C.A.R. Investment Objectives, Policies, and Procedures

(January ~~2013~~2014)

INTRODUCTION

This document describes the goals and investment objectives of the CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.). It describes the roles and responsibilities of C.A.R. elected officers, committees and staff, as well as those of the Investment Consultant. It provides asset allocation guidelines for managing the C.A.R. investment portfolio, and specifies benchmarks, procedures, and timelines for the periodic evaluation of the portfolio performance.

The investment policies described in this statement reflect C.A.R.'s basic philosophy regarding sound investment practices that emphasize long-term investment fundamentals. However, it is also a dynamic document that allows adjustments over time in response to the changing financial needs and circumstances of the C.A.R., the time horizon available for investment, the nature of the Association's cash flows and liabilities, and other factors that affect their risk tolerance. These policies will be reviewed and revised periodically to ensure they adequately reflect changes related to the California Association of Realtors and the capital markets.

INVESTMENT GOALS

This document provides guidance for the following components of the C.A.R. investment portfolio:

Core Reserves - Core Reserves are the funds in excess of those required to meet the short-term cash needs of the Association. Funds in the Core Reserves support both the long term and mid-term operations of the Association. Funds in the Core Reserves Account assume an investment time frame of 3 to ~~5~~ 7 years.

Operational Account - The Operational Account meets the short-term liquidity needs of the Association, by managing cash flow needs that arise as a result of differences in the timing of cash inflows and outflows during the year. Because C.A.R. receives most of its dues revenue in the first quarter of each year, the time frame for the Operational Account generally runs 15 months from the start of the year (that is, the calendar year plus first quarter of following year).

Other Accounts - C.A.R. manages funds on behalf of other C.A.R.-related entities such as the C.A.R. Education Foundation, the C.A.R. Housing Affordability Fund, and other entities that currently exist or will exist in the future.

The overall goal is to manage the portfolio of C.A.R. and C.A.R.-related entities so they may meet their short-term cash flow and long-term financial needs. This requires:

- Achieving the highest possible return on the association's investment portfolio,
- Balancing risk and return through appropriate choice and diversification of investment vehicles, and
- Ensuring that the portfolio meets or exceeds specified performance standards.

INVESTMENT OBJECTIVES AND ASSET ALLOCATION GUIDELINES

This section describes asset allocation guidelines to achieve investment objectives for C.A.R.'s investment portfolio and accounts, and specifies benchmarks to be used in evaluating the performance of investments in the portfolio. The objectives for Operational Cash and Core Reserves will ensure that C.A.R.:

- Maximizes returns on its portfolio while maintaining the safety of its assets, subject to the desired balance between risk and return, and
- Meets its ongoing cash flow and liability needs.

Core Reserve Objective: The Core Reserve Objective is to meet the long-term, less liquid financial needs of the Association while striking a balance between risk and return with a time frame of 3 to ~~5~~ 7 years.

Operational Account Objective: The Operational Account Objective is to meet the ongoing operating cash flow needs of the Association, while generating returns on available short-term funds through acceptable highly liquid, yield generating investments.

Objectives for Funds of C.A.R.-Related Entities – The investment objectives of C.A.R.-Related entities generally will be aligned with the above objectives for C.A.R. funds. Where applicable and subject to approval by the SPF Committee, any exceptions to these objectives will be stated explicitly as an Addendum to this document.

Asset Allocation Guidelines

The following asset allocation guidelines have been developed to be consistent with the overall investment goal of the organization and the individual Operational Cash and Core Reserves objectives stated above. A target percentage allocation is stated for each investment class (or specific assets if indicated) to ensure that the overall account portfolio achieves the desired balance between return and risk.

If C.A.R. retains more than one Investment Consultant to manage its portfolio, each individual Investment Consultant must adhere to the asset allocation guidelines for its portion of the overall portfolio.

Asset Allocation Guidelines by Type of Account

Asset Allocation Guidelines – Core Reserves			
Asset Class	**Minimum**		**Maximum**
Fixed Income	70%		90%
Equities	10%		30%
~~Cash and Cash Equivalents~~Unallocated Funds	~~0%~~	Not Applicable	~~10%~~-

Asset Allocation Guidelines – Operational Account			
Asset Class	**Minimum**		**Maximum**
Fixed Income	0%		50%
Equities	0%		0%
Cash and Cash Equivalents	50%		100%

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PERMITTED ASSET CLASSES

This section identifies the permitted asset classes and specifies additional requirements for assets and asset classes such as minimum investment grades, ratings, and restrictions on permitted asset classes.

Cash & Cash Equivalents:

Certificates of Deposit (CDs) and Money Market Funds

- The acceptable investment channels for CDs and money market funds are limited to U.S. domestic banks.
- CDs invested in savings and loans shall have the greater of a net worth ratio of 4% or the Federal insured minimum requirement.

