

Sustaining Fund

Investment Policy

Philmont Staff Association, Inc.

1/2/2012

The original version of this document was Approved and Adopted by the Association's Board of Directors on December 19, 2007. This version was Amended and Adopted by the Association's Board of Directors on January 2, 2012.

1 INTRODUCTION & PURPOSE

This document is the Investment Policy for the Association’s Sustaining Fund. This Investment Policy does not apply to any other funds of the Association and may be a component of other investment policies.

The Constitution of the Association was amended to require that one-half the Association's funds be deposited in bank accounts or invested in US Treasury securities and to permit one-half of the Association's funds be invested in accordance with a written investment policy. The By-Laws were amended to expressly authorize the establishment of an Investment Committee to manage the Association's Investments. The text of each of these amendments is included in [Section 9](#).

The Sustaining Fund is a collection of separate funds maintained by the Association that have been dedicated to specific purposes. The Sustaining Fund is not the General Fund and this Investment Policy does not apply to any funds of the Association other than funds held in the Sustaining Fund.

The Investment Committee manages the investment of assets held in the Sustaining Fund in accordance with this Investment Policy. The Investment Committee is further directed to evaluate the Investment Policy and recommend changes as needed. The Investment Committee and the Custodian are not guarantors of any rate of return or performance of any Investment or otherwise to be held personally liable for the results of Investments chosen in the course of any person's participation in the activities of the Investment Committee.

The Investment Committee and the Investment Policy are intended to further the mission and vision of the Association.

Mission

The Philmont Staff Association (PSA) unites the Philmont Staff – past and present – for the purpose of serving the adventure, heritage and experience of Philmont Scout Ranch and the Boy Scouts of America.

Vision

The Philmont Staff Association is recognized and celebrated for outstanding service to Philmont Scout Ranch and the Boy Scouts of America.

We do great things for Philmont.

We do great things for Program.

We do great things for youth.

We do great things for the experience.

2 DEFINITIONS

Approved Gift – An Investment that is owned by the Association as a result of a gift of assets in-kind and is approved by the Board of Directors as an Investment to be held in the Sustaining Fund.

Association – The Philmont Staff Association, Inc.

Board of Directors – The Board of Directors of the Association.

By-Laws – The by-laws of the Association as amended, modified or restated from time to time.

Committee Member – A member of the Investment Committee.

Constitution – The Constitution of the Association as amended, modified or restated from time to time.

Consumer Price Index – A measure of inflation determined by the US Bureau of Labor Statistics and published at <http://www.bls.gov/cpi> known as the CPI-W, US City Average for All Items, not seasonally adjusted for the most recent published trailing 12 month period.

Custodian – Individual or entity responsible for implementing the Investment Policy.

Executive Director – The Executive Director of the Association.

General Fund – The general operating funds of the Association and which are not part of the Sustaining Fund.

Investment – An asset of the Sustaining Fund.

Investment Committee – The Investment Committee established by the By-Laws of the Association.

Investment Policy – The policies and procedures for the management of the Sustaining Fund as described by this document.

Life Member – A Member holding a lifetime membership.

Life Member Service Fund – A fund dedicated to providing financial support to the General Fund related to services by the Association for Life Members.

Long-Term Spending Rate – The long-term spending rate is 4.5%.

Market Timing – The act of altering the portfolio allocation outside of normal Rebalancing transactions in an attempt to predict swings in the capital markets.

Market Value – The current or most recent value of an Investment in the public marketplace.

Member – Any active member of the Association in good standing, or as otherwise defined by the Constitution or By-Laws.

Program Scholarship Funds – Funds dedicated to providing scholarships and other financial assistance to youth participants in Philmont's programs including (but not limited to) the Rayado Trek Program, Roving Outdoor Conservation School (ROCS), Order of the Arrow (OA) Trail Crew, Trail Crew Trek, Ranch Hands Program, etc.

Quality Rule – Shortened name for the Constitutional requirement that at least ½ of the funds of the Association be held in bank deposits, Treasury Securities, or other assets insured by the United States Treasury.

