

# **IEEE FOUNDATION**

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## **Investment Operations Manual**

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### INTRODUCTION

The purposes of this Investment Operations Manual (“IOM”) are to:

- 1) guide the Board of Directors, Finance Committee, Staff, and others involved, to effectively manage, monitor, and evaluate the IEEE Foundation’s investments,
- 2) ensure compliance with fiduciary and prudent investor responsibilities,
- 3) educate new Directors, Staff, Finance Committee members, and others involved, in order to maintain the consistency in IEEE Foundation investment processes necessary to produce good long-term results,
- 4) set forth a structure for managing IEEE Foundation investments, including a spending rule, strategic asset allocation and permissible ranges, that, when combined, are expected to produce an adequate level of return at an acceptable level of risk, which will be mitigated through sufficient diversification, and
- 5) provide transparency and understanding of the IEEE Foundation’s investment policies.

The procedures in this IOM support the implementation of IEEE Foundation’s policies governing the Directors, Staff, Finance Committee members and others with respect to financial policies, as stated in Section 3 of IEEE Foundation Policy and Procedures Manual. These financial

procedures shall be developed and overseen primarily by IEEE Foundation Finance Committee with any changes approved by the IEEE Foundation Board of Directors. The IEEE Foundation IOM policies and procedures shall not conflict with the IEEE Foundation Policies and Procedures.

For ease of use of this IOM, the IEEE Foundation Policies and Procedures pertinent to investments have been inserted in the appropriate sections. They appear in Bold / Italic font.

## **IOM.1 – STANDARD OF CONDUCT IN MANAGING AND INVESTING IEEE FOUNDATION’S FUNDS**

### **1. Prudent Person Rule**

***It is Foundation policy to operate reasonably and prudently. The legal standard by which all aspects of operations of a not-for-profit organization are tested is reasonableness and prudence. A fiduciary is a person who has responsibilities in connection with the administration, investment, or distribution of property or assets that belong to someone else. The standard underlying fiduciary responsibility is prudence, and the standard of behavior for a fiduciary is known as the “prudent person rule.” This rule charges fiduciaries with conducting themselves with the same degree of judgment and prudence when administering the affairs of the organization, as they would in their personal affairs. (Policy 3.1.B)***

Subject to the intent of a donor expressed in a gift instrument, the IEEE Foundation, in managing and investing a Foundation’s fund, shall consider the purposes of the IEEE Foundation and the purposes of the IEEE Foundation’s fund (see definitions in Appendix B).

In addition to complying with the duty of loyalty imposed by law, each person responsible for managing and investing the IEEE Foundation’s funds shall manage and invest the funds in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

In managing and investing the IEEE Foundation’s funds, the Board shall, consistent with section 717 of the New York Not-For-Profit Corporation Law (Duty of Directors and Officers): (1) incur only costs that are appropriate and reasonable in relation to the assets, the purposes of the IEEE Foundation, and the skills available to the Board; and (2) make a reasonable effort to verify facts relevant to the management and investment of the fund. In addition, it shall take into consideration:

- (A) general economic conditions;
- (B) the possible effect of inflation or deflation;
- (C) the expected tax consequences, if any, of investment decisions or strategies;
- (D) the role that each investment or course of action plays within the overall investment portfolio of the fund;
- (E) the expected total return from income and the appreciation of investments;

- (F) other resources of the IEEE Foundation;
- (G) the needs of the IEEE Foundation and the fund to make distributions and to preserve capital; and
- (H) an asset's special relationship or special value, if any, to the purposes of the IEEE Foundation.

## 2. **Commingling of assets**

The IEEE Foundation assets consist of funds with and without donor restrictions. The IEEE Foundation may commingle these funds for investment purposes, provided however, that the legal requirements with respect to permanently restricted funds are satisfied.

## **IOM.2 – IEEE FOUNDATION INVESTMENT OBJECTIVES & POOLS**

***The Foundation's investment assets shall be commingled and broken down into two pools: short-term and long-term. The short-term pool shall be invested only in secure short-term instruments focused on preservation and availability of cash. The long-term pool shall be well diversified and invested in a conservative fashion to satisfy the primary objective of preservation of capital with the secondary objective of maximizing the total returns on investment assets.***

***(Policy 3.2.A.1)***

### 1. **Long-term investment pool**

The IEEE Foundation shall deposit into its long-term investment pool funds that are intended to provide long-term support with an expected duration of 10 years or greater, and assets as directed by the IEEE Foundation Board of Directors. The IEEE Foundation, although not required by law, has elected to invest its long-term investment pool primarily in the IEEE Long Term Investment Fund.

Appropriate fund-accounting methods shall be used to allocate income and net appreciation of the IEEE Foundation's long-term investment pool. The IEEE Foundation shall keep accurate accounts of endowment funds separate and apart from the accounts of other assets of IEEE Foundation. Thus, IEEE Foundation must track and annually allocate income and appreciation on a fund-by-fund basis rather than conglomerating investment results across funds within the pool.

