



# PMIEF Investment and Spending Policy

PMI Educational Foundation      Level: #1

Effective Date: 19 September 2019      Responsibility Of: **PMI VP-Finance**

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## 1. Purpose

The purpose of the Investment and Spending Policy is to:

- a. Provide a clear statement of the investment policies and objectives for PMIEF.
- b. Define clearly the responsibilities of the PMIEF Board, the PMIEF Board's Finance Committee, the PMIEF COO, staff and advisors.
- c. Provide an adequate basis for evaluating the investment performance of PMIEF.

Because the PMIEF Board of Directors has been entrusted by donors with the financial management of their donations for use for the purposes designated by the donors and because some of those donations are intended to be invested for applications by PMIEF without utilizing the principal, it is imperative that PMIEF have an investment policy to guide the management of its assets.

Additionally, in order to comply with PMIEF Rules of the PMIEF Board 10.0.1, this policy provides the direction to the PMIEF COO on the guidelines and parameters by which PMIEF will protect its assets. Rule of the PMIEF Board 10.0.1 states "*Investments shall be managed in accordance with the Investment Policy approved by the PMIEF Board of Directors.*"

## 2. Policy Statement



PMIEF Investment  
and Spending Policy

## 3. Policy Distribution

**Internal:** PMIEF Board, PMIEF COO, PMIEF and PMI Executive Staff as needed, PMIEF and PMI finance and accounting staff as needed, PMIEF independent financial auditor as needed, and investment consultant and others as needed.

**External:** Posted on PMIEF website



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## 4. Related Documents

Document Name	Document Type (Procedure, Form, User Guide, etc.)

## 5. Revision History

Action (Creation, Revision, Review)	Effective Date	Changes/Approvals
Creation	8 July 2008	Original PMIEF Investment Policy
Revision	26 July 2012	Replacement of longer-term General Fund with a nearer-term Intermediate Fund. "No other investments" to "Permissible Investments" Clarification of responsibilities of all the relevant parties.
Revision	3 June 2014	No changes in content. Administrative change. Reformatted by Secretary using updated PMIEF policy template and new logo.
Revision	18 August 2016	Administrative change in format. Title change to Investment and Spending Policy. Modification to the spending rule.
Revision	17 August 2017	Added Multi-Real Asset class for Inflation protection. Also changed the estimated rate of inflation and the Target Investment Return.
Revision	20 September 2018	Updated the Policy Statement to include the operating reserve.
Revision	19 September 2019	Updated the Policy Statement to remove the Intermediate Fund language and to add language allowing the COO to approve changes in the timing to transfer funds for current year endowed scholarships, when market conditions are unfavorable



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## 6. Glossary

Term	Definition

## **PMI EDUCATIONAL FOUNDATION INVESTMENT AND SPENDING POLICY**

The PMI Educational Foundation (PMIEF or the Foundation) is a 501(c)(3) nonprofit corporation whose purpose is to promote economic, educational, cultural, and social advancement through the application, development, and promotion of project management concepts, theories, and life skills. In order to fulfill its purpose, PMIEF requires sound financial management, including prudent investment and oversight of its operating reserve and endowment funds.

This Investment Policy (Policy) has been adopted by the PMIEF Board of Directors (PMIEF Board) to provide direction and guidelines for the investment of funds held by the Foundation.

The investment directions, guidelines, and restrictions presented in this Policy serve as a framework to achieve the investment objectives at a level of risk that the PMIEF Board of Directors deems acceptable.

### **PURPOSE**

This policy is adopted in order that:

- 1) There is clear statement of the investment policies and objectives of PMIEF.
- 2) Clear responsibilities are defined.
- 3) PMIEF has an appropriate basis for evaluation of the investment performance for invested funds on a regular and ongoing basis.

### **PROCEDURES**

#### **Roles and Responsibilities**

All funds held by the Foundation shall be invested in a manner that complies with all applicable United States Federal and District of Columbia requirements applicable to the Foundation as currently constituted, specifically including, but not limited to, any laws or regulations pertaining to the maintenance of the Foundation's federal tax exemption under Section 501(c)(3) of the United States Internal Revenue Code.

