

## **PHI LAMBDA SIGMA: PHARMACY LEADERSHIP SOCIETY**

### **INVESTMENT POLICY**

#### **A. INTRODUCTION**

The Phi Lambda Sigma (the Society) Endowment Fund includes all gifts, bequests and other funds directed to be used to support the Society in perpetuity. Some donors require such a commitment as a condition of their gift. (These donations are referred to as "true endowments.") Also, funds may be assigned to function as endowments by the National Executive Committee. (These funds are referred to as "quasi endowments.") Examples of activities supported by true and quasi endowments include:

- Scholarships
- Research support
- Scholarship and Grants
- Unrestricted use

It is the specific and strong preference of the Executive Committee that all endowment gifts be eligible for commingling for investment purposes with other endowment funds. The Executive Committee has established a pooled investment fund, known as the Endowment Fund, governed by and invested according to the Investment Policy statement, to provide for the collective investment of endowment funds. This commingling permits enhancement of long-term investment programs, affords appropriate risk control through diversification, and provides for optimization of asset mix through time.

This Investment Policy is established to provide direction for the investment and management of the Endowment Fund.

#### **B. LIMITATIONS OF ACCEPTANCE**

The Executive Committee of Phi Lambda Sigma shall invest all endowment funds donated to the Society. No matching funds or other funds of the Society may be held or managed by a party selected by the donor. No endowment shall be accepted in which the donor directs the investment transactions or holdings or may approve investment policy or strategy. Restrictions by the donor on the sale or timing of the sale of donated property will be viewed as an investment restriction (since they will affect investment performance). No donation of physical property shall be accepted. An absolute prohibition against selling a donated asset cannot be approved.

#### **C.**

## **RESPONSIBILITIES AND AUTHORITIES**

The Executive Committee of Phi Lambda Sigma bears the ultimate responsibility for the management and oversight of endowment assets. The Executive Committee has delegated implementation of this policy to the Finance Committee, consisting of but not limited to the President, Executive Director, a national executive committee member and others appointed by the president. The treasurer will serve in an ex-officio capacity. The committee shall consist of an odd number of members and the the staff person with operating and supervisory responsibility is the Executive Director.

## **D. OBJECTIVES**

The primary objective of the management of the endowment assets is to ensure that the endowment fund supports continually the purposes established by the Executive Committee in conformance with donor stipulations. It is the objective of the Society to achieve investment results over time that will:

- a. support the purposes for which the endowment was established, and
- b. maintain the purchasing power of the endowment.

In pursuing these objectives, compliance will be maintained with all laws of prudence governing the Society in its investment and management of assets.

## **E. DEVELOPMENT OF INVESTMENT PHILOSOPHY AND STRATEGY**

The primary and constant standard for making investment decisions for endowments shall consist of the following guidelines. The investment manager may trade and retain investments that persons of ordinary prudence, discretion, and intelligence, exercising the judgment and care under the circumstances then prevailing, acquire or retain for their own account in the management of their affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital.

### **Asset Mix**

The probability of meeting long-term real return targets is higher through a diversified portfolio with heavier equity exposure. Increased real spending from the endowment is more likely with a heavier equity emphasis; and, over time, there is a slightly higher probability of shortfall from real return targets with a heavier equity exposure.

The Society should have a substantial commitment to equities. The role of fixed income investments is to provide cash flow and diversify exposure.

## **F.**

**TARGET ASSET MIX**

On the basis of a long-term orientation, the asset mix is as follows:

U.S. equity 65% (40-65% allowable range)  
U.S. fixed income 15% (10-15% allowable range)  
Cash 20% (10-20% allowable range)

Short-term changes in market behavior may result in variations from the target within the allowable range. The portfolio will be monitored on an ongoing basis. Rebalancing will take place at least annually and more often if necessary to maintain allocations within the allowable range.

**G. INVESTMENT MANAGER**

An investment manager shall be retained by the Society to provide a variety of services, including, but not limited to: safekeeping of securities, disbursement for investment management fees, and a quarterly accounting of all transactions.

The finance committee, executive director or designee will recommend the investment manager to the executive committee for approval. The investment manager will be reviewed by the finance committee, executive director or designee annually and shall provide proof of insurance coverage against errors and omissions at this time.

**H. PROXY VOTING**

Proxy voting power is an asset of the Fund and is subject to the same management as all other Fund assets. Accordingly, the Executive Director has the responsibility and liability for voting proxies appurtenant to the Fund-owned securities under its management. The voting of proxies must be done in a prudent manner and solely in the interest of the Fund.

**I. CASH FLOWS**

The Executive Director is responsible for identifying the sources and destinations of all cash flows consistent with this investment policy, including gifts, distributions and transfers.