### 2. **Short-term Investment Pool**

The IEEE Foundation shall deposit into its short-term investment pool all funds, that are intended to provide support with an expected duration of less than 10 years. The IEEE Foundation may also reposition a portion of assets held in the long-term investment pool to the short term investment pool in order to cover anticipated short term (generally less than 1 year) expenses of those donor funds held in the long-term investment pool. The IEEE Foundation, although not required by law, has elected to invest its short-term investment pool in IEEE's Concentration Banking Program and in U.S. Treasuries with maturities up to 3 years.

Interest earned on monies held in the Short Term Investment Pool in excess of the IEEE Concentration Banking Program interest rate is utilized to operate the Foundation and therefore deposited in the Foundation Fund.

### **IOM.3 – GIFTS OF SECURITIES & NON LIQUID ASSETS**

1. The IEEE Foundation has a standing directive in place that all gifts of securities (i.e., stocks, bonds, mutual funds, etc.) shall be liquidated as soon as practicable. The proceeds from sale shall be credited to the Fund designated by the donor and invested in a manner consistent with the guidelines outlined in IOM.2

This standing directive shall remain in force until reversed by action of IEEE Foundation Board of Directors.

2. The disposition of gifts of non-liquid assets (i.e. Real Estate, patents and other intellectual property), as described in Policy & Procedures Section 4.5, shall be determined by the IEEE Foundation Board of Directors as part of the action to accept the gift. The proceeds from sale of non-liquid assets shall be credited to the Fund designated by the donor and invested in a manner consistent with the guidelines outlined in IOM.2

### **IOM.4 - DIVISION OF RESPONSIBILITIES**

1. **Board of Directors**

The IEEE Foundation Board of Directors has fiduciary responsibility.

2. **IEEE Foundation Treasurer**

***Subject to approval by the IEEE, the IEEE Foundation Treasurer shall be a corresponding member to the IEEE Finance and Investment Committees, shall receive notice of these meetings, copies of agendas and minutes of Committee meetings, along with their supporting materials, and may attend meetings of these committees without vote.***

***The IEEE Treasurer shall appoint a member of the IEEE Finance Committee to serve as a corresponding member of the IEEE Foundation Board of Directors, and such corresponding member shall receive notice of meetings, copies of agendas and minutes of IEEE Foundation Board meetings, along with their supporting materials, and may attend meetings of the Board without vote. (Policy 1.3)***

In addition to the duties specified in the IEEE Foundation By-laws and Policy and Procedures, the IEEE Foundation Treasurer shall also make a report on investment performance at each regular meeting of the IEEE Foundation Board of Directors.

3. **IEEE Foundation Investment Committee**

In lieu of an investment committee, the IEEE Foundation Finance Committee shall serve in such capacity.

#### 4. IEEE Foundation Finance Committee

##### A. Membership.

***“...The Committee shall be appointed annually by the Foundation Board and consist of the Treasurer, the Vice President Development, Vice President Programs and three additional members of the Foundation Board of Directors. The Treasurer shall chair the Committee and report regularly to the Foundation Board on Committee activities.” (Policy 2.3.D)***

***At least once every three years, the Foundation Finance Committee shall conduct a formal assessment of this Policy and the corresponding IEEE Foundation Investment Operations Manual to determine whether it is fulfilling the needs of the Foundation. The Foundation Finance Committee shall report the results and recommendation from its assessment to the Board of Directors for its action. (Policy 3.2.A.1)***

##### B. Duties.

- The IEEE Foundation Finance Committee shall annually review the investment policies and objectives. The review will consider whether the parameters are still appropriate as well as the feasibility of the investment policies and strategies necessary to attain them. Further, the IEEE Foundation Finance Committee shall review the performance and objectives of the IEEE Long Term Investment Fund to determine whether it fulfills IEEE Foundation’s investment objectives. The IEEE Foundation Finance Committee shall report the findings of its annual review and make any appropriate recommendations to the IEEE Foundation Board.
- The IEEE Foundation Finance Committee develops and recommends to the IEEE Foundation Board of Directors investment management policy and activities, including:
  - Asset allocation guidelines and strategies.
  - Investment guidelines / objectives for IEEE Foundation assets.
  - Determination of Investment Management (retention and termination).
- The IEEE Foundation Finance Committee also:
  - Consults with and reviews actions, results, and philosophies of the external asset managers on a periodic basis. (It is not, however, the function of the IEEE Foundation Finance Committee to approve specific investments.)
  - Evaluates the performance of the asset managers and advises the IEEE Foundation Board of Directors, as appropriate.
  - Monitors compliance with policy.

- Except in the event of a sudden, significant, unstable investment environment explained in IOM.12.1, any changes to investment policies and objectives need to first be considered by the IEEE Foundation Finance Committee, and if approved shall pass to the IEEE Foundation Board of Directors for final consideration and approval.

#### 5. **Asset Managers (currently, IEEE)**

The Asset Managers are responsible for the day to day management of the investments, which includes:

- Evaluating market conditions;
- Developing and executing strategies;
- Executing trades;
- Preparing monthly reports.
- To the extent assets are invested in the IEEE Long Term Investment Fund, IEEE as Asset Manager is responsible for determination and implementation of the asset allocation.

#### 6. **Staff**

Staff is responsible for overseeing policy execution, and monitoring investment activity for compliance with policy. Staff will invest the Funds in the long-term pool or short-term pool according to expected duration.