Management of PMIEF funds will be vested in the PMIEF Board, PMIEF Finance Committee and PMIEF/PMI Staff as specified in the following levels of responsibility:

**A.** Unless the Board delegates its authority, the **PMIEF Board** will:

- 1) Establish and approve all Foundation policies for investments.
- 2) Review the investment objectives, investment performance and asset allocation at least annually and initiate corrective actions if goals are not being achieved.

- 3) Have authority to approve investment consultant and to recommend termination of investment consultant if they are dissatisfied with performance.
- 4) Have authority to approve investment custodian.

**B. The PMIEF Finance Committee will facilitate:**

- 1) The monitoring of Policy implementation to ensure that investment decisions fulfill the objectives of this Policy.
- 2) The review annually of the *Spending Policy* and especially the *Spending Rule* contained in this Policy.
- 3) The consideration of any proposed revisions to this Policy and recommend any appropriate action to the PMIEF Board as necessary and appropriate.
- 4) The review of quarterly investment reports in order to monitor fund and investment manager performance, the assessment annually of investment rationale, target and actual asset allocations, and the approving of recommendations as appropriate.
- 5) The consideration, at least annually, of investment-related issues deemed necessary and appropriate to PMIEF's mission.
- 6) The assurance of consistency of above actions with Foundation's mission.

**C. Staff**

The PMIEF COO or his/her designated staff is authorized to implement the policies as approved by the PMIEF Board. Staff is authorized to utilize the services of an investment consultant, investment custodian, and investment managers to carry out this Policy, as approved by the PMIEF Board.

The **Staff** will:

- 1) Engage an investment consultant and evaluate the consultant's performance.
- 2) Review on an annual basis the target asset allocation and target investment return objectives of the funds.
- 3) Approve the use of investment managers, mutual funds and other investment vehicles authorized by this Policy. The investment managers are responsible for making the investment decisions (security selection and price decisions). The performance of the investment managers will be reviewed quarterly as noted above in B (3).
- 4) Review the performance of the investments, including investment fees and expenses, and make changes, if and when necessary.
- 5) Review investment decisions to ensure that they comply with the guidelines of this Policy.

- 6) Review statements for PMIEF's funds on a monthly basis.
- 7) Provide to the PMIEF Finance Committee an investment status report at least quarterly. Staff's report will include the quarterly report(s) provided by the investment consultant and/or any supplemental information Staff deems appropriate.
- 8) Direct the Investment Consultant to execute any changes recommended by the PMIEF Finance Committee or PMIEF Board.
- 9) Review this Policy at least annually and present any recommended changes to the PMIEF Finance Committee.

#### **D. Investment Consultant**

It is anticipated that PMIEF will retain the services of an investment consultant. The investment consultant is an objective, third-party advisor to assist the Foundation in managing the overall investment process. The advisor will be responsible for supporting Staff through a disciplined investment process to enable the Foundation to meet the desired objectives as set forth in this policy.

The consultant may be called upon to provide any or all of the following services:

- 1) Recommend to Staff an asset allocation mix for the Funds in accord with the Investment Policy.
- 2) Recommend to Staff specific investment managers or investment vehicles and act upon any changes directed by Staff based on decisions of the PMIEF Finance Committee or PMIEF Board.
- 3) Ensure that Staff receives monthly statements.
- 4) Prepare and distribute quarterly reports to the Staff analyzing investment performance of the Funds.
- 5) Review this Policy at least annually and present to the Staff any recommended changes for presentation to the PMIEF Finance Committee for their further action.
- 6) Be available to confer with the Staff, PMIEF Finance Committee and/or the PMIEF Board as necessary.
- 7) Be available to meet with the PMIEF Board (or its designee) on an annual basis to review the financial markets, portfolio structure, investment performance, this Policy, investment strategies, and other subjects that may be of interest and benefit to PMIEF's Funds.