**J. PAYOUT AND REINVESTMENT**

1. A donative instrument shall not include terms regarding endowment payout that conflict with the payout policies established by the Executive Committee.
2. In order to ensure that the Executive Committee has the ability to manage payout and reinvestment policies, the donative instrument should specifically allow the following:

- a. Funds distributed during a year to be retained by the component and expended for the purposes of the endowment in subsequent years, and
- b. The reinvestment of some portion of the payout as a permanent addition to the principal of the endowment at the discretion of the Executive Committee or component institution staff.
- c. The organization will use up to 90% of the earnings for distribution and the remainder will be retained.

## **K. BENCHMARKS**

### Market Cycles

The investment program is constructed to deliver a minimum 5% premium above inflation over market cycles for all sectors. A market cycle is defined to include both a period of declining prices and a period of rising prices. Generally, a full cycle will include a "bear" leg of at least two calendar quarters. The duration of a complete cycle would be a minimum of 3 to 5 years, and possibly longer.

### Active/Passive Management

- a. Expecting that active management (security selection) will add value in excess of passive implementation (investment in a market index), all investments will be actively managed by the Finance Committee in consultation with the investment manager. The result of their decisions will be measured on a quarterly basis and analyzed upon the completion of a full market cycle. Investment results will be compared against a hybrid market index.
- b. The Finance Committee will monitor and report on a regular basis on the overall structure and results of the investment program and recommend changes as required to meet the established objectives.

INVESTMENT POLICY AS SET FORTH IN THIS STATEMENT WILL BE REVIEWED ANNUALLY AND POLICY AMENDMENTS WILL BE SUBMITTED TO THE EXECUTIVE COMMITTEE AS NECESSARY.

**SECTOR GUIDELINES - U.S. EQUITY**

- A. **INVESTMENT OBJECTIVE:** to provide at least a 5.0% premium over the inflation rate. The composite U.S. equity sector will be structured to give full exposure to the U.S. equity market.
- B. **IMPLEMENTATION:**  
The Finance Committee will actively manage assets with implementation by a company to be chosen by the executive committee.
- C. **RATE OF RETURN BENCHMARKS:**
1. Over a full economic/market cycle, the U.S. equity sector is expected to deliver both a 5.0% premium over the inflation rate and, on an annualized and fee-adjusted basis, a 0.75% excess over the return of the Russell 3000 index.
  2. Over shorter measurement periods, the U.S. equity sector is expected to deliver a fee-adjusted return equal to or better than the return of the aggregate “normal” portfolio.

SECTOR GUIDELINES WILL BE REVIEWED AND REVISED AS NECESSARY IN CONJUNCTION WITH ANNUAL REVIEW OF INVESTMENT POLICY.

**SECTOR GUIDELINES - U.S. FIXED INCOME**

- A. **INVESTMENT OBJECTIVE:** To provide at least a 2.75% premium over the rate of inflation, to counteract the effect of interest rate shifts on endowment distributions and to provide additional diversification of total fund assets.
- B. **IMPLEMENTATION:**  
The Finance Committee will actively manage assets. Fixed income securities must have a quality rating of "B" or better as determined by Standard and Poor's Rating Service.

**C. RISK BENCHMARK:**

The "normal" portfolio will be the Lehman Brothers Government/Corporate Bond Index, which approximates the characteristics of the U.S. fixed income market.

**D. RATE OF RETURN BENCHMARKS:**

1. Over a full economic/market cycle, the U.S. fixed income sector is expected to deliver both a 2.75% premium over the inflation rate and, on an annualized fee-adjusted basis, an excess of 0.50% over the return calculated for the "normal" portfolio.
2. Over shorter measurement periods, the U.S. fixed income sector is expected to deliver a return equal to or better than the return of the "normal" portfolio.

SECTOR GUIDELINES WILL BE REVIEWED AND REVISED AS NECESSARY IN CONJUNCTION WITH ANNUAL REVIEW OF INVESTMENT POLICY.

**RESPONSIBILITIES:**

The Executive Committee delegates to the Finance Committee the following responsibilities:

1. Recommend to the Executive Committee policies to meet investment objectives for the Endowment Fund.
2. Implement and monitor investment policies.
3. Recommend custodians, investment managers, and consultants as needed for the management of the funds and report actions to the Executive Committee.
4. Evaluate and monitor custodians, investment managers, and consultants and report to the Executive Committee as needed, but not to exceed one year.
5. Report periodically to the Executive Committee on the status of the funds relative to the satisfaction of the investment objectives.
6. Monitor the effects of the spending policy and recommend modifications as appropriate.
7. Maintain accurate records for the Endowment fund.

HISTORICAL INFORMATION -  
ORIGIN DATE: 06/03/2016  
REVIEW DATES: 01/10/2017  
REVISION DATES: 03/25/2017