

AUTM Policy: Investment

Initially approved by the AUTM Board of Directors on October 1999



This AUTM Policy was amended by the AUTM Board of Directors on the following date(s):

November 2003; November 2005; January 2007; May 2008; July 2012; September 2013; January 2017; February 2018; May 2018

Introduction

This statement of investment policy has been adopted by the Board of Directors of AUTM to provide guidelines for the investment of funds held by the Association and guidance for AUTM's Investment Consultant.

In order to manage investment risk and to optimize investment returns within acceptable risk parameters, AUTM has established two investment pools: the "Short-Term Fund" and the "Long-Term Fund". This statement describes general procedures that affect the overall management of these funds and provides specific guidance on the purpose of the funds and how they are to be administered.

General Procedures

1. The following procedures will be followed to ensure the Investment Policy statement is consistent with the current mission of AUTM and accurately reflects the current financial condition:

- A. This Investment Policy Statement shall be reviewed annually by the Treasurer and the Investment Committee.
- B. Recommendations for any revisions or modifications will be brought by the Treasurer to the Board of Directors for approval.

The following procedure will be used to determine the dollar amounts to be placed in the Short-Term Fund and the Long-Term Fund.

- A. Treasurer, with input from the Investment Committee, will recommend the dollar amounts to be placed in the Short-Term and Long-Term Funds. These recommendations will be based on advice from the Chief Executive Officer and/or the Investment Advisor and will be based on the strategic direction supplied by the Board of Directors.
- B. The Executive Committee will have final approval of the dollar amounts placed in the Short-Term and Long-Term Funds.

2. An Investment Consultant will be secured to provide AUTM with investment advice and portfolio management services. This individual will be authorized to act under the direction of the Treasurer. The procedure below shall be followed to engage a new or replace a current investment consultant:

- A. The Investment Committee will recommend the hiring or replacement of an Investment Consultant to the Treasurer.
- B. The Treasurer will review and bring the recommendation to the Board of Directors for approval.

3. The procedures for modifying AUTM investment positions will be as follows:

- A. Rebalancing Investments
 - a. Rebalancing investment positions in existing investments shall be recommended by the Investment Consultant and approved by the Investment Committee and Treasurer.
 - b. The Treasurer will notify the Executive Committee of the Board of Directors of any such changes within 45 days.
- B. Selling/Buying Investments
 - a. The Investment Consultant will recommend changes in investments to the Treasurer and the Investment Committee.
 - b. The Treasurer and the Investment Committee will have the responsibility to review and the authority to approve these recommendations.
 - c. The Treasurer will notify the Executive Committee of the Board of Directors of any such changes within 45 days.

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AUTM SHORT-TERM FUND

PURPOSE

The purpose of the Short-Term Fund is to meet the expenses occurring as the result of unanticipated activities or revenue shortfall, to improve the return on funds held for expenditure over the next one to three years, and to manage investment risk. The amount of the Short-Term Fund shall be the amount to reasonably cover non-cancelable commitments associated with AUTM events during the year.

The Investment Committee will request from AUTM staff an estimate of such non-cancelable commitments at the beginning of each year to be used as a guideline to assist in determining the size of this fund.

INVESTMENT OBJECTIVES

The investment objectives of the Short-Term Fund are:

1. Liquidity;
2. Preservation of capital; and
3. To optimize the investment return within the constraints of the policy.

INVESTMENT GUIDELINES

ALLOWABLE INVESTMENTS

The Treasurer is authorized to invest the AUTM Short-Term Fund as follows:

1. Money market funds that invest in government-backed securities;
2. U.S. Federally insured certificates of deposit not to exceed applicable FDIC limits per institution;
3. Direct obligations of the U.S. Government, its agencies and instrumentalities;
4. Commercial paper rated A 1/P 1 by Standard & Poor's and Moody's;
5. Corporate notes with a minimum rating of investment grade by at least one rating service; and
6. Mutual funds invested in investment grade or U.S. Government obligations with an average maturity of five years or less.

MATURITY

The Short-Term Fund should have a weighted average maturity of three years or less. A maximum amount of \$300,000 should be available in the Short-Term Fund.

REPORTING

The Investment Consultant will prepare reports for presentation on at least a quarterly basis to the Treasurer and the Investment Committee which will include such information as:

1. Schedule of investments;
2. Interest income and principal appreciation year to date; and
3. Current yield.

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AUTM LONG-TERM FUND

PURPOSE

The purpose of the Long-Term Fund is to enhance the purchasing power of funds held for future expenditure and to maintain the financial stability of the Association.

INVESTMENT OBJECTIVES

The objectives of the portfolio represent a long term goal of maximizing returns without exposure to undue risk, as defined herein. It is understood that fluctuating rates of return are characteristic of the securities markets. The primary concern should be long term appreciation of the assets and consistency of total return on the portfolio. Recognizing that short term market fluctuations may cause variations in the account performance, the goal for the return from the portfolio is to achieve the following objectives over a three-year moving time period:

1. The account's total return will be expected to exceed the increase in each of the Consumer Price Index and the Treasury Bill Index by 3% annually. On a quarter-to-quarter basis, the actual returns will fluctuate and can be anticipated to exceed the target about half the time.
2. Understanding that a long term positive correlation exists between performance volatility (risk) and statistical returns in the securities markets, the following short term objective is established:

The portfolio should be invested to minimize the probability of low negative total returns, defined as a one-year return worse than negative 10%. It is anticipated that a loss greater than this will occur no more than once in twenty years.