Rebalancing – Periodic purchase or sales of assets to maintain Target Allocation and risk profile.

Reinvestment – Using distributions from an Investment (such as interest, dividends, or capital gains) for an Investment.

Spending Rule – The formula which sets maximum amount of annual disbursement from the Sustaining Fund.

Seasonal Staff Scholarship Fund – A fund dedicated to providing scholarships or other financial assistance to Philmont's seasonal staff members for post-secondary education.

Sustaining Fund – The Sustaining Fund is comprised of the Life Member Service Fund, the Rayado Trek Scholarship Fund, the ROCS Scholarship Fund, the Seasonal Staff Scholarship Fund, and any other assets as determined by the Board of Directors. The General Fund is not a part of the Sustaining Fund.

Target Allocation – The model allocation of the Investments among the permitted Investments.

Time Horizon – The time horizon of the Sustaining Fund for purposes of making investment decisions is ten (10) years.

3 OBJECTIVES

The objectives of the Sustaining Fund are:

1. To support the mission of the Association through ongoing support payments to fund the objectives of the:
 - a. Life Member Service Fund
 - b. Scholarship Funds
 - i. Program Scholarship Fund(s)
 - ii. Seasonal Staff Scholarship Fund
 - c. Other Funds included in the Sustaining Fund by the Board of Directors
2. To support the Association through ongoing support payments to defray administrative costs associated with the Sustaining Fund.
3. To invest Sustaining Fund assets prudently to continue to support the stated objectives in accordance with the Investment Policy.

3.1 LIFE MEMBER SERVICE FUND

Members are offered the option of lifetime Association membership as Life Members in return for a one-time payment of dues in an amount determined by the Association's Board of Directors from time to time. The Sustaining Fund is to make annual distributions to the General Fund toward the cost of providing these services for Life Members. Distributions directly from the Life Member Service Fund directly to individual Life Members are prohibited.

3.2 SCHOLARSHIP FUNDS

Scholarships for youth participation in Philmont's High Adventure programs and for seasonal staff are offered by Association to support the Association's Mission.

Deserving youth participants in need of financial assistance can participate in Rayado Treks, the Roving Outdoor Conservation School (ROCS), Order of the Arrow (OA) Trail Crew, Trail Crew Trek, the Ranch Hands Program, and other programs which Philmont may establish in the future. Many quality staff members make their decision to serve on future staff based on these experiences.

Staff Scholarships contribute directly to the mission of assisting Philmont management to recruit and retain qualified seasonal staff applicants.

4 THE INVESTMENT COMMITTEE

4.1 INVESTMENT COMMITTEE QUALIFICATIONS

The Committee Members, including any ex-officio Committee Members, must be Members in good standing with experience in accounting, finance, investment management, law or Profit or non-profit business operations or other qualifications as determined appropriate by the President and/or the Board of Directors.

4.2 APPOINTMENT

The Investment Committee shall be comprised of at least five (5), but no more than twelve (12) voting members, each appointed by the President. The Association President and Treasurer shall be permanent voting Committee Members. The Legal Advisor shall be a permanent non-voting, ex-officio Committee Member. The President may appoint additional ex officio non-voting Committee Members at his discretion.

The President shall appoint a chairperson of the Investment Committee who shall serve at the pleasure of the President. The chairperson shall be responsible for the general operations of the Investment Committee.

4.3 TERM

Committee Members shall serve for a term of three calendar years, or a shorter term as determined by the President in order to preserve the continuity of experience as described below. Permanent Committee Members shall serve during their term in their respective offices.

Committee Members shall have staggered terms to maintain continuity of experience. Upon the inception of the Investment Committee, the President shall appoint the initial slate of Committee Members for terms of one, two and three calendar years (or the remaining portion of the initial year of appointment, if less than one calendar year). The purpose of the staggered appointment scheme is to assure that the Investment Committee will at all times have one or more Committee Members that are familiar with the operation of the Investment Committee.