Fixed Income Investments:

Fixed income securities include**:** Domestic fixed and variable rate bonds and notes issued by the U.S. Government and its Agencies, securitized mortgages (*e.g.* GNMA's, FNMA's, FHLMC's), fixed income securities of U.S. corporations, asset-backed securities, and collateralized mortgage obligations.

Treasury Securities

- These are US Government securities of varying maturities.

Corporate Bonds & Preferred Stock

- The term "bond" includes convertible bonds, notes and debentures. 80% of the individual securities must be BBB rated or better
- Preferred stock shall have a BBB rating or better at the time of purchase by a nationally recognized statistical rating agency.
- No more than 10% of the fixed income portfolio shall be invested in preferred stock.
- Corporate securities must be rated "A" by at least one of the ~~or better by Standard and Poor's or other~~ nationally recognized statistical rating agency.
- Up to ~~10%~~15% of the fixed income portfolio may be invested in High Yield securities.
- Investment manager may use mutual funds for tactical allocations as long as those funds meet the criteria of these overall investment guidelines.
- The market value of any one issuer may not exceed 10% of such Counselor's entire investment portfolio except in the case of obligations of the U.S. Government or one of its agencies as to which there shall be no maximum limitations.
- Global & Inflation-related Fixed Income – A portfolio of fixed income securities diversified across geography, maturities, credit ratings and sector in US dollars or local currencies, developed and emerging-market countries, inflation swap agreements, TIPS and other inflation-related securities.
- Fixed income exposure may be implemented through the use of mutual funds and in this instance will therefore be managed by the mutual fund prospectus.

Mortgage-Backed Securities

- The term "mortgage-backed securities" refers to Ginnie Mae pooled mortgage-backed investments and similar instruments.
- No more than ~~10%~~20% of the fixed income portfolio shall be invested in mortgage-backed securities.
- No more than 15% of the mortgage-backed securities portfolio shall be rated below BBB unless owned by a mutual fund.

Collateralized Mortgage Obligations (CMOs)

- Collateralized mortgage obligations must be rated BBB or better.
- No more than 10% of the fixed income portfolio shall be invested in collateralized mortgage obligations.

Investment in Equities:

- Equities refer to common stocks. ~~80% must be A- or better as rated by Standard and Poor's or other nationally recognized statistical rating agency.~~
- No more than ~~5%~~8% of each adviser's ~~cash reserve~~funds shall be invested in the common stock of any one company at time of purchase.
- No more than 20% of each adviser's ~~cash reserve~~funds shall be invested in any one industry~~'s common stock~~.

Domestic Equity Securities

The securities purchased shall be registered with the Securities and Exchange Commission, and traded on a recognized U.S. stock exchange or over-the-counter-market.

- Equity securities include**:** common stocks and securities convertible into common stock of U.S.-based companies.

- Convertible securities include**:** securities that are convertible into the common stock of U.S. based companies. This would include convertible bonds, convertible preferred stock, and mandatory convertible securities (*e.g.* PERCs, CHIPs, and ELKs). Private placement convertible issues, also known as "144A" convertible securities, may not be purchased. All convertible securities purchased must be U.S. dollar denominated securities. For the purposes of asset allocation, convertible securities shall be considered equities.

International Equity Securities

No more than ~~20%~~25% of the equity portfolio shall be invested in allowable international securities. Allowable international securities are**:** sponsored and unsponsored American Depositary Receipts (ADR's) or American Depositary Shares (ADS's) or other depositary securities of non-U.S. based companies traded in the U.S. and closed-end country funds. Equities of foreign domiciled companies that are traded in the U.S. may also be purchased so long as the securities are registered (or filed) with the Securities and Exchange Commission and traded on a recognized national exchange or over-the-counter market. Non-US dollar denominated equity securities traded on recognized national or regional exchanges outside the U.S may also be purchased.

Asset Class Exclusions

This section will identify asset classes and specific assets that are to be excluded from the portfolio mix. The Association's assets may not be used for the following purposes:

- Purchases of letter stock, private placements (including 144A securities), or direct payments;
- ~~Leveraged transactions;~~
- Non-covered puts, calls, straddles~~, or other option strategies; Calls, straddles or other option strategies~~ unless utilized in mutual funds;
- Purchases of real estate, oil and gas properties, or other natural resources related properties including Real Estate Investment Trusts (REIT) or marketable real estate securities unless publically traded;
- Investments in limited partnerships except for publicly traded Master Limited Partnerships~~;~~ unless publically traded;
- ~~Investments in futures,~~ Use of margin~~, or investments in any derivatives~~ not explicitly permitted in this policy statement;
- ~~Investments in Yankee bonds and notes;~~
- Investment in private placement issues.~~;~~
- ~~Non-US dollar denominated equity securities traded on over-the-counter markets outside the U.S are prohibited;~~
- ~~Investments by the Investment Consultants in their company securities, their affiliates, or subsidiaries (excluding money market or other commingled funds as authorized by the Investment Committee).~~

