



FIN-104: Investments – 12 December 2024

Purpose

This policy provides guidelines for investing INCOSE funds with the objective to manage obtaining reasonable earnings through a prudent investment strategy, while ensuring sufficient cash liquidity for day-to-day operations.

Applicability

This policy applies to INCOSE Officers, the Executive Director, the Operations Manager, and any contracted entities (herein referred to as “investment manager”) involved in managing INCOSE funds.

Definitions

Liquidity represents cash in an account that is instantly available for business transactions with no penalty for withdrawal or use.

Certificates of Deposit (CDs) are very low-risk, fixed-interest and fixed-term, investments available from banks and credit unions. They typically pay higher interest rates than savings accounts and money market accounts. Generally, longer terms imply higher interest rates. There may be a commission for procuring CDs, but no management fee.

Equities represent investment in the stock market with the expectation of higher returns than offered by CDs. However, returns are based on market conditions and other factors. Thus, the returns are not guaranteed and carry a higher risk. Risks are reduced by having a diversified investment portfolio that includes various types of equities, which is managed by a portfolio manager at a fee.

GENERAL GUIDELINES

INCOSE will maintain financial assets in two ways: an Operating Account and an Investment Account.

- **OPERATING ACCOUNT:** INCOSE shall maintain funds in an operating (checking) account to fund the daily and ongoing accounting operations. This operating account will be the sole account used to credit accounts receivable, debit accounts payable, and maintain the short-term liquidity goals for INCOSE. This account will be held at the bank deemed to be most advantageous to INCOSE (offers the best fee structure, online banking/QuickBooks interoperability, international transfer fees, or other considerations), to be reviewed at least every three years by the Board of Directors, or sooner if warranted by internal or external event changes (review to happen on one cycle alongside Financial Authorization and Investment Policies).
- **INVESTMENT ACCOUNT:** INCOSE shall maintain funds in excess of the short-term liquidity goals in an investment account. This account will be used to fund strategic projects and priorities, projects beyond normal annual operations, and projects deemed critical to the



sustainability and growth of INCOSE's operations, while maintaining a minimum balance to sustain operations in the event of unforeseen factors. All monies above the minimum balance shall be available for use upon approval by the Board of Directors.

Liquidity Guidelines:

INCOSE funds shall be managed and invested based on the following constraints and guidelines:

- A minimum asset level of 35% of operating expenses shall be maintained.
- An operating cash liquidity position shall be maintained to cover the expected operational needs for a period of 3 months.
- Non-cash reserves, namely the balance of available funds after provision has been made for the cash liquidity, must include enough financial liquidity in the investment account to cover 180 days of non-discretionary, predictable operating expenses. If investment authority is delegated, the investment manager shall remain in contact with the Executive Director and Board Treasurer regarding any changes to short-term liquidity needs.

ASSET ALLOCATION GUIDELINES AND RETURN REQUIREMENTS

The overall objective of the portfolio is to provide growth over the long term (in excess of inflation), while maintaining a high-quality, mission-aligned, portfolio of marketable securities. The portfolio shall be balanced between equities (having superior long-term growth potential), fixed income (which provide higher current income and more steady streams) and approved alternative structures. To achieve this objective, the investment manager may vary the market value of the asset allocation within the following ranges and invest in the following asset classes:

- 40-50% in shorter-term, low-risk investments, such as CDs or equivalent investments with different maturity terms (3, 6, 9 and 12 months), i.e., in a quarterly ladder format, to ensure accessibility if cash is required for operations. No single CD or equivalent investment shall exceed \$250,000 USD in value in order to comply with FDIC regulations. The maximum maturity term shall not exceed 24 months.
- 50-60% in longer-term investments, such as Equities. These investments shall conform to the following:
 - Low to moderate risk based on industry assessments.
 - No more than 50% invested in any single type of investment.
 - Balanced funds that are diversified or longer-term CDs (or equivalent).
 - For equities, they must be managed by an accredited equity investment manager or agent.
 - No individual equity purchase (e.g., no single stock or bond)
- 0-5% US Cash and Equivalents



The investment manager is advised to make recommendations to the Board Treasurer and Finance Committee in the event that such asset allocation ranges seem contrary to the long-term objective of the portfolio. In addition, the investment manager shall notify the Committee of the need to rebalance an asset class whenever the class maximum is exceeded and shall rebalance to comply with the target ranges outlined above.