In the event a Committee Member is unable to continue serving or is removed from office, the Committee Member shall be replaced by a Member appointed by the President.

4.4 REGULARITY OF MEETINGS

The Investment Committee shall meet at least once each quarter. Meetings may be conducted by telephone conference or other electronic means of simultaneous communication.

4.5 VOTING

Any Investment Committee Member may vote by telephone or electronic communication on any matter before the Committee. The Investment Committee may act by written consent, provided that all Committee Members

are provided with a reasonable opportunity to vote on matters being considered. A Committee Member may not act through a proxy or delegate such Committee Member's vote to another person.

Approval of all matters before the Investment Committee shall be made upon majority vote, unless the Investment Committee sets a higher requirement for a particular matter.

4.6 QUORUM REQUIREMENTS

A quorum of the Investment Committee for purposes of a meeting at which votes shall be cast and recorded (and which is not an action or vote taken by unanimous written consent) shall consist of the lesser of (a) three (3) Committee Members, or (b) one-half (1/2) of the voting Committee Members of the Investment Committee (rounded up to the nearest whole number of Committee Members).

4.7 MINUTES

The Investment Committee chairperson shall appoint a secretary who shall keep and record minutes of all Investment Committee meetings and votes taken. The secretary shall maintain copies of the reports of the Investment Committee for the Board of Directors. The secretary shall promptly deliver a copy of all meeting minutes and reports to the Executive Director. The minutes and any reports to the Board of Directors shall be open for inspection by any Member at the Association office on reasonable notice to the Executive Director.

4.8 DUTIES OF THE INVESTMENT COMMITTEE

1. Management of the Investments of the Association in accordance with the Investment Policy.
2. Periodically evaluate the Investment Policy and recommend changes to the Investment Policy to the Board of Directors.
3. Review adherence to the Investment Policy by the Custodian at regular meetings. In the event there is any discrepancy in the implementation of the Investment Policy, the Committee is to alert the President or, if appropriate, the Board of Directors, immediately and suggest corrective action.
4. Prepare a semi-annual report of the Sustaining Fund for presentation to the Board of Directors. This report will include:
 - a. Summary of cash flows over the preceding calendar years.
 - b. Performance of the Sustaining Fund investments compared to the goals of the Sustaining Fund relative to the Time Horizon and appropriate benchmark returns.
 - c. A summary of the all expenses and costs of the investments and administration.
5. The Custodian is responsible for implementing the Investment Policy on a day-to-day basis in strict accordance with the Investment Policy. The Investment Committee is NOT responsible for implementing the Investment Policy on a day-to-day basis.

4.9 DISMISSAL PROCEDURES

Committee Members may be dismissed from service on the Investment Committee by the President and/or the Board of Directors.

4.10 CONFLICT OF INTEREST

Each member of the Investment Committee is expected to disclose any conflict of interest that such person may have with his or her participation on the Investment Committee. A “conflict of interest” may arise if (1) a person would benefit from an Investment, including any payment of a commission to such person or to a financial institution association with such person, (2) a close relative of such person would benefit from an Investment, or (3) the person has some control or influence over the management of an Investment at the financial institution holding the Investment for the Association.

No Investment Committee Member or any member of the Board of Directors should benefit from any Investment. The Investment Committee should avoid Investments that benefit any Member if known to the Investment Committee, however, canvassing the Members for disclosure of conflicts of interest is not required.

The Investment Committee and the Board of Directors are not prohibited from separately making the same investments as held by the Association.

The Investment Committee should periodically request that Investment Committee members and the Board of Directors disclose any conflicts of interest. If the Investment Committee determines to proceed, persons with a conflict of interest should abstain from participation in any discussion or voting on any matter related to the conflict of interest.

5 THE CUSTODIAN

5.1 QUALIFICATIONS

The Custodian shall be the Treasurer. If Treasurer is unable to serve as Custodian, or if Investment Committee determines that another person or entity should serve as the Custodian, the Investment Committee shall recommend to the President, for the President's approval, a replacement Custodian which shall be either (1) an elected officer of the Association, or (2) a bank or financial institution with at least \$100,000,000 in assets.

