

PENNSYLVANIA BAR ASSOCIATION INVESTMENT POLICIES

**CASH MANAGEMENT / INVESTMENT
POLICIES / PROCEDURES
JUNE 17, 2002**

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PENNSYLVANIA BAR ASSOCIATION INVESTMENT POLICIES

CASH MANAGEMENT / INVESTMENT POLICIES / PROCEDURES

INTRODUCTION

PURPOSE - The investment policies approved by the Board of Directors ("Board") of the Pennsylvania Bar Association ("PBA") are meant to:

- a) Clearly define the framework for efficient and centralized control, management, and review of all of the cash and investment assets under the Institute's responsibility,
- b) Provide effective management, controls and superior investment performance results,
- c) Provide the Board, its Executive Director and the Finance staff with the reporting tools it needs to monitor and direct the overall management and control of these assets as well as to measure the resulting performance against pre-established norms, and
- d) Provide the Finance staff sufficient operating flexibility to effectively carry out the day-to-day management responsibilities assigned to them by the Executive Director while strictly adhering to all Board approved policies.

AUTHORITIES - All general investment authority for management of cash and investment assets under the control of PBA derives from its Board. All investment policies shall be approved by the Board, shall be reviewed by them at least annually, and shall be revised by them whenever appropriate.

The Board shall delegate direct supervision of all investment operating activity to a committee designated by the President of PBA. The committee in turn shall assign day-to-day operating responsibility to the Executive Director and through him to the Controller.

Through the Executive Director, the Controller shall have the authority to implement decisions and monitor management of the investment accounts within the strict parameters approved by the Board's policies. With the Executive Director's approval and within the committee's approved guidelines, the Controller may purchase / sell investment securities authorized within the parameters of the PBA investment policies. The Controller shall have the responsibility to report investment management activity and performance regularly to the Executive Director, the committee designated by the President of PBA and the Board.

PROCEDURES - Procedures have been established which enable the centralized management of each of the different cash and investment accounts under the control of PBA. A reporting system has been developed which incorporates diverse information pertaining to each of the varied accounts. The reporting system uses a standardized format. This format is meant to promote not only management ease for the Executive Director and the Controller, but also effective performance monitoring and control for the Executive Director, the committee designated by the President of PBA and the Board.

Investment activity shall be directed under the supervision of the Executive Director and monitored at regular meetings with the Controller. At those meetings the Controller shall examine reports covering the current status of each investment under the control of PBA. The Controller will regularly report all investment activities to the Executive Director and the committee designated by the President of PBA. These reports shall cover four pertinent areas:

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- 1) investment account balances and maturities
- 2) projections of cash needs for the investment accounts
- 3) current investment market information including rates/ yields
- 4) comparative investment performance information

METHODOLOGY - Separate policies will detail the specific guidelines for each investment account. Accounts to be included are as follows:

- General Fund Operating Account
- Intermediate Reserve Account
- Long-Term Reserve Account

Policy parameters will be addressed as follows:

Parameters which are consistent for all Accounts:

- 1) **Credit Quality** – All securities shall be of Investment Grade
- 2) **Investment Authorities** – Under the supervision of the Executive Director, the Controller shall have the authority to direct management of the General Fund Operating Account, the Intermediate Reserve Account, and the Long-Term Account within the parameters approved by the Board's policies. Reporting shall be to the Executive Director monthly and to the committee designated by the President of PBA on a regular basis at least quarterly.
- 3) **Investment Procedures** – Ongoing investment activity shall be managed by the Controller. Summary monthly status reports (i.e. - balance, maturity and returns) shall be obtained and reviewed and any recommendations shall be forwarded to the Executive Director.

Quarterly, Emerson Wickwire shall meet with the Executive Director, the Controller and a committee designated by the President of PBA to review the status of each PBA Account and to make specific recommendations as to the investment type, vehicle and maturity appropriate to meet the policies, procedures and parameters established herein. The reports shall include for each Account:

- a) current investment asset reports
- b) current cash needs projections
- c) current maturity schedules
- d) current investment yield curve data and summary of financial market trends
- e) current reports of deposits by financial institution
- f) current financial institution fee reports (as appropriate)
- g) current data on actual and comparative current yield of the assets

More frequent meetings may be held if market conditions warrant or significant changes occur in PBA operations.

Parameters which differ for each account:

- 1) **Account Size** (in relation to entire pool of PBA investments)
- 2) **Investment Objective** - (growth, income, safety, liquidity, rate of return)

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3) Approved Investments

- CASH
- FIXED INCOME
- EQUITIES
- OTHER

1) Maturity

2) Allocation of Assets

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GENERAL FUND OPERATING ACCOUNT

Account Size: Range will represent 30 %-45 % of total PBA investment assets with a minimum balance of \$2 0 million and a maximum balance of \$2.5 million.

Investment Objective - The General Fund Operating Account of PBA represents those cash flows (including routine operating and capital expenditures), which enable PBA to function on a daily basis. While PBA operates under a balanced annual budget, receipts and disbursements for each particular month of the operating year may not be in equilibrium. The timing of operating receipts and disbursement of these funds will fluctuate seasonally during the course of the year. Since it is the objective of PBA to render its disbursement obligations on a timely basis, liquid availability of General Fund Operating Account assets will be of primary importance. Therefore, safety of principal and liquid availability of the funds shall be the primary investment objectives. Within these parameters, however, PBA wishes to maximize the return available on these funds before their disbursement without exposing them to unnecessary risk. This will necessitate the control of disbursements timing as well as coordination of investment maturity in conjunction with available rates of return.