Any investment options not otherwise accounted for in the above that are recommended by the investment manager must be submitted to the Board Treasurer and Finance Committee in writing and approved by the Committee.

The ratio between shorter-term and longer-term investments as described above will be reviewed by the Board of Directors (BoD) on an annual basis and adjusted if necessary, based on prevailing market conditions and available investment vehicles.

The overall intent of this investment guidance is to provide a reasonable return on investment while minimizing the risk of loss of INCOSE funds.

INVESTMENT CONSTRAINTS

The portfolio and all securities must comply with the following constraints:

EQUITIES: It is expected that the equity component of the portfolio will be diversified across economic sectors. Holdings in any single issuer and/or its subsidiaries should not exceed 5% of the equity component of the portfolio. Equity portfolios are to be comprised of small, mid, and large-capitalization stocks.

FIXED INCOME AND ALTERNATIVE INVESTMENTS: except for US Treasury and government securities, the securities of a single issuer and/or its subsidiaries may not exceed 5% of the fixed income component of the portfolio. Mortgage-backed, asset-backed, and collateralized mortgage obligations may not exceed 5% of the fixed income component of the portfolio. It is expected that the fixed income component of the portfolio will be diversified across maturities and sectors and retain a strong bias towards high quality and liquidity.

INDIVIDUAL BOND SECURITIES: except for US Treasury and government securities, all individual bonds must be rated “BBB” or better by one of the nationally recognized rating agencies at the time of purchase. If a downgrade occurs below “BBB” after purchase, the investment advisor is required to notify the Board Treasurer and Finance Committee and recommend whether the security should be removed from the portfolio. The Board prefers a laddered maturity for its portfolio of individual bonds. The fixed income portfolio will have an average duration not to exceed 5 years.

FI MUTUAL FUNDS, ETFs AND CLOSED-END FUNDS: the use of low-cost mutual funds, ETFs and CEFs are allowed within the fixed income allocation, including those funds investing in higher yielding, lower quality securities. The following guidelines must be observed given the moderate risk and return expectations:

The aggregate of all securities rated below “BBB” may not exceed 10% of the total fixed incl. allocation.



Funds invested in foreign bonds must not exceed 10% of the total fixed including allocation.

The aggregate allocation to fixed income mutual funds, ETFs and CEFs is not to exceed 10% of the total fixed income allocation without consent from the Treasurer and Finance Committee

CASH AND EQUIVALENTS: The following cash and equivalent securities are permitted: treasury bills, certificates of deposit, and money market mutual funds.

PERFORMANCE MEASUREMENT

It is expected that the investment manager will outperform over a complete market cycle of 3-5 years the 'market' benchmark allocated in a similar manner to that of the INCOSE Investment Account. This 'market' portfolio reference should reflect the various investment guidelines set forth herein. INCOSE will consult with the selected investment manager to determine the best benchmark for the portfolio.

Performance measurement shall be reported to the Executive Director and Board Treasurer no less frequently than quarterly, and the investment manager shall be available for commensurate review sessions. The manager must affirm annually that the portfolio complies with these investment guidelines.

INVESTMENT MANAGER ROLE AND FEES

The investment manager shall be a fiduciary financial advisor. Fees for all services, direct and indirect, necessary and appropriate to achieve the goals and meet the guidelines shall be on a guaranteed-maximum, not-to-exceed, basis approved by the Board of Directors.

AUTHORITY, MANAGEMENT AND OVERSIGHT

A complete reporting of INCOSE's financial position, including operating and investment accounts, will be made to the Board of Directors on a monthly basis. The Board Treasurer and Executive Director shall advise the Board on financial operations in advance of and at each Board Meeting, including a forecast of any anticipated credits or debits to the investment account.

Transactions involving cash movement to maintain liquidity goals may be made by the Executive Director after consulting with the Board Treasurer and approved by the Finance Committee.

Responsible Position

The Executive Director is responsible for maintaining this policy.

Related Documents

INCOSE Board Operations Manual

INCOSE Staff Operations Manual

FIN-101 Budget and Planning Committee Charter



Related Procedures

None.

SUPERSEDES: FIN-104 dated 30 January 2022

APPROVED BY: INCOSE Board of Directors, Q4.1 Virtual Board Meeting, 12 December 2023

MAINTAINED BY: (RACI Responsible R): Executive Director

POLICY OWNER: (RACI Accountable A): Treasurer