



National Association of Housing and Redevelopment Officials
Investment Policy Statement
DRAFT August 28, 2019

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I. Introduction

Information about National Association of Housing and Redevelopment Officials (NAHRO)

National Association of Housing and Redevelopment Officials
630 Eye Street, NW
Washington, DC 20001
(202) 289-7200

Primary Contacts:
Adrienne Todman, Chief Executive Officer
Chuck Wellard, Chief Operating Officer

About NAHRO

NAHRO is a professional membership organization comprised of approximately 20,000 housing and community development agencies and officials throughout the United States who administer a variety of affordable housing and community development programs at the local level.

NAHRO's Mission Statement

Inspire and engage professionals in housing, community development, finance, government, and social services in collaboration with residents to create attainable and sustainable housing and communities for vulnerable families and individuals.

NAHRO's Vision Statement

To be the leading resource for affordable and subsidized housing and community development through innovative research, analysis, advocacy, professional development, and ethics.

Please visit www.nahro.org for more information.

Purpose and Use of the NAHRO Investments

NAHRO accumulates enough investment reserves to have:

1. An adequate "safety net" of approximately four to six months of operating expense in the event of a major change in membership or other revenue sources, or for an unplanned event or need that NAHRO agrees to respond to in the interest of its members and stakeholders.
2. An adequate pool of resources to proactively maintain the NAHRO office building and property long-term.
3. An adequate pool of resources to achieve the goals and objectives of the approved current strategic plan.

Purpose of this Investment Policy Statement

This Investment Policy Statement (the “Policy Statement”) outlines the goals and investment objectives of NAHRO Investments (“Portfolio”). Since this Policy Statement is intended to provide guidance for the NAHRO Budget & Administration Committee (“Committee”) and the investment managers responsible for managing the NAHRO’s assets, it outlines certain specific investment policies which will govern how to seek to achieve those goals and objectives.

This Policy Statement, upon the review and approval of the Committee:

1. Describes a risk posture for the investment of the Portfolio’s assets;
2. Specifies the target asset allocation policy for those assets;
3. Establishes investment guidelines regarding the selection of investment manager(s), permissible securities and diversification of assets;
4. Specifies the criteria for evaluating the performance of the Portfolio’s investment manager(s) and of the Portfolio as a whole; and
5. Defines certain responsibilities of the Committee, the consultant, the investment managers, and other specified parties.

The Committee believes that the investment policies described in this Policy Statement should be dynamic. These policies should reflect the NAHRO’s current financial status, and the Committee’s philosophy regarding the investment of assets. These policies should be reviewed by the Committee periodically and revised as necessary to ensure that they continued to reflect the current financial situation of the Portfolio and the capital markets. The Policy Statement should be reviewed periodically for its continued accuracy and completeness.

II. Responsibilities of the Portfolio Representatives

The Board of Governors

As fiduciaries, the Board of Governors are ultimately responsible for the Portfolio. They have delegated the following decisions to the Budget & Administration Committee.

The Budget and Administration Committee

The primary fiduciary responsibilities of the Committee with respect to the oversight of the Portfolio are:

1. Establish and approve an investment policy statement and periodically review that statement for continued accuracy and completeness;
2. Periodically monitor the performance as reported by the Consultant and reviewed by Management.

Management

Management is defined as the CEO and COO. The primary responsibilities of Management with respect to the oversight of the Portfolio are:

1. Prudently diversify, or oversee the diversification of, the portfolio assets to meet an agreed upon risk/return profile;
2. Prudently select investment options, including the selection of one or more investment managers;
3. Monitor the investment managers and the performance of the accounts under management;
4. Consider the information provided by the consultant and other professional advisors and act accordingly;
5. Control and oversee all investment, record-keeping and administrative expenses associated with the accounts.

The Consultant

The Committee should retain an investment manager advisor or consultant (the “Consultant”) to:

1. Assist Management and the Committee in strategic investment planning for the Portfolio by assisting in developing an investment policy, an asset allocation strategy, and portfolio structure;
2. Provide written performance measurement reports on a quarterly basis;
3. Make recommendations to Management and the Committee in its selection of investment manager(s) and strategies; and
4. Meet with Management to help it review investment performance and consider whether any changes or other actions are called for with respect to the investment portfolio.

The Custodian

The Custodian is responsible for the safekeeping of NAHRO’s investment assets in the Portfolio. The Custodian could be a part of the same company or firm as the Consultant. The specific duties and responsibilities of the Custodian include:

1. Maintain separate accounts by legal registration;
2. Value the holdings;
3. Collect all income and dividends owed to NAHRO in its custody;
4. Settle all transactions initiated by the investment manager; and
5. Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall portfolio since the previous report.

III. Objectives

Risk Tolerance

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (*i.e.* volatility of return) is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Portfolio is the determination of an appropriate risk tolerance. The Committee examined its willingness to take risk and NAHRO's financial ability to take risk based upon relevant factors, including:

1. The Portfolio has a targeted short term reserve for operating and achieving the strategic plan, the amount of which will be designed by the Committee (see page 2);
2. The remaining amount of the Portfolio can take advantage of an intermediate time horizon of three to five years.

Offsetting these factors are:

1. The Portfolio must be able to meet any unexpected expenses or liabilities;
2. Large fluctuations may affect NAHRO's willingness to maintain the investment strategy.