#### **E. Investment Managers**

It is anticipated that PMIEF will seek the services of investment managers to manage all or a portion of the Funds. Each investment manager is responsible for timely investment of both principal and

income, settlements of transactions, and providing liquidity as directed by Staff through the investment consultant. The investment manager shall exercise full investment discretion with regards to buying, managing, and selling assets held in the Portfolios. Such managers shall be United States SEC registered investment advisors and/or mutual fund managers (both herein referred to as "Investment Managers"). Any investment manager hired and given discretionary authority over assets in any part of the Foundation's portfolio will be subject to the guidelines in this Policy.

**F. Investment Custodian**

The Investment Consultant will engage an Investment Custodian (that is approved by the PMIEF Board) to hold funds and implement investment actions directed by the Investment Managers.

## OPERATING RESERVE

### Purpose

The PMIEF Operating Reserve is maintained to mitigate short-term risks in situations of financial shortfall.

### Investment Objectives

The primary objective is to preserve the purchasing power and provide the needed liquidity to meet the Foundation's cash flow demands in the event of financial shortfall. Investment activities shall be guided by the following priorities listed in order:

**Safety** – Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio by mitigating credit and interest rate risk.

**Liquidity** – The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

**Yield** – The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles.

### Investment Goals

1) The Operating Reserve's total return, net of investment expenses, should meet or exceed the U.S. 90-day Treasury Bill Index.

## INVESTMENT GUIDELINES

### Maturity

The average maturity of all investments in the Operating Reserve shall be limited to a maximum of eighteen(18) months.

### Credit Quality

The average credit quality of the portfolio shall be "A" or higher.

### Asset Allocation

The Operating Reserve Fund shall be invested in cash and cash equivalents and fixed income securities only. The proportion of the Operating Reserve Fund invested in each asset class should not be less or more than the following percentages:

Asset Class	Minimum	Target	Maximum
Cash & Equivalents	0%	10%	20%
Short Duration Fixed Income	60%	70%	80%
Inflation Sensitive Fixed Income	10%	20%	40%

## **Target Allocation**

The investment consultant will present to Staff a recommended target asset allocation for the Operating Reserve Fund. This target will be reviewed regularly, but no less than annually.

## **Reporting**

The Investment Consultant will prepare a quarterly report to be distributed to the Staff and the PMIEF Finance Committee containing a schedule of investments, the current asset allocation and investment performance compared to the objectives of this Policy and to appropriate benchmarks and indices.

Investment balances and investment income will be reported in the monthly financial statements provided by Staff.

## **Income from Operating Reserve**

Income from the Operating Reserve shall remain in the Operating Reserve, per the PMIEF Reserve Policy.

## **PERMISSIBLE INVESTMENTS**

Staff shall be authorized to invest the Operating Reserve as follows:

Investments in the Operating Reserve will follow investment strategies that are common in Operating Reserve Funds, which are short duration bond strategies that offer daily liquidity and are focused on investment grade bonds.

## **Cash & Equivalents**

- 1) Short-term U.S. dollar-denominated debt obligations that are rated in one of the two highest rating categories by Nationally Recognized Statistical Rating Organizations (NRSRO) or that the Sub-Advisor determines are of comparable quality, including:
  - a. Commercial paper and other short-term corporate obligations of U.S. and foreign issuers (including asset-backed securities) rated in the highest short-term rating category or that the Sub-Advisor determines are of comparable quality
  - b. Certificates of deposit, time deposits, bankers' acceptances, bank notes and other obligations of U.S. savings and loan and thrift institutions, U.S. commercial banks (including foreign banks of such banks), and foreign banks, that meet certain asset requirements
  - c. Short-term obligations issued by state and local governments
  - d. U.S. Treasury obligations and obligations issued or guaranteed as to principal and interest by agencies or instrumentalities of the U.S. Government

## **Short Duration Fixed Income**

- 1) Primarily invest in investment grade U.S. dollar-denominated debt, including the following:
  - a. Commercial paper and other corporate obligations
  - b. Certificates of deposit, time deposits, bankers' acceptances, bank notes and other obligations of U.S. savings and loan and thrift institutions, U.S. commercial banks