#### 7. **Auditors**

The external auditor evaluates the control environment relative to the investment policies and procedures.

### **IOM.5 - ABOUT INVESTMENT FUNDS**

1. In November 2010, the IEEE Foundation decided to primarily deposit its investment assets into the IEEE Long Term Investment Fund and IEEE Concentration Banking program. Subsequently, in June 2018, the IEEE Foundation extended its short-term investments to include U.S. Treasury Bills and U.S. Treasury Notes with maturities up to and including 3 years. (See IOM.2 for breakdown).

#### A. **IEEE Long Term Investment Fund**

The Long Term Investment Fund is invested in an asset allocation mix approved by the IEEE Board of Directors - based on the recommendation of the IEEE Investment Committee.

IEEE staff monitors external manager compliance with the investment guidelines, including asset mix ranges. In the event that a Manager deviates from the IEEE Investment Funds Guidelines, IEEE staff will advise the Manager to take corrective

action. If the Manager feels that there is just cause for staying outside the Guidelines, Staff will report same to the IEEE Investment Committee Chair, who will then recommend if remedial action, including a conference call with the Investment Committee, is necessary. (Investment Guidelines & Objectives - Investment Fund).

## **B. Short-Term Investment Pool**

Short-Term Investment Pool in an asset allocation mix approved by the IEEE Foundation Board of Directors and defined in IOM.7.2.B. IEEE Staff shall monitor the Short-Term Investment Pool to ensure compliance with IOM7.2.B. In the event, the percentage are out of set parameters, the Treasurer and appropriate IEEE Staff shall take corrective action. If the Treasurer and appropriate IEEE Staff feels there is just cause for staying outside of the set parameters, the Treasurer and IEEE Staff shall provide a case for support for the Finance Committee to consider on how to proceed.

### **1) IEEE Concentration Bank**

The IEEE Concentration Banking Program is a bank account with unlimited check writing privileges, paying a higher rate of interest than traditional business checking accounts. Interest is paid based on the monthly 6-month CD rate.

### **2) U.S. Government Treasury Instruments**

U.S. Government Treasury Bills and Notes with maturities up to and including three years (3 years) generally pay higher interest rates than the IEEE Concentration Banking Program and are considered "risk free" if held to maturity.

## **2. Purposes**

The purposes of the IEEE Investment Funds are to:

- Enhance IEEE's financial condition;
- Enable IEEE to maintain fiscal solvency, particularly in the face of unusual or catastrophic internal or external business and financial events;
- Fund initiatives; and
- Grow reserves to a prudent level.

## **3. Objectives of the IEEE Investment Policy**

The primary objective of IEEE's investment policy is the protection of IEEE's (inflation adjusted) assets. In a manner that is consistent with the primary objective, the secondary objective shall be to maximize the total return on the IEEE Investment Fund's assets.

## **4. Investment Time Horizon**

The IEEE investment policy is based on the following investment time horizon:

Long Term Investment Fund: 10 years

The strategic asset allocation of the Long Term Investment Fund is based on a ten-year perspective. The IEEE Board recognizes that market performance can vary widely in the short-term and that any specified rate of return target will not be obtained during all periods.

## **IOM.6 - SPENDING RULE**

### **1. Spending Rule (Defined)**

A "spending rule" has two major functions:

1. It provides an organization with a disciplined approach for determining the amount of money the organization can make available each year from reserves in order to support ongoing operational needs, and fund planned and ongoing initiatives.
2. It establishes a nominal (after inflation) required rate of return for the investment portfolio which reflects the IEEE Foundation's risk tolerance. The required rate of return is equal to the IEEE Foundation's expected rate of spending, expressed as a percentage of the average of the investable assets at the end of each of the preceding three calendar years, plus the anticipated rate of inflation.

The expected rate of return on the IEEE Foundation's investments may be equal to or greater than the required rate of return, provided that the risk of such a portfolio is consistent with approved investment guidelines and objectives.

The actual rate of return on the portfolio for any given year will include dividends, interest and realized and unrealized gains and losses. The actual rate of return on the portfolio in any given year may vary widely from the expected rate of return; objectives will be considered to have been met provided that the the actual rate of return meets the expected over a long term time horizon.

There is no stated rate of return target for the short-term investment pool. The amounts required in the short-term investment pool are for annual cash flow needs and non-endowment Funds with durations of less than 10 years. These amounts shall be calculated annually.

The IEEE Foundation Finance Committee is responsible for recommending to the IEEE Foundation Board the appropriate level of spending for each year. Unless a gift instrument states differently, in making its recommendation to the Board, the IEEE Foundation Finance Committee shall take into account the factors outlined in IOM.1 (if relevant).

### **2. Appropriation for Expenditure**

#### **A. Endowment Funds**

Subject to the intent of a donor expressed in the gift instrument, the IEEE Foundation may appropriate for expenditure or accumulate so much of an endowment fund as the Board determines is prudent for the uses, benefits,

purposes, and duration for which the endowment fund is established. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the Board. In making a determination to appropriate or accumulate, the Board shall act in good faith consistent with IOM.1 and shall consider, if relevant, the following factors:

- (1) the duration and preservation of the endowment fund;
- (2) the purposes of the IEEE Foundation and the endowment fund;
- (3) general economic conditions;
- (4) the possible effect of inflation or deflation;
- (5) the expected total return from income and the appreciation of investments;
- (6) other resources of the IEEE Foundation;
- (7) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the IEEE Foundation; and
- (8) this investment manual.