Based on these factors, the Committee chose a moderate risk profile. Primary emphasis is to strike a balance between portfolio stability and portfolio appreciation. To accomplish this, the Portfolio will allocate risk into four categories to be aligned with the goals & mission requirements of NAHRO:

- **Short Term Reserves** – short term, operational needs and achieving the strategic plan (0 – 2 years)
- **Capital Building Reserves** – maintain the NAHRO office building proactively (1 – 5 years)
- **Intermediate Term Reserves** – intermediate term needs & reserves (beyond 2 years)
- **NAHRO Headquarters Office Building Investment** – long term land and office building investment constructed at 630 Eye Street, NW, Washington, DC in 1999 (beyond 2 years)

Investment Objectives & Guidelines

The Portfolio assets should be invested in accordance with sound investment practices that emphasize prudent investment fundamentals.

- **Short Term Reserves:** The objective of the Short Term Reserves is to cover any planned short term operational needs and to achieve the strategic plan. It should maintain high level of liquidity and safety of principal. The target balance, minimum & maximum balances should be set by NAHRO. The Committee will establish this level, which is targeted at approximately four to six months of operating expense plus the resources needed to achieve the strategic plan.

Investments are limited to cash, cash equivalents and securities with a maturity of no more than 24 months. All assets are to be invested in securities and funds that are either covered by FDIC or are direct obligations of the government of the United States of America.

- **Capital Building Reserves:** The objective of the Capital Funds Reserves is to cover the short to long term maintenance, improvements and well-being of the NAHRO office building. It should a reasonable level of liquidity and safety of principal. The target balance, minimum & maximum balances should be set by NAHRO. The Committee will establish this level, which is targeted at approximately \$300,000.

Investments are limited to cash, cash equivalents and securities with a maturity of no more than five years. All assets are to be invested in securities and funds that are either covered by FDIC or are direct obligations of the government of the United States of America or are indexed mutual funds that are readily marketable. See below in “Derivatives & Structured Products” section below for investment restrictions.

- **Intermediate Term Reserves:** The objective of this Intermediate Term Reserves is to provide future resources supporting the NAHRO strategic plan not covered by the Short Term Reserves. These reserves would support member needs and priorities, including special research projects. It will have an intermediate term of two years or greater, with an outlook with a goal of achieving a higher rate of return than that of cash or cash equivalents. The target balance, minimum & maximum balances would be the balance of the Portfolio, after the Short Term Reserves targeted balance.

Investments are limited to cash, cash equivalents, fixed income investments, and equity investments. See below in “Derivatives & Structured Products” section below for investment restrictions. The fixed income portfolio will invest in securities that are “A” rated or higher. The average weighted modified duration will be no greater than 5 years.

Intermediate Term Reserves Asset Allocation Guidelines:

	Minimum	Target	Maximum
Equities	20%	35%	50%
Bonds	40%	60%	80%
Cash	0%	5%	25%

- **NAHRO Headquarters Office Building Investment:** The objective of the NAHRO Headquarters Office Building Investment is to provide sound real estate investment for NAHRO that derives reasonable market value appreciation and value, while providing an office headquarters location within close proximity to the U. S. Capitol and Federal Agencies.

Derivatives and Structured Products

Management and the Committee understand that derivatives and structured products can be used to efficiently reduce the risk of the portfolio and to expand the return opportunities. However, when used improperly, they can also increase the risk of the portfolio.

Before an investment manager uses any security other than standard securities (such as: exchange traded common stock; interest bearing bonds and cash equivalents), the Committee must approve such use. If approved by the Committee, derivatives are allowed to hedge an underlying position and may be used to take a long position in anticipation of a cash inflow.

Rebalancing Procedures

The allocations to each asset class and to investment styles within asset classes are expected to remain stable over most market cycles.

Since capital appreciation (depreciation) and trading activity in each individually managed portfolio can result in a deviation from the overall Portfolio's asset allocation, the aggregate asset allocation should be monitored. The Committee instructs the Consultant to rebalance the Portfolio assets to the target allocation on a periodic basis. To achieve the rebalancing of the NAHRO Portfolio, the Consultant may re-direct contributions and disbursements from individual investment managers as appropriate, in addition to shifting assets from one investment manager to another.

Selection Criteria for Investment Managers by the Consultant

Investment managers retained should be chosen using the following criteria:

1. The investment style and discipline of the investment manager;
2. How well the investment manager's investment style or approach complements other investment managers in the portfolio;
3. Level of experience, financial resources, and staffing levels of the investment manager;
4. Stability of the organization;
5. How consistent an investment manager is to the style for which they were hired;
6. Reasonableness of expense ratios/fees;
7. Past performance, considered relative to other investments having the same investment objective. Consideration should be given to both consistency of performance and the level of risk taken to achieve results.

Security Selection/Asset Allocation

1. Except as noted below, each investment manager shall have the discretion to determine its portfolio's individual securities selection;
2. The Portfolio is expected to operate within an overall asset allocation strategy defining the portfolio's mix

of asset classes. This strategy, described below, sets a long-term percentage target for the amount of the portfolio's market value that is to be invested in any one asset class. The allocation strategy also defines the allowable investment shifts between the asset classes, above and below the target allocations; and

3. Management and the Committee are responsible for monitoring the aggregate asset allocation.

Diversification Requirements

The primary method to reduce risk for the Portfolio is diversification through asset allocation. By allocating assets in different asset classes, the portfolio can reduce risk by avoiding concentration as well as reduce risk through the low-correlation between different asset classes.

Each investment manager has discretion with regard to security selection and allocation within its respective portfolio. Unless otherwise noted below, under normal market conditions, each investment manager is expected to be invested consistent with its investment style as described in its relevant documentation. During an initial three -month period after being retained, the investment manager may hold cash and cash equivalents in larger proportions in order to invest their portfolio on an orderly basis.

To minimize the risk of large losses, each investment manager shall maintain adequate diversification in their portfolio subject to the constraints outlined in this investment policy, and in their investment management agreement with NAHRO.