Portfolio Rebalancing

~~Over time, an asset class allocation in any given account will move away from its long-term strategic target. It is understood that it is inefficient to rebalance to the strategic target until the estimated added value more than pays for the transaction costs incurred in rebalancing.~~

~~Upon reviewing the assessment of portfolio balance, the Investment Consultant may recommend rebalancing so it falls within the allowable range for each asset and asset class as specified in the Asset Allocation. The Investment Consultant may rebalance the portfolio and will notify C.A.R. of actions taken to rebalance the portfolio via the normal reporting process.~~

~~Rebalancing the Asset Classes~~

Rebalancing will occur in accordance with the investment manager's internal rebalancing rules. Under normal market conditions, we will direct the investment manager to apply automatic rebalancing to all asset classes. From time to time, an asset class allocation will move away from its long-term strategic target due to market movements. When this happens to a magnitude of 5% or greater, the intent will be to move the asset allocation back towards its long-term target

~~It is understood that it is inefficient to rebalance to the strategic target until the estimated added value more than pays for the transaction costs and taxes. Generally, it is appropriate to rebalance either through cash flow or selling an asset class and bringing the allocation half way back toward its strategic target.~~

~~Under extreme market conditions, we may choose to suspend rebalancing in order to isolate and preserve the fixed income allocation. In this case, we will direct the investment manager to not initiate trades geared toward rebalancing. In this circumstance, unless directed otherwise, any cash-including interest and dividends-deposited or withdrawn will still be managed with the objective of bringing the asset allocation closer to the underlying target.~~

Portfolio Performance Evaluation and Reporting Requirements

The Investment Consultant will provide quarterly written performance reports for each separately managed account portfolio and for the composite portfolio of separately managed accounts invested, to be delivered by the 15th of the month following the end of each quarter. The reports will include:

- Returns on investment for most recent period, year-to-date, and year-over-year, and annual returns for the most recently completed 1-year, 3-year, and 5-year terms.
- Comparison of portfolio returns with appropriate benchmarks to evaluate the performance of the overall portfolio, its individual accounts, and the investments within those accounts.
- Assessment of portfolio balance that may be used to evaluate the need to rebalance the portfolio.

The Investment Consultant will also provide a monthly statement, to be delivered by the 10th of the month following the end of each month. Quarterly performance reports and monthly transaction statements will be submitted to the C.A.R. Finance Division to the attention of the Chief Financial Officer.

Investment Consultants shall provide the C.A.R. Finance Division online access to financial accounts and investment portfolios.

Performance Benchmarks

Because benchmarks vary by asset class and individual assets, the benchmarks to be used to evaluate portfolio performance will be determined by C.A.R. and the Investment Consultant, for asset classes and individual assets where applicable, and noted as an Addendum to this document. A common benchmark for each asset class, as recommended by the Investment Consultant and approved by the SPF Committee, will be used to measure the portfolio performance of each Investment Counselor.

Roles and Responsibilities

This section defines the roles and responsibilities of C.A.R., its committees, and the Investment Consultant.

The Strategic Planning and Finance (SPF) Committee has general responsibility for C.A.R.'s portfolio, on behalf of the organization and it's Board of Directors. These responsibilities include: ensuring that this investment policy is followed, monitoring portfolio performance, and making adjustments/changes to the investment policy and Investment Consultants as needed.

The C.A.R. Finance Division monitors the capital and operating budget needs of the Association, and determines the proper amount to maintain in the operating account, allocating the balance to the core reserve account. The Finance Division will be the primary point of contact between C.A.R. and the Investment Consultant. The Finance Division of C.A.R. will be responsible to communicate to the SPF Committee and/or the SPF Investment Sub-Committee the recommendations given by the Investment Consultant.

The Investment Consultant/Manager will manage the association's assets in a manner consistent with this document. The relationship between the Association and the Investment Consultant/Manager is a fiduciary relationship. The Investment Consultant/Manager must discharge their responsibilities solely for the financial interest of the CALIFORNIA ASSOCIATION OF REALTORS®. They will exercise the care and due diligence that a prudent person would ordinarily use in performing investment responsibilities as the situation allows at the time.