For each determination to appropriate for expenditure, the IEEE Foundation shall keep a contemporaneous record describing the consideration that was given by the Board to each of the factors enumerated in this paragraph.

## **B. Other Funds**

Absent a delegation of expenditure authority (described below) or an IEEE Foundation Board of Director approval of override action, spending from a Fund, other than an endowment fund, that is intended to provide long-term support with an expected duration of 10 years or greater shall generally be limited to 4% net of Investment and Administrative Fees, of the prior 3 year investment average balance. This self-imposed restriction does not apply to Non-Endowment Funds. Spending Rule Rate review shall occur approximately every three years.

## **C. Delegation of Expenditure Authority to IEEE Units**

***The Foundation Board may delegate expenditure authority for Foundation Funds to an accountable IEEE organizational unit. The terms and conditions attending such delegation of authority shall be set forth in an agreement describing the purposes for which expended funds are to be used, the specific and appropriate thresholds for both discrete (individual) expenditures and cumulative expenditures, the guidelines that shall govern the expenditure decisions by the organizational unit to which this authority is delegated, the requirements for documentation and support of expenditures and the requirements for periodic reports on the use of funds to the Foundation Board.(Policy 3.2.A.7)***

Any delegation of expenditure authority issued by the Board must be in accordance with this IOM.

## **IOM.7 - ASSET ALLOCATION, PERMISSIBLE RANGES, AND RE-BALANCING.**

### **1. Overview**

Management and investment decisions about an individual asset shall not be made in isolation but rather in the context of the portfolio of investments as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the fund and to the IEEE Foundation.

The Board shall diversify the investments of the IEEE Foundation's funds unless the Board prudently determines that, because of special circumstances, the purposes of the IEEE Foundation's funds are better served without diversification. The Board shall review a decision not to diversify as frequently as circumstances require, but at least annually.

Within a reasonable time after receiving property (see IOM.3 for Gifts of Securities), the Board shall make and carry out decisions concerning the retention or disposition of the property or to rebalance a portfolio, in order to bring the IEEE Foundation's funds into compliance with the purposes, terms, and distribution requirements of the IEEE Foundation as necessary to meet other circumstances of the IEEE Foundation and the requirements of this article.

### **2. Asset Allocation, Permissible Ranges**

#### **A. IEEE Foundation Long Term Investment Pool**

The strategic asset mix targets for IEEE Foundation long-term investment pool shall be approved by the IEEE Foundation Board of Directors upon the advice of the IEEE Foundation Finance Committee. It is anticipated that generally the IEEE Foundation's long-term investment pool allocation parameters will mirror the IEEE Long Term Investment Fund (Appendix A contains the current strategic asset allocation and permissible ranges for its long term investment portfolio.). The appropriateness of the IEEE Foundation asset allocation parameters will be reviewed on a basis outlined in IOM.4.

The asset allocation will be established so as to achieve an average annual overall rate of return on net investments over 10 years of at least 6% or 3.7% above the corresponding rate of inflation as measured by the U.S. Consumers Price Index (CPI), whichever is greater. For annual budgeting purposes, a flat 6% return on investment assumption shall be utilized. A review of the annual rate of return shall occur approximately every 3 years.

#### **B. IEEE Foundation Short Term Investment Pool**

At time of purchase of Treasury investment(s), a combined maximum twenty percent (20%) holdings of U.S. Treasury Bills and U.S. Treasury Notes, with maturities up to and including three years, is to be held within the Short Term Investment Pool. The

IEEE Concentration Bank assets shall constitute no less than eighty percent (80%) of the Short Term Investment Pool assets.

3. **A. IEEE Foundation Long Term Investment Pool - Re-balancing**

In the event that the IEEE Long Term Investment Fund investment objectives and/or asset allocation differ significantly from those stated in IOM.2 and Appendix A, respectively, the IEEE Foundation Finance Committee shall consider an appropriate remedy. This remedy may include re-positioning none, all, or part of its assets to achieve a re-balanced portfolio in line with its investment objectives and approved asset allocation.

3. **B. IEEE Foundation Short Term Investment Pool – Re-balancing**

At least annually, the IEEE Foundation Finance Committee shall be provided with an analysis of the IEEE Foundation Short Term Investment Pool. This analysis shall include dollar amount of assets to re-position to achieve a re-balance to satisfy IOM.2.2 and IOM.7.2.B. The re-positioning of assets may occur in multiple phases to achieve optimal performance.

**IOM.8 – INVESTMENT PERFORMANCE & RESTRICTIONS**

1. **Performance Benchmarks**

Provide medium-term (3 to 7 years) returns that are equal to or better than the IEEE approved benchmark - composite index as shown in Appendix A.

