of the Treasurer and/or Executive Director under the OCMS Investment Policy will be:

- To monitor the Fund balances on an ongoing basis and maintain them as specified by the Investment Policy Statement;
- To report promptly to the Board of Directors any significant changes in the financial status of OCMS or any of the Funds;
- To prepare an annual report for the Board of Directors detailing the performance of the Funds and any proposed changes in Fund composition or balances; and
- To make recommendations to the Board of Directors concerning any needed changes in the OCMS Investment Policy Statement or its appendices.

The responsibilities of the Board of Directors under the OCMS Investment Policy will be:

- To exercise supervisory authority over the Society's finances;
- To approve all changes to the Long-Term Investment Fund; and
- To approve any changes in the Investment Policy Statement or its appendices.

It is anticipated that there may from time to time be a need to engage the services of a financial advisor to counsel the OCMS Board of Directors and staff as to the management and disposition of the Society's financial assets. Such an engagement may be proposed by the Treasurer, the Executive Director, or the Board and shall be approved by Board.

## **Operating Fund**

The Purpose of the Operating Fund is to provide financial resources for the day-to-day operations of OCMS.

The Objectives of the Operating Fund are:  
Preservation of capital; and  
Maintenance of liquidity.

In order to accomplish the Purpose and Objectives, the money in the Operating Fund will be maintained in an institution that is federally insured against losses. Some or all of the money will be deposited in a checking or other demand-type account, preferably interest-bearing, to maintain a degree of liquidity sufficient for the day-to-day operations of the Society. A portion of the Operating Fund may be put into other short-term investment vehicles provided that they are covered by the institution's federal insurance, they have no or minimal risk of capital loss, and they provide sufficiently quick access to funds that the Operating Fund's liquidity is not jeopardized.

In the event that the Operating Fund balance falls below the minimum required by this Policy, the shortfall will be made up out of funds taken from the Short-Term Reserve Fund.

In the event that the Operating Fund balance exceeds the amount covered by federal insurance, an appropriate amount will be transferred from the Operating Fund to the Short-Term Reserve Fund to ensure that the entire Operating Fund balance is covered against loss.

The current location and operating parameters of the Operating Fund are specified in Appendix A of this Policy.

## **Short-Term Reserve Fund**

The Purposes of the Short-Term Reserve Fund are:

To provide a source for funds needed to cover significant unexpected financial obligations of OCMS;

To provide funds to cover any shortfalls in the Operating Fund;

To absorb funds that exceed the maximum permitted in the Operating Fund; and

To act as a “buffer” between the Operating Fund and the Long-Term Investment Fund.

The Objectives of the Short-Term Reserve Fund are:

Preservation of capital;

Generation of investment returns exceeding those of the Operating Fund; and

Maintenance of liquidity adequate to fulfill the Purposes of the Fund.

In order to accomplish the Purpose and Objectives, the money in the Short-Term Reserve Fund will be maintained in high-quality interest- or dividend-paying investments which are constituted (e.g., a short-term bond mutual fund with check writing privileges) or structured (e.g., laddered certificates of deposit or Treasury bills) in such a way to permit ready access to the money in accordance with the Fund’s liquidity objectives.

The Board of Directors will specify an operating minimum balance, an absolute minimum balance, and a recommended maximum balance for the Short-Term Reserve Fund.

The Short-Term Reserve Fund will not be allowed to fall below the absolute minimum balance for longer than one month. If the Short-Term Reserve Fund falls below the absolute minimum balance, the difference will be made up promptly from either the Operating Fund or the Long-Term Investment Fund in accordance with the operating parameters specified in this Policy.

The Short-Term Reserve Fund may be allowed to fall below the operating minimum balance for up to six months. If the Short-Term Reserve Fund falls below the operating minimum balance, the Treasurer or the Executive Director will inform the Board of Directors as soon as is practical and will report on the financial status of the Society at the next scheduled Board meeting and the Board will determine the action to take:

If the Board determines that it is likely the shortfall in the Short-Term Reserve Fund can be made up out of the Operating Fund within six months, no action need be taken. If six months pass and the Operating Fund is unable to supply sufficient funds to make up the shortfall, the shortfall will be made up from the Long-Term Investment Fund.

If it is determined that it is unlikely for the shortfall to be made up out of the Operating Fund within six months, a plan for making up the shortfall from the Long-Term Investment Fund will be developed and approved by the Board.