5.2 RESPONSIBILITIES

The Custodian's responsibilities are:

1. **Implementation.** Implement the Investment Policy on a day-to-day basis.
2. **Reporting.** Provide oral and written reports to the Investment Committee on all Sustaining Fund activities such as cash flows, purchases and sales, and all fees and expenses.
3. **Communicate Concerns.** Escalate any concerns with implementation of the Investment Policy to the Investment Committee for further direction and, if deemed appropriate by the Custodian, to communicate concerns directly to the President and/or the Board of Directors.

6 SPENDING

6.1 OVERVIEW

The Sustaining Fund must balance the conflicting objectives of funding present needs and preserving the ability to pay future needs over the long-term.

6.2 SPENDING RULE

The maximum annual distribution from the Sustaining Fund shall be set by the following Spending Rule:

70% of the prior year's spending adjusted for inflation per the Consumer Price Index,
PLUS
30% of the Long-Term Spending Rate applied to the prior year-end balance of the Sustaining Fund.

An illustration of the implementation of the Spending Rule given fluctuating hypothetical returns is shown in [Section 0](#).

6.3 DISTRIBUTION REQUESTS

The Board of Directors may request a distribution from the Sustaining Fund throughout the year to support the stated objectives as outlined in [Section 3](#). The sum of these distributions shall not be more than the Spending Rule over a full calendar year. Undistributed funds are to be retained by the Sustaining Fund for potential future investment and will not be added to the Spending Rule of subsequent years. Any distribution not actually spent by the Association is to be returned to the Sustaining Fund in a timely manner.

7 INVESTMENT GOAL

The goal for the annual return on investment of the Sustaining Fund over the Time Horizon is Four and One-Half Percent (4.5%) + Consumer Price Index.

8 INVESTMENT GUIDELINES & PROCEDURES

8.1 PERMITTED INVESTMENTS

The Investment Committee and the Custodian may invest the assets of the Sustaining Fund as follows:

1. Equity Investments
 - a. Broad-Based Domestic Stock Index Funds
 - b. Broad-Based Foreign Stock Index Funds
2. Fixed Income Investments
 - a. Broad-Based Fixed Income Funds
 - b. Term-Certain Bonds with Maturities no longer than 20 years carrying an Investment Grade from either Moodys, Fitch, or Standard & Poors.

3. Cash Equivalent Investments
 - a. FDIC insured bank deposits
 - b. FDIC Insured CDs
 - c. Money Market Funds
4. Approved Gifts

8.2 PROHIBITED INVESTMENTS

Except for Approved Gifts, the Investment Committee and the Custodian may not invest the assets of the Sustaining Fund as follows:

- Individual Stocks
- Sector Funds
- Options
- Futures Contracts
- Limited Partnerships
- Any Investment not expressly permitted

8.3 REINVESTMENT

Sustaining Fund investments may periodically make distributions of interest, dividends, or capital gains. The Reinvestment of these distributions shall be at the direction of the Committee.

8.4 ASSET ALLOCATION

8.4.1 QUALITY RULE

The assets of the Sustaining Fund shall be allocated among Investments in accordance with the Investment Policy, the By-Laws and the Constitution. Specifically, the assets must comply with the Quality Rule as outlined in [Section 9.1](#). Efforts should be made to ensure the actions of the Sustaining Fund in concert with the other assets of the Association do not violate this rule.