2. **Investment Restrictions**

- A. Investments shall be limited to readily marketable securities. There shall be no SEC unregistered securities, private placement except those classified as 144(a), venture capital, or investments in real or personal property.
- B. There shall be no leverage used in the Fund.
- C. No purchases shall be made in securities issued by the investment manager or any of its affiliates.
- D. All money market securities shall have a rating of "A1" or "P1" or equivalent at the time of purchase.
- E. No equity securities of a single issuer, or its affiliates, shall comprise more than 5% of the equity portion of any investment manager.
- F. Equity holdings in American Depository Receipts (ADR's) and other U.S. dollar denominated foreign securities, listed on U.S. exchanges or on NASDAQ, must not exceed 20% of the portfolio, measured at market value.
- G. All equity portfolios are to be fully invested at all times, with Cash and Cash Equivalents not to exceed 5% of the total market value of the account. This maximum of 5% may be temporarily (not to exceed 30 calendar days) exceeded as a

result of a sale of securities, or when newly allocated funds are received into the account. The Investment Managers cannot exceed these guidelines, except as noted above, without the prior written approval of an authorized IEEE representative.

- H. IEEE Foundation may invest in commingled, pooled or mutual funds. Investments in commingled, pooled or mutual funds are governed by the guidelines, prospectus or characteristics of the fund.

### **IOM.9 - SAFEKEEPING AND CUSTODY**

To safeguard the separate investment assets of the IEEE Foundation, the investments shall be held in custody at a bank or financial institution approved by the IEEE Foundation Board of Directors. This responsibility for IEEE Foundation funds invested in the IEEE Long Term Investment Fund and IEEE Concentration Banking program shall be delegated to the IEEE Board of Directors.

### **IOM.10 - MONITORING AND REPORTING**

#### **1. General**

Investment reports shall be provided to the IEEE Foundation in a form and on a schedule approved by the IEEE Foundation Finance Committee.

Staff shall provide a report on investment performance, measured both against the investment objectives and benchmarks for comparable investments, at each IEEE Foundation Board of Directors' meeting.

#### **2. IEEE Investment Funds (Reporting)**

- A. Monthly and quarterly investment reports shall be provided to the IEEE Foundation Finance Committee.
- B. Reports of IEEE Investment Funds performance shall include the expenses of the Fund, including both the internal and external expenses, the expense ratio, and the gains or losses after the expenses are deducted from the assets. The expenses charged to infrastructure costs shall also be included in the report.
- C. Reports shall include: a) the return on the IEEE Long Term Investment Fund, b) the return on the Operational Cash Fund, and c) the return on the total Investment Fund.

#### **3. Short Term Investment Pool (Reporting)**

The IEEE Foundation Finance Committee shall be provided with an annual repositioning analysis report on the IEEE Foundation Short Term Investment Pool. This report shall include dollar amount of assets to re-position to achieve a rebalance to satisfy IOM.2.2 and IOM.7.2.B. The annual repositioning analysis report shall include a recommendation on how much to increase or decrease holdings in U.S. Treasuries within the parameters outlined in IOM.7.2.B and shall also include current interest rates of IEEE Concentration Bank and U.S. Treasuries, as well as fees associated with such investments.

## IOM.11 - CONFLICT OF INTEREST POLICY

### 1. General

- A. ***For the purposes of this Code, conflict of interest is defined as any situation in which (i) a member of the IEEE Foundation Board of Directors, any Officer or volunteer or other person serving the IEEE Foundation in some capacity is in a position to make decisions or cast votes that could substantially and directly, or indirectly, affect any such person's personal, financial or business interests or (ii) any such person has a fiduciary responsibility to another organization. All such persons shall avoid situations and activities where their personal interests could conflict, or reasonably appear to conflict, with the interests of the IEEE Foundation. Members of the Board of Directors have a duty to avoid being controlled by another entity in the exercise of his or her duties, shall agree not to exercise his or her duties in order to benefit any individual or interest other than the IEEE Foundation's interest, and shall abstain from voting on a matter in which he or she has a financial interest. It is the responsibility of all persons in any elected, appointed or volunteer position of an IEEE Foundation activity to determine if a conflict or perceived conflict of interest may exist. Any such recognized potential conflict shall be made known immediately to the person in charge of the activity (or to the next higher authority if the affected individual is in charge) who, after consultation with the President and the other individuals in the activity, will advise the affected individual of the proper course of action and cause a notation of the action to be entered in the activity's record. (Policy 1.4)***
- B. All Directors, Officers, and Committee members shall complete the combined IEEE Foundation Principles of Business Conduct Compliance Certificate and Conflict of Interest Disclosure Statement within 30 days of assuming his/her position. Failure to submit a form shall result in automatic removal from service on the Board of Directors or Committee. It shall be the responsibility of the Board of Directors or Committee Chair to inform such individuals that they have been removed from service for failure to complete the form and to notify the IEEE Foundation Audit Committee of such action. The IEEE Foundation Audit Committee shall notify the IEEE Foundation Board of Directors of all individuals removed from service at the next regularly scheduled Board of Directors meeting. Staff who have authority to make or incur financial expenditures, or who have other responsibilities that could represent a potential conflict of interest as determined by the Audit Committee, shall submit a combined IEEE Foundation Principles of Business Conduct Compliance Certificate and Conflict of Interest Disclosure Statement by 1 February of each year.
- C. All responses shall be reviewed by IEEE Operations Audit acting on behalf of and under the direction of the IEEE Foundation Board of Directors. IEEE Operations Audit shall provide to the IEEE Foundation President, Chairs of the IEEE Foundation Committees, and staff managers a listing of each of their subordinates who responded "No" to all questions. This listing provides an opportunity for another level of review to ensure that all potential conflicts are disclosed, and helps ensure that everyone who should have completed an IEEE Foundation Principles of Business Conduct Compliance Certificate and Conflict of Interest Disclosure Statement did so.