- (including foreign banks of such banks), and foreign banks, that meet certain asset requirements
- c. U.S. Treasury obligations issued or guaranteed as to principal and interest by agencies or instrumentalities of the U.S. Government
  - d. Mortgage-backed securities
  - e. Asset-backed securities
  - f. Fully-collateralized purchase agreements involving any of the foregoing obligations
  - g. U.S. dollar-denominated instruments of foreign issuers
- 2) Maintain an overall duration of 18 months or less under normal market conditions

### **Inflation Sensitive Fixed Income**

- 1) Fixed income securities, primarily inflation-indexed bonds of varying maturities issued by the U.S. Treasury, by other U.S. government Agencies and instrumentalities, and by other non-U.S. government entities such as corporations
- 2) The asset class may also invest in traditional U.S. Treasury, U.S. government agency and other non-U.S. government securities that is not inflation-indexed

## ENDOWMENT FUND

### **Purpose**

The PMIEF Endowment Fund is a restricted fund, with the purpose of providing a source of funding for specific program activities of the Foundation, including scholarships, awards, Board-Designated Opportunity Fund, and other board-approved programs or operations.

### **Investment Objectives**

The investment objectives of the Endowment Fund are:

- 1) Achieve the Spending Rule (see last page of this document)
- 2) Long-term growth of capital
- 3) Preservation of capital

The objectives of the Endowment Fund should be pursued as a long-term goal designed to maximize the returns without exposure to undue risk.

Recognizing that intermediate market fluctuations may cause variations in the Endowment Fund's performance, the expectations are to achieve the following objectives over a 3-5 year time period. (For purposes of measuring performance, total return is defined as all dividends and interest and both realized and unrealized gains and losses reduced by investment expenses and fees.)

### **Investment Goals**

- 1) The annual Target Investment Return for the Fund will be determined by the Spending Rule as established by the PMIEF Board and/or as anticipated in the memorandums of understanding signed with donors. A spending "rule" has been established to provide for the ongoing spending needs of the Foundation while preserving the corpus of the fund (see last page of this document).
- 2) The returns of each investment manager/vehicle will be evaluated against an appropriate individual benchmark and peer group.

## INVESTMENT GUIDELINES

### **Risk Tolerance**

The Endowment Fund should be invested to minimize the likelihood of low negative total returns, defined as a one-year return worse than -10%.

### **Diversification**

No more than 5% (at market) of the Endowment Fund may be invested in the securities of any one issuer; no more than 20% (at market) of the Endowment Fund may be invested in any one industry.

Exceptions to this requirement: securities issued by the U.S. Government, its agencies and instrumentalities; federally insured certificates of deposit; mutual funds or exchange traded funds.

### **Maturity**

The average weighted maturity of the fixed income portion of the Endowment Fund will be 12 years or less. The maximum maturity of any individual fixed income security will be 30 years or less.

### **Credit Quality**

The average credit quality of the fixed income portion of the portfolio shall be “A” or higher.

### **Asset Allocation**

The Endowment Fund shall be invested in equities, fixed income securities, and cash and cash equivalents. The proportion of the Endowment Fund invested in each asset class should not be less or more than the following percentages:

<b>Asset Class</b>	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>
<b>Cash &amp; Equivalents</b>	0	5%	20%
<b>Fixed Income</b>	25%	40%	60%
<b>Equities</b>	40%	55%	70%
<b>Multi-Real Assets</b>	0%	5%	10%

### **Target Allocation**

The investment consultant will present to Staff a recommended target asset allocation for the Endowment Fund. This target will be reviewed regularly, at least annually.

### **Rebalancing**

In the event that the asset allocation of the Endowment Fund is +/- 10% from the Target Allocation in any asset class, the investments will be re-balanced to bring the allocation back in line with the target allocation. The portfolio’s asset allocation will be monitored on a quarterly basis.