Policy Parameters Specific to This Account

1) Approved Investments

CASH

FIXED INCOME

U S Treasury Securities

U S Agency Securities

Bankers Acceptances

Certificates of Deposit

Repurchase Agreements (approved commercial bank)

Commercial Paper (A1-P1)

Bank Deposit Accounts - (approved banks)

Money Market Mutual Funds (those investing in the above)

EQUITIES

None

OTHER

None

2) Maturity

No more than 6 months maximum maturity

No more than 3 months average maturity

3) Allocation of Assets

Assets shall be invested 100% in cash and approved fixed income securities, taking strict account of scheduled cash disbursement projections. Special attention shall be paid to avoid risk of excessive concentration in specific maturities.

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INTERMEDIATE RESERVE ACCOUNT

Account Size: Range will represent 20% - 30% of total PBA investment assets but shall not exceed \$1.5 million. Account investments will be liquidated and transferred to General Fund Operating Account, should that account fall below \$1 million.

Investment Objective - The Board has designated the Board Reserve Account as that pool of investment assets which, while held in reserve to supplement contingency operating needs, can be reasonably segregated and invested for purposes of optimizing current income potentials while still maintaining adequate liquidity to meet PBA's contingency operating needs.

It is the investment objective of PBA for this account to maximize current income on its assets without exposing them to unacceptable credit or liquidity risks. Generation of current income in line with current market conditions as well as protection against loss of principal are both primary investment objectives for these assets. Since PBA's liquidity requirements may vary from time to time, management of account maturities will also take into account the likelihood of any new needs for contingent liquidity. To monitor and measure the investment performance of these assets in order to be certain that objectives are being adequately met, growth and total return will be compared with general bond performance indexes (i.e. - Russell Indices; SLGBF).

Policy Parameters Specific to This Account

1) Approved Investments

CASH

FIXED INCOME

U.S. Treasury Securities

U.S. Agency Securities

Bankers Acceptances

Certificates of Deposit

Repurchase Agreements (approved commercial bank)

Commercial Paper (A1-P1)

Bank Deposit Accounts - (approved banks)

Money Market Mutual Funds (those investing in the above)

Corporate Bonds (rated Baa or better by Moody's / Standard & Poors)

Fixed Income Mutual Funds (those investing in the above)

EQUITIES

None

OTHER

None

2) Maturity

No more than 10 years maximum maturity

No more than 30 months average maturity

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4) Allocation of Assets

2002 / 2003 policy targets

Cash	5%
Fixed Income	95%
Equities	0%

The following additional limits shall also apply:

Fixed Income:

*no more than 20% of total fixed income securities shall be invested to mature in any one month (except for maturities of 9 months or less which have been invested for liquidity purposes)

*no more than 10% of debt securities may be with any one issuer (except the U S Government and its Agencies which may be without limit)

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LONG-TERM RESERVE ACCOUNT

Account Size: Balance of PBA investment assets remaining after funding the General Fund Operating Account and the Board Reserve Account as provided herein

Investment Objective - The Board has designated the Endowment Account to serve as a major source of funding for future capital needs as well as a future source of income to supplement the funding needs of future programs which PBA may develop and designate. It is the objective of this account to provide reasonable and adequate growth during the next few years so as to meet future funding needs. Account investments should be structured to provide appropriate potential for long-term growth.

It is the investment objective of PBA for this Account to maximize long-term total returns on its assets without exposing them to unacceptable risk. Protection against loss of principal, consistent long-term growth as well as ability to generate future income are all primary investment objectives for these assets. Liquidity and current income shall rank second to these primary objectives. To monitor and measure the investment performance of these assets to be sure that objectives are being adequately met, growth and total return will be compared with general stock and bond performance indexes (i.e. S&P 500; Russell Indices; SLGBF)

Policy Parameters Specific to This Account

1) Approved Investments

CASH (as needed for transactional purposes only)

FIXED INCOME

U.S Treasury Securities

U.S Agency Securities

Bankers Acceptances

Certificates of Deposit

Repurchase Agreements (approved commercial bank)

Commercial Paper (A1-P1)

Bank Deposit Accounts - (approved banks)

Money Market Mutual Funds (those investing in the above)

Corporate Bonds (rated Baa or better by Moody's / Standard & Poors)

Fixed Income Mutual Funds (those investing in the above)

EQUITIES

NYSE and NASDQ Listed Equity Securities (rated Baa or better by Moody's / Standard & Poors)

Equity Mutual funds (those investing in approved equity securities)

OTHER

PENNSYLVANIA BAR ASSOCIATION INVESTMENT POLICIES

None

2) Maturity (applies to fixed income investments)

No more than 30 years maximum maturity

No more than 60 months average maturity

1) Allocation of Assets

2002 / 2003 policy targets

Fixed Income 70%

Equities 30%

The following additional limits shall also apply:

Equities:

*no more than 10% of total equity investments may be with any one issuer

*no more than 20% of total equity investments may be with any one industry group

Fixed Income:

*no more than 20% of total fixed income securities shall be invested to mature in any one month (except for maturities less than 9 months which have been invested for liquidity purposes)

*no more than 10% of debt securities may be with any one issuer (except the U.S. Government and its Agencies which may be without limit)