“Yes” responses shall be reviewed by IEEE Operations Audit. An explanation of the potential conflict, along with a suggested process to manage the conflict, shall be provided to the respondent’s superior. Follow-up will be done with the superior until the conflict is satisfactorily resolved.

## 2. **Key Guidelines Specific to IEEE Foundation Finance Committee**

The following guidelines are intended to be more specific to the activities of the IEEE Foundation Finance Committee.

- A. In all instances regarding potential conflicts of interest, materiality should be considered.
- B. If a member has either a direct or indirect personal interest in any item under the purview of this IEEE Foundation Finance Committee, it should be disclosed to the next higher authority as appropriate.
- C. In cases where new business may be awarded to a firm in which a member has either a direct or indirect personal interest, the member should excuse himself / herself from the meeting, and refrain from voting.

## **IOM.12 – INVESTMENT BUSINESS CONTINUITY PLAN (IBCP)**

### 1. **Sudden, Significant, Unstable, Investment Environment**

Should a sudden, significant, unstable, investment environment occur, the President, First Vice President, and treasurer, by majority vote, may authorize a temporary change in investment objectives and/or diversification to be in force until the next scheduled meeting of the Board. For investment assets held in the IEEE Long Term Investment Fund, IOM.12.3 shall govern.

### 2. **Withdrawal of Funds Availability from IEEE Long-Term Investment Fund**

In the event the IEEE Foundation chooses to withdraw all or a portion of its assets held in the IEEE Long-Term Investment Fund, the conditions outlined in the Investment Service Agreement between IEEE and IEEE Foundation govern as follows:

- A. 30 Days Notice to IEEE - The IEEE Foundation may withdraw up to 5% of the funds deposited.
- B. 90 Days Notice to IEEE – The IEEE Foundation may withdraw 100% of the funds deposited.

### 3. **Investment Business Continuity Plan. (IBCP) for assets held in IEEE Investment Funds**

For assets held in the IEEE Investment Fund, the IEEE shall have an Investment Business Continuity plan. This plan is outlined in IEEE Policy 11.3.A and will be reviewed as part of the IEEE Foundation Finance Committee’ annual review outline in IOM.4.

If the IBCP as outlined in IEEE Policy 11.3.A is triggered, the IEEE Foundation Treasurer or designate shall report the outcome of the emergency meeting to the IEEE Foundation President, First Vice President and all IEEE Foundation Board Members

prior to a vote on any action by the IEEE Foundation Board of Directors on whether to withdraw assets from the IEEE Long Term Investment Fund resulting from a sudden, significant, unstable, investment environment.

### **IOM.13 – DELEGATION OF MANAGEMENT AND INVESTMENT FUNCTIONS TO OUTSIDE AGENTS**

The Board shall be diligent in assessing the independence of any outside investment agent, both before and after retaining them. Outside investment agents shall be selected based on the agent's competence, experience, past performance, and proposed compensation.

Outside investment agents shall not be selected based on any business or personal relationships between the agent and board members or other insiders. Board members shall assess and monitor investment performance and risk, without regard to any relationships with an outside investment agent. Before retaining an agent, the Board shall consider whether any business or personal relationships would reasonably be expected to interfere with the ability of the Board to provide proper oversight.

In accordance with the IEEE Foundation's Conflict of Interest policy described in IOM.11, a Director shall disclose to the Board any relationships with outside investment agents that could reasonably be expected to interfere with the ability of the Board member to provide proper oversight.

## **REFERENCES**

The IEEE Foundation Policy and Procedures Manual is available on the IEEE Foundation website.

Consumer Price Index (CPI), <http://www.bls.gov/cpi/home.htm>

## Appendix A Strategic Asset Allocation

The strategic asset allocation mix targets for the IEEE Foundation Long Term Investment pool mirror IEEE's Strategic Asset Allocation and are as follows:

<b>Asset Class</b>	<b>Neutral Points</b>	<b>Ranges</b>	<b>Benchmark</b>
U.S. Equities Large Cap	36%	30% - 42%	Russell 3000
U.S. Equities Small Cap	6%	4% - 8%	Russell 3000
Non U.S. Equities	16%	10% - 22%	MSCI ACWI ex U.S.
Real Estate	9%	5% - 13%	NCREIF – ODCE
TIPS	5%	3% - 7%	Barclays 1 – 10 Yr
U.S. Fixed Income	28%	23% - 33%	Barclays Aggregate

The strategic benchmark for the portfolio is calculated by multiplying the monthly performance of each asset class benchmark times the target allocation percentage as specified by the target, and summing the result.