### **Reporting**

The Investment Consultant will prepare a quarterly report to be distributed to the Staff and the PMIEF Finance Committee containing a schedule of investments, the current asset allocation and investment performance compared to the objectives of this Policy and to appropriate benchmarks and indices.

## **PERMISSIBLE INVESTMENTS**

### **Cash & Equivalents**

- 1) Federally insured Certificates of Deposit not to exceed federally insured amounts unless the bank is rated at least “A” by Fitch Ratings
- 2) Money market funds
- 3) Checking accounts in federally insured banks and savings & loans not to exceed federally insured amounts unless the bank is rated at least “A” by Fitch Ratings
- 4) U.S. government and agency issues
- 5) Commercial paper rated A2/P2 or higher
- 6) Repurchase agreements (in conjunction with bank sweep accounts collateralized by U.S. government obligations)

### **Fixed Income**

- 1) Senior, adjustable-rate U.S. bank notes.
- 2) Foreign government or foreign corporate bonds (up to 20% of the market value of the fund).
- 3) High yield U.S. corporate bonds (up to 10% of the market value of the fund).
- 4) Convertible U.S. corporate bonds (up to 10% of the market value of the fund).
- 5) Mutual funds or exchange traded funds investing in the above.

### **Equities**

- 1) Common stocks of U.S. corporations.
- 2) Common stocks of non-U.S. corporations (up to 25% of the market value of fund)
- 3) Preferred Stocks of U.S. corporations (up to 20% of the market value of the fund)
- 4) Stocks of real estate investment trusts (REIT's).
- 5) Mutual funds or exchange traded funds investing in the above.

### **Multi-Real Assets**

- 1) Fixed Income Securities
- 2) Equity Securities

### 3) Commodity Linked Instruments

No other forms of investment or investment instruments are permitted.

## SPENDING POLICY

The PMI Educational Foundation recognizes that the establishment and consistent application of a spending policy is essential to the long-term success of the Foundation and the performance of its Operating, Intermediate & Endowment Funds (the Funds).

This spending policy is intended to establish reasonable and prudent spending from the Funds on an annual basis to support the Foundation’s programs and general operations.

The Finance Committee will recommend to the Board an annual **Spending Rule**, which will define the annual payout percentage for the Funds and will be included in this Policy. Once the Spending Rule has been approved by the Board, Staff shall have discretion as to the timing and method of withdrawal of the funds, except that additional risk abatement for endowed scholarships will be enacted as follows. Each year in January, when the Endowment Fund is tested for adequacy based on the requirements in the Investment and Spending Policy, if there is adequate funding, the full amount needed to fund endowed scholarships for the year will be set aside for payout, so that market fluctuations during the year do not endanger ability to pay. If there is not adequate funding or if the market conditions have been unfavorable, the Executive Director may, upon approval from the COO, delay the transfer of funds for current year endowed scholarships from January to a point later in the year when market conditions have improved or when adequate funding is achieved.

The Spending Rule will be calculated as a percentage of the average total market value of the Fund for the trailing three years as of the end of the most recent calendar year. The Spending Rule will take into account projections for:

- Total return on the Funds (including dividends, interest income, realized and unrealized gains and losses, and investment expenses)
- Anticipated cash flows into or out of the Fund based on budgeted forecasts
- Estimated rate of inflation

The Spending Rule, anticipated inflation, and investment expenses will determine the annual **Target Investment Return** for each of the Funds. The PMIEF recognizes that from time to time annual investment returns may fall short of the target investment return in effect. PMIEF also recognizes that the Fund is invested in longer term securities and that PMIEF will measure performance based on real rates of return over market cycle (3-5 year) time periods.

The Spending Rule for the Funds will be 4% of the average market value of the Fund over the trailing three years.

The current calculation of the Target Investment Return is as follows:

Spending Rule	4.0%
Rate of inflation (estimated)	2.0%
Investment expenses and fees (estimated)	<u>0.1%</u>
Target Investment Return	<u>6.1</u>