8.4.2 METHODOLOGY

The investing of assets of the Sustaining Fund is to be spread or diversified across numerous and distinct asset classes including stocks, bonds, and cash. The objective is to take a balanced approach to mitigating the major risks threatening our long term success without ever subjecting the Fund entirely to a singular form of risk. For example, cash suffers little to no volatility risk, but is overly exposed to purchasing power risk— an allocation 100% to cash would surely fail to keep up with our increasing costs. Equities suffer from high volatility risk, but are generally viewed as the best hedge against purchasing power risk – an allocation of 100% equities would come with the chance of short term losses so great that we could not recover and still meet our spending objectives. Fixed Income is singularly exposed to interest rate risk but has historically been one of the best hedges against equity market volatility. An allocation 100% to fixed income suffers from pricing swings as interest rates move – it would be able to meet our spending needs only some of the time (when rates are high and inflation is low). By blending the characteristics of each asset class, the committee seeks to balance these risks.

The actual weighting to each asset class is set by Policy and is to be periodically reviewed by the Committee. The target allocation is set based on its likelihood of meeting the Investment Goal of the Fund over rolling 10 year periods in the opinion of the Investment Committee.

8.4.3 TARGET ALLOCATION

- 40% Domestic Equities
- 10% Foreign Equities
- 45% Fixed Income
- 5% Cash and Equivalents

The Target Allocation is a guideline for the Investment Committee that is to be applied if and only if: (1) the resulting allocation does not violate the Quality Rule, and (2) the resulting cash allocation is greater than or equal to the undistributed current year Spending Rule.

8.5 IMPLEMENTATION

The Custodian shall implement the required asset allocation using Investments approved by the Investment Committee.

8.6 MARKET TIMING

The Investment Committee and the Custodian will not engage in Market Timing aside from Rebalancing as defined below.

8.7 REBALANCING POLICY

8.7.1 FREQUENCY

The investments in the Sustaining Fund are to be Rebalanced at least annually in connection with the annual budget process of the Association. The Sustaining Fund may be Rebalanced periodically during each year based on market conditions, performance of investments or needs of the Association, as determined by the Investment Committee.

8.7.2 PROCEDURE

The Investment Committee shall direct the Custodian to enter Rebalancing transactions using the following steps:

1. Determine the Market Value of all Sustaining Fund investments as of the prior business (or trading) day's close of business.
2. Determine the current Asset Allocation compared to the Target Allocation by Market Value.
3. Adjust the Target Allocation to assure compliance with the Quality Rule and the Spending Rule. All adjustments are to be made pro-rata across asset classes. For example, if the Spending Rule requires \$50,000 available for distribution this year and the Target Allocation to Cash & Equivalents is only

\$40,000 – the Target Allocation to Domestic Equity, Foreign Equity, and Fixed Income should be reduced pro-rata to raise an additional \$10,000 of Cash & Equivalents.

4. Enter purchase, sale or exchange instructions to bring the current allocation in line with the Target Allocation net of adjustments.

8.8 PRICE FLUCTUATION

Securities prices fluctuate daily and it is impractical to expect the Custodian to be able to reallocate exactly to the Target Allocation. Reasonable efforts are to be made to achieve the Target Allocation when Rebalancing.

8.9 GIFTS

1. **Gifts of Cash.** The Sustaining Fund may receive contributions of cash over time. These contributions are to be held in Cash Equivalent Investments until the next Investment Committee meeting. The Investment Committee may request the Custodian enter interim rebalancing transactions to invest this cash. Otherwise, all cash gifts will be deployed as part of the next annual rebalance.
2. **Gifts of Assets In-Kind** The Sustaining Fund may receive Approved Gifts. These are to be held as is until the next Investment Committee meeting. The Committee shall determine the terms and timing for the disposition of these assets.

8.10 DOLLAR COST AVERAGING

In the event that the Sustaining Fund receives a large influx of cash or other gifts, the Committee may release these new funds in phases to be invested according to the Rebalancing Policy. The timing and amount of these releases shall be at the discretion of the Committee.

For example, assume a donor contributes \$1,000,000 cash. The Committee may decide to release \$200,000 per year over 5 years to be invested according to the Rebalancing policy.

9 EXHIBIT A

9.1 CONSTITUTION AMENDMENT REGARDING INVESTMENTS

We often refer to this as the Quality Rule. This amendment to Section 9 was effective September 1, 2007 by ratification by the membership.