## Appendix B Definitions

**Endowments Fund (permanently restricted)** – is established when the donor requires all or a specified portion of the gift to be preserved in perpetuity, and not wholly expendable on a current basis.. The term does not include assets that the IEEE Foundation may designate for its own use, consistent with the terms of the applicable gift instrument. (Policy 6)

**Non-endowment Term Fund**– is established for restricted gifts made to fund donor-designated purposes for a specified period of years and allow the IEEE Foundation to expend the principal as needed to fund such purposes. Such gifts may be made either as a single contribution or in the form of a pledge to make periodic payments over a specified period of years. (Policy 6)

**Quasi-endowment Fund** –describes gifts that the Foundation and the donor have agreed will be treated as though they were endowments until such time as the Foundation determines it is appropriate to expend the principal consistent with donor-specified purposes, if any. The term “quasi-endowments” is also used to describe funds established by the Foundation for specific purposes that are to be treated as though they were endowments (principal preserved) until the Foundation Board of Directors no longer wishes to do so. Quasi-endowments are not endowments under applicable legal definitions, and consequently are not subject to the laws governing the administration of endowments. Thus, quasi-endowment funds differ from true endowment funds in that the original gift as well as the investment return may be expended consistent with the terms of the Gift Agreement. Consequently, quasi-endowments are classified by the Foundation for accounting purposes as funds with donor restrictions, with the Foundation having the authority under the Gift Agreement to expend the principal to achieve the donor’s purposes, as the Foundation deems appropriate. (Policy 6)

**Term Endowments** – Term endowment funds are established when the donor requires all or a specified portion of the principal of the gift to be preserved for a specified period of years or until some event occurs. Income and appreciation (with “appreciation” for these purposes defined as realized appreciation, and for readily marketable securities, unrealized appreciation) in the fair value of the assets of the fund, as is prudent, may be expended consistent with the donor’s restrictions. (Policy 6)

**Unrestricted Gifts** – The Foundation uses the term “unrestricted gift” to refer to gifts made without donor-imposed restrictions as to their use. Unrestricted gifts are held in the IEEE Foundation General Fund or may be designated for a specific purpose and segregated from the General Fund by action of the Foundation Board of Directors. Such funds may be expended at the discretion of the IEEE Foundation Board of Directors only for uses consistent with the purposes of the Foundation as set forth in its charter – to further the educational and scientific purposes of the IEEE.

## Appendix C Glossary of Investment Terms

Following is a glossary of some of the common terms related to investments.

**Active Management.** A process whereby securities held in an investment portfolio are frequently examined and traded as conditions change, presenting new market opportunities.

**American Depository Receipts (ADRs),** A stock representing a specified number of shares in a foreign corporation. ADRs are bought and sold in the American markets just like regular stocks. An ADR is issued by a U.S. Bank, consisting of a bundle of shares of a foreign corporation that are being held in custody overseas. ADRs are listed on either the NYSE, AMEX, or NASDAQ.

**Annualize.** To convert to an annual basis. For example, if a fund earns 1% in a month, it would earn 12% on an annualized basis, by multiplying the monthly return by 12.

**Annual return.** TOTAL RETURN per year from an investment, including dividends or interest and capital gains or losses, but excluding commissions and other transactions, costs and taxes. A *compound annual return* represents the annual rate at which money would have to compound to reach the cumulative figure resulting from annual total returns.

**Appreciation.** The increase in an asset's value from one reporting period to another or the date of purchase.

**Asset Allocation.** Apportioning of investment funds among categories of assets, such as between cash, stocks, and bonds.

**Basis point.** A unit equal to 1/100 of one percent. There are 100 basis points in each percentage point.

**Benchmark.** An index derived from database information which allows for comparative performance evaluation within an asset class. For example, a U.S. Equity portfolio may be evaluated against the S&P 500 Index.

**Capital gain.** The amount by which the net proceeds from resale of a capital item exceeds the book value of the asset.

**Cash and Cash Equivalents.** Paper currency and coins, negotiable money orders and checks, and bank balances and instruments or investment of such high liquidity and safety that they are virtually as good as cash. The Financial Accounting Standards Board (FASB) defines cash equivalents as any highly liquid security with a known market value and a maturity, when acquired, of less than three months.

**CPI (Consumer Price Index).** An indicator of the general level of prices. It attempts to compare the cost of purchasing the market basket bought by a typical consumer during a specific period with the cost of purchasing the same market basket during an earlier period.

**Credit Quality.** A measurement of a company's ability to repay a debt obligation. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Measurement is usually based on ratings from agencies such as Moody's and Standard & Poor's. Each agency has its own system of

rating the degree of short- and long-term **credit risk** associated with a particular company or security (e.g., S & P ratings of AAA, AA, A). Generally, the higher the credit quality, the lower the interest rate paid by the issuer because the risk of default is lower. See Appendix B for a fuller explanation of the various debt ratings.

**Credit Risk.** Refers to the risk that the issuer or backer will default in the payment of interest and/or principal on a security.

**Current yield.** Annual income divided by the current price of the security; annual return.

**Custodian.** A financial institution that physically holds and safeguards the security certificates, or other assets of a customer. Custodians often act as intermediaries between the investment purchaser and seller, and provide a number of services including record keeping and settlement of trades.