Document Revisions

Original Document:	December 11, 2009
Revision Date:	February, 2012
Revision Date:	January 2013
Revision Date:	January 2014

Appendix “A”

Portfolio Benchmarks

Name of Investment Counselor ___________________________________

Asset Class/Investments	**Benchmark**
Cash and Cash Equivalents •	
Fixed Income •	
Equities •	
Other •	

Appendix “B”

Subcommittee Selection Process

The Leadership Team will appoint an Investment Subcommittee, comprised of no more than 7 members. The Investment Subcommittee will oversee the investment of C.A.R.’s reserves, and make recommendations to the Strategic Planning and Finance Committee regarding the Association’s investment policies. The Investment Subcommittee will be responsible for evaluating the performance of C.A.R.’s professional investment advisors, and shall make recommendations to the Strategic Planning and Finance Committee regarding the Association’s relationship with such advisors at least every three years.

The Investment Subcommittee shall consist of the current Treasurer of the Association, up to three members from the Strategic Planning and Finance Committee (one of whom may be an Association Executive), and up to three members who are not serving on the Strategic Planning and Finance Committee.

With the exception of the Treasurer, the members of the Investment Subcommittee shall serve staggered three year terms, coinciding with the elective year of the Association. To facilitate the process of serving staggered terms, and to provide for continuity in the membership of the Investment Subcommittee, in November 2013 one SPF Committee member and one non-SPF Committee member may be appointed to a three year term, one SPF Committee member and one non-SPF Committee member may be appointed to a two year term, and one SPF Committee member and one non-SPF Committee member may be appointed to a one year term. Beginning in November 2014, one SPF Committee member and one non-SPF Committee member may be appointed to a three year term, and other vacancies may be filled for the appropriate balance of the respective terms. Subcommittee members, including the Treasurer, may be reappointed to serve consecutive terms. The President, President-Elect and CEO are non-voting ex officio members of the Subcommittee.

The Treasurer shall designate one of the members selected to serve on the Investment Subcommittee as the Chair on an annual basis. The term of the Chair shall coincide with the Association’s elective year. The Chair may serve consecutive terms.

Revised: January 17, 2013

Appendix "C"

Glossary of Terms

This is a reference section that lists and describes asset classes as well as typical assets within each class, and details on risk versus return for assets in each class.

Asset Classes – large groups of similar assets, typically classified as Fixed Income Assets, Equities, and Cash and Cash Equivalents:

- Cash and Cash Equivalents – the class of assets that includes cash and highly liquid assets such as CDs and Money Market Funds that can readily be converted to cash without transactions costs.

- Equities - Equities refer to common stocks representing ownership in corporations. Returns may include both income in the form of dividends and gains (or losses) in the market value of the stock itself. Principal is at risk, although the risk of loss (other than market risk) varies greatly, with larger, established corporations generally providing lower risk of loss but lower returns over time, while newer, smaller corporations generally providing higher risk of loss with potentially higher returns over time.

- Fixed Income Assets– class of assets that includes domestic fixed and variable rate bonds and notes issued by the U.S. Government and its Agencies, securitized mortgages (*e.g.* GNMA's, FNMA's, FHLMC's), fixed income securities of U.S. corporations, asset-backed securities, and collateralized mortgage obligations. Returns consist of fixed interest return and gains or losses due to the change in the market value of the asset.

Certificates of Deposit (CDs) – term deposits with lending institutions that provide interest return over a stated term, with no risk of losing principal. Federal deposit insurance protects investment up to stated limits. May be liquidated at any time without loss of principal, although accrued interest may be lost.

Collateralized Mortgage Obligation (CMO) – A CMO is a legal entity that issues bonds backed by a pool of mortgages. Investors buy bonds issued by the entity and receive payments according to a defined set of rules. The mortgages themselves are called the collateral, the bonds are called tranches (also called classes), and the set of rules that dictates how money received from the collateral will be distributed is called the structure.

Convertible Securities – Securities that may be converted into the common stock of U.S. based companies.

Corporate Bonds – Corporate bonds include convertible bonds, notes, and debentures. Corporate bonds range in maturity. They may be coupon bonds or zero-coupon bonds. Yield is based on the coupon rate and the market value of the asset. Because these are backed by the large corporations, these assets have low default risk, but the risk of losing principal exists.

Money Market Funds – highly liquid deposits with lending institutions that provide interest return over a stated term, with no risk of losing principal. Federal deposit insurance protects investment up to stated limits. Funds may be withdrawn via check or electronic transfer.

Preferred Stock – Equity shares of ownership in corporations with fixed dividend return.

US Treasuries – US Government bills, notes, and bonds with maturities ranging from 1 month to 30 years. Short-term Treasuries generally have maturities of 1 year or less. Long-term Treasuries generally have maturities exceeding 1 year. Treasury bills are sold as zero coupon bonds, with the yield equal to the difference between the purchase price and the face value. Treasury notes and bonds are coupon bonds with the yield based on the coupon rate and the market value of the asset. Because these are backed by the US Government, Treasuries have zero default risk, but the risk of losing principal exists.