Section 9. DEPOSITING AND INVESTING FUNDS

At least one-half of the funds of the Association shall be deposited in banks that are members of the Federal Reserve System or invested in securities issued or insured by the United States Treasury. The balance of the funds of the Association may be invested in accordance with the Association's Bylaws and written investment policies adopted by the Board of Directors. All funds of the Association shall be kept in the name of the Philmont Staff Association, and not in the name of any officer or other individual.

9.2 BYLAW AMENDMENTS REGARDING INVESTMENTS

Adopted by the Board of Directors on December 19, 2007

Section A of the Bylaws of The Philmont Staff Association, Inc. is amended by incorporation of a new Paragraph 9 as follows:

*9. **Investment Policy** means the written policy for the management of the Association's investments as approved by the Board from time to time.*

Section F "Committees," Paragraph 2 "Standing Committees" of the Bylaws of The Philmont Staff Association, Inc. is amended by incorporation of a new subparagraph "e" as follows:

*e. **Investment Committee**, chaired by a Member appointed by the President. The Investment Committee shall have the responsibility for (1) the management of the investments of the Association in accordance with the Investment Policy, and (2) periodically evaluating the Investment Policy and recommending changes to the Investment Policy to the Board.*

Section K "Finances," Paragraph 11 "Investment of Funds" of the Bylaws of The Philmont Staff Association, Inc. is deleted and amended in its entirety as follows:

*11. **Investment of Funds.***

Investment of funds is the responsibility of the Board of Directors. Responsibility to invest these funds may be delegated by the Board of Directors to the Investment Committee. The Investment Committee may invest the Association's funds in accordance with the Investment Policy. The chairman of the Investment Committee shall report on the status and performance of the Association's investments in accordance with the Investment Policy, provided, however, that such report shall be made at least semi-annually to the Board of Directors.

10 EXHIBIT B

Illustration of the Implementation of the Spending Rule

The following table illustrates the implementation of the Spending Rule given hypothetical annual returns. Note how the year over year (YOY) change in the Spending Rule are dampened from the wide swings in the year over year portfolio value. This Exhibit is a sample for illustration purposes only and is not intended to reflect actual past or predict future results.

Illustration of Spending Policy Given Volatile Returns								
Year	Portfolio Size at Year End	Year End Inflation Is	Long Term Spending Rate	70% of Prior Year's Spending + Inflation Adjustment	30% of Long-Term Spending	Year's Spending Rule	YOY Change in Portfolio Size	YOY Change in Spending Rule
0	\$ 110,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1	\$ 100,000	3.00%	4.50%	N/A	N/A	\$ 4,500.00	-9%	N/A
2	\$ 115,000	3.00%	4.59%	\$ 3,244.50	\$ 1,350.00	\$ 4,594.50	15%	2.1%
3	\$ 115,000	3.00%	4.26%	\$ 3,312.63	\$ 1,585.10	\$ 4,897.74	0%	6.6%
4	\$ 120,000	3.00%	4.35%	\$ 3,531.27	\$ 1,469.32	\$ 5,000.59	4%	2.1%
5	\$ 110,000	3.00%	4.31%	\$ 3,605.43	\$ 1,565.40	\$ 5,170.83	-8%	3.4%
6	\$ 125,000	3.00%	4.68%	\$ 3,728.17	\$ 1,421.98	\$ 5,150.14	14%	-0.4%
7	\$ 130,000	3.00%	4.38%	\$ 3,713.25	\$ 1,755.73	\$ 5,468.98	4%	6.2%
8	\$ 135,000	3.00%	4.35%	\$ 3,943.14	\$ 1,706.32	\$ 5,649.46	4%	3.3%
9	\$ 130,000	3.00%	4.32%	\$ 4,073.26	\$ 1,760.02	\$5,833.29	-4%	3.3%
10	\$ 150,000	3.00%	4.53%	\$ 4,205.80	\$ 1,685.17	\$5,890.97	15%	1.0%

10 Year Average Annual Principal Growth
3.6%