**Diversification.** The spreading of risk by dividing an investment portfolio into multiple categories of instrument types by sector, maturity and quality rating (e.g., stocks, bonds, and money market funds).

**Duration.** A measure of the price sensitivity of a bond to changes in interest rates. Duration is the average time, in years, to the receipt of all cash flows from a debt security. These cash flows are weighted by their relative value.

**EAFE.** Acronym for the *Europe and Australasia, Far East* equity index calculated by Morgan Stanley Capital International (MSCI) group.

**Emerging Markets.** Capital markets, usually stock markets that are relatively new and underdeveloped. Usually located in countries with lower per capital incomes compared to the more developed Western economies. Although the definition varies from institution, countries such as Mexico, Brazil, Chile, Thailand, Russia, the Philippines, etc. are usually included. One widely used index is the *Emerging Markets Free (EMF) Index* by Morgan Stanley Capital International.

**Fiduciary.** The designation of a person who holds something in trust for another. It defines the level of responsibility of trustees, advisers, managers and consultants who act in a co-fiduciary capacity to their institutional clients. ERISA defines a fiduciary as any person who: (1) exercises any discretionary authority or control over a plan's management or disposition of its assets; (2) renders investment advice for a fee or other compensation with respect to plan funds or property; or (3) has any discretionary authority or responsibility in a plan's administration.

**Futures.** An agreement to buy or sell a specified amount of a commodity or financial instrument at a particular price on a stipulated future date.

**GAAP (Generally Accepted Accounting Principles).** Accounting guidelines established by the Financial Accounting Standards Board (FASB).

**Index.** Composite measure of returns for securities in a specific market or market sector. Various benchmarks to measure a portfolio's performance. Each is composed of a group of assets that have a common quality or purpose, and are intended to represent that sector of the market that has those similar qualities.

**Interest Rate Risk.** The risk that market value will fall due to changes in general interest rates. This could cause an investment in a fixed-income security to increase or decrease in value inversely to the change in interest rates.

**Investment.** The outlay of money usually for income or profit. Also, property or another possession acquired for future financial return or benefit. The IEEEE's investments at year-end are the amount shown on the audited financial statements.

**Investment Time Horizon.** The length of time a sum of money is expected to be invested. An organization's investment horizon depends on when and how much money will be needed, and the horizon influences the optimal investment strategy. In general, the shorter the investor's horizon, the less risk the investor should be willing to accept.

**Leverage.** Any process that compounds a risk. More specifically, it is any process that increases exposure to a source of risk. Derivative instruments are effective tools for leveraging a portfolio, because they provide exposure to an underlying security for little or no capital investment. Purchasing securities with borrowed funds is another means of leveraging a portfolio. The use of debt or debt-like instruments to enhance the financial position is also leverage. In investments, it is a means of enhancing return or value without increasing the equity position. Buying securities on margin is an example of leverage with borrowed money. If the investment makes a higher return than the cost of the debt, then the leverage increases return. On the other hand, leverage increases risk, since if the investment makes less than the cost of the debt, returns are reduced or, at the extreme, the investment is wiped out.

**Liquidity.** The ability of an organization to convert assets into cash in a timely manner without a significant risk of loss. The amount of liquidity needed will vary based upon each organization's needs and may depend on the industry to which it belongs. For example, brokerage firms typically need more day-to-day liquidity than wholesale distribution companies.

**Long Term Investment Fund.** The portion of the IEEEE Investment Fund invested in an asset allocation mix approved by the Board, based on the recommendation of the Investment Committee.

**Market Risk.** The part of a security's total risk that is related to movements in the market portfolio and, therefore, cannot be diversified away. Also called systematic risk.

**Mark to Market.** The adjustment of the value of a security or portfolio to reflect current market values.

**Net return.** Returns to investors net of fees to advisers or managers

**Non-Reserves.** Funds available for investment in addition to the reserves. At year end, for example, the non-reserves consist primarily of prepaid subscriptions and membership dues.

**Operational Cash Fund.** The amount of funds the IEEEE needs to meet its operational cash flow requirements. In a given year the balance of this Fund will fluctuate according to the Institute's operational cash flow needs and will be invested in cash equivalent investments that incur no risk of capital loss.

**Operational Risk.** The risk of losses resulting from inadequate or failed internal processes, people and systems or from external events.

**Performance Measurement.** The measurement of an investment's performance, in terms of individual assets, advisers/managers, or portfolio.

**Relative Returns.** Returns that are measured against an established benchmark.

**Reserves.** The total accumulated surpluses of all IEEE Organizational Units. These are generally comprised of all the items in the IEEE Balance Sheet including Investments, Receivables, Inventory and Fixed Assets (PP&E). These items are offset by Liabilities including Payables, Deferred Income from Subscriptions and Membership Dues, prepaid by customers, members and other various Accrued Liabilities.

**Return.** The earnings (interest and dividends +/- capital appreciation) resulting from invested capital. This is often stated in percentage terms as the ratio of earnings to principal (adjusted for time).

**Risk Tolerance.** An organization's willingness to assume additional risk in order to increase the potential return on an investment.

**Total Return.** The combination of cash flow income received and appreciation or depreciation in price of the security over a period of time.

**Volatility.** The size and frequency of movement in the price or value of a security or other investment instrument