If, at any time during the six months, the Short-Term Reserve Fund falls below the absolute minimum balance, the shortfall will be made up promptly from either the Operating Fund or the Long-Term Investment Fund in accordance with the operating parameters specified in this Policy.

If the Short-Term Reserve Fund exceeds the maximum recommended balance for a period of three months and, in the opinion of the Treasurer and the Executive Director, it is unlikely for the balance to fall below the operating minimum before the end of the fiscal year, the Board shall be informed at the next scheduled meeting and shall make a determination of whether or not to transfer the excess funds into the Long-Term Investment Fund.

## **Long-Term Investment Fund**

The Purposes of the Long-Term Investment Fund are:

To provide for long-term capital appreciation in order to maintain the financial health of the Society;

To provide a source of income to supplement the Society's other sources of income; and

To provide funds if needed to cover any shortfalls in the Short-Term Reserve Fund.

The Objectives of the Long-Term Investment Fund are:

Capital appreciation;

Income; and

Reasonable assurance of preservation of capital.

In order to accomplish the Purpose and Objectives, the money in the Long-Term Investment Fund will be maintained in a mix of investments that, in the opinion of the Board of Directors, will best provide for the intermediate- and long-term financial health of OCMS. It is expected that the Fund will be invested in such a manner as to increase the Fund's value in excess of the rate of inflation and expenses in order to maintain the financial health and stability of the Society and to provide income to help fund the activities of the Society. Although the Society may use money from the Long-Term Investment Fund on a regular or irregular basis to fund its operations, the amount of money withdrawn will not cause the growth of the Fund to fall below the overall rate of inflation on a long-term basis (recognizing that the results in any given year may fall short of this goal depending on the performance of the investments held by the Fund).

Capital preservation is a major objective of the Fund, but risk must be assumed in order to provide the possibility of returns in excess of the rate of inflation plus the amount of withdrawal so that OCMS does not lose ground financially. The operational goal of the Society with regard to the Long-Term Investment Fund is to generate a combination of capital appreciation and income to allow for an average growth of the Fund balance of at least the rate of inflation and expenses plus an additional 3%. Attainment of this goal will of necessity require that the Fund be invested in a mixture of assets that, on balance, will entail assumption of a moderate degree of market risk.

The Long-Term Investment Fund account will be maintained with a brokerage firm, mutual fund company, or investment management firm with adequate insurance against loss of funds due to non-market factors. Efforts will be made to minimize the maintenance and transaction expenses of the Fund in order to increase its appreciation.

If the Board determines that it is in the best interest of the Society to have the Long-Term Investment Fund deposited with and managed by a professional investment manager, then that manager will provide an annual performance report and investment management plan to the Board. The Board will review the performance report and investment management plan and determine if they are acceptable, and will vote on whether or not to maintain the Fund with the current investment manager for the coming year. Any changes in the Fund's composition between annual reviews will be made after consultation with and approval of the Treasurer and Executive Director. Any significant changes in the Fund's composition or balances will be reported to the Board at the next meeting.

If the Long-Term Investment Fund is to be self-managed by the Society, it will be managed according to well-known principles of asset allocation. The bulk of the Fund's assets will be invested in a mixture of low-cost diversified mutual funds. In order to maximize return while

## **Long Term Investment Fund continued**

reducing risk, the mutual funds used will cover a range of asset classes that would be expected to have varying returns depending on market conditions and a relatively low degree of performance correlation. These asset classes may include but are not limited to domestic large-capitalization equities, domestic mid- and/or small-capitalization equities, international equities, and domestic and/or foreign fixed-income securities. Depending on the overall size of the Fund, other asset classes may be included at the discretion of the Board.

In accordance with standard principles of asset allocation, the Board will develop a list of asset classes, allocation targets, and allocation ranges, and will review and approve the list annually. The Treasurer will monitor the Fund's asset balances on an ongoing basis, will report to the Board if the fund balances move outside the assigned allocation ranges, and will make recommendations to the Board for any actions to be taken to bring the Fund's asset mix back to the approved allocation targets.

At the time of the annual review of the asset list and allocations, the Treasurer will propose and the Board will approve a plan to rebalance the Fund's assets in accordance with the parameters set by the Board. Any addition or removal of money from the Fund will be done, to the extent reasonable, in such a way to maintain the asset mix as close to the approved asset allocation targets as possible.