INVESTMENT GUIDELINES

The investment policies and restrictions presented in this statement serve as a framework to achieve the investment objectives at the level of risk deemed acceptable. These policies and restrictions are designed to minimize interference with efforts to attain overall objectives, and to minimize the probability of excluding appropriate investment opportunities.

The Investment Committee will rely upon advice from the Investment Consultant that the elements of the funds which it holds are in accord with these guidelines.

The Long-Term Fund should offer liquidity within 48 hours without a significant penalty.

PROHIBITED INVESTMENTS

The following investments and investment activities are prohibited:

1. Private placements;
2. Letter stock;
3. Derivatives, however, to the extent that mutual funds are used by AUTM the mutual funds may buy or sell derivatives for the purposes of managing portfolio risk;
4. Commodities or commodity contracts; However, to the extent that mutual funds are used by AUTM the mutual funds may buy or sell commodities for the purposes of managing portfolio risk;
5. Short sales;
6. Margin transactions; and
7. Any speculative investment activities.

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DIVERSIFICATION

Individual stocks are subject to: a maximum 7% commitment at cost or 10% commitment of the accounts market value for an individual security and 20% for a particular industry in the case of a mutual fund. The Long Term Fund shall not be invested in excess of 20% of assets in one particular industry.

Individual bonds not guaranteed by the U.S. Government its agencies or instrumentalities are subject to a maximum 10% commitment at cost.

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LONG-TERM FUND TARGET ASSET MIX

The Long-Term Fund will be comprised of the asset classes listed in the table below. The target weight is the desired weight for each asset class. The minimum weights and maximum weights are to allow for normal market fluctuations. It will be the responsibility of the Investment Consultant to recommend a range of allocations for each asset class. The Investment Consultant is expected to rebalance the portfolio according to the target weights semi-annually.

ASSET CLASS	MINIMUM WEIGHT	TARGET WEIGHT	MAXIMUM WEIGHT
EQUITY			
U.S. Large Capitalization Stocks	25%	27%	35%
U.S. Mid Capitalization Stocks	5%	10%	15%
U.S. Small Capitalization Stocks	0%	5%	15%
International Stocks	10%	12%	15%
Real Estate Investment Trusts (REITs)	5%	6%	8%
TOTAL EQUITY	45%	60%	88%
FIXED INCOME			
U.S. Government/Corporate Intermediate Bonds	20%	30%	40%
International Bonds	0%	5%	10%
High Yield Corporate Bonds	0%	5%	10%
TOTAL FIXED INCOME	20%	40%	60%

EQUITIES

The equity asset classes should be maintained at risk levels roughly equivalent to the sectors of the market represented, with the objective of exceeding a nationally recognized index measuring the performance of the designated sector over a three-year moving time period net of fees and commissions. Mutual funds conforming to the policy guidelines may be used to implement the investment program.

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The following definitions will apply for the purposes of this policy:

U.S. Large Capitalization Stocks:

A portfolio of stocks composed primarily of US-based companies having a market capitalization, on average, exceeding \$6 billion and whose primary shares trade on a major US exchange. (Market Capitalization = Market Price × Number of Shares Outstanding)

U.S. Mid Capitalization Stocks:

A portfolio of US-based companies with a market cap between \$2 billion and \$6 billion.

U.S. Small Capitalization Stocks:

A portfolio of stocks composed primarily of US-based companies having a market capitalization, on average, of less than \$2 billion.

International Stocks:

A portfolio comprised primarily of stocks of non-US-based companies, the primary shares of which are traded on exchanges outside the US American Depository Receipts.

Commodities:

A portfolio comprised primarily of non-leveraged mutual funds that consist of commodities and commodity-related companies and whose primary shares trade on a US exchange.

Real Estate Investment Trusts:

A portfolio comprised of non-leveraged mutual funds that consist of purchased or managed income property and/or mortgage loans whose primary shares trade on a US exchange.

FIXED INCOME

Investments in fixed income securities will be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums. Mutual funds conforming to the policy guidelines may be used to implement the investment program. The Following definitions will apply for the purposes of this policy:

US Government/Corporate Intermediate Bonds:

A portfolio consisting primarily of fixed income securities denominated in US dollars issued by the US Government or US corporations having a weighted average maturity of less than 10 years.

High Yield Corporate Bonds:

A portfolio consisting primarily of bonds issued by US corporations and the majority of the bonds are rated below BBB/Baa.

International Bonds:

A portfolio consisting primarily of fixed income securities denominated in currencies other than US dollars. Issuers may be both governments and corporations.

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PERFORMANCE REPORTING

The Long-Term Fund will be evaluated quarterly on a total return basis. Returns will be compared to:

1. Consumer Price Index plus 3%;
2. Three-month Treasury Bill Index plus 3%; and
3. Nationally recognized indices measuring the performance of the classes specified in the target asset mix.

Comparisons will show results for the latest quarter, year to date and since inception. The report will be prepared by the Investment Consultant and will be presented to the Treasurer, the Investment Committee, and to members of the Board of Directors that request such reports on a quarterly basis

GLOSSARY

Non-Leveraged Fund:

A fund that does not invest on margin, meaning it does not buy without cash on hand to pay for purchases.

Open-Ended Fund:

A type of mutual fund that does not have restrictions on the amount of shares the fund will issue.