

INTERSTATE MEDICAL LICENSURE COMPACT

#9 – Policy on Investment Strategies

ADOPTED: **DRAFT**

EFFECTIVE: **DRAFT**

AMENDMENT HISTORY (LIST WHEN AMENDED AND CITE SECTION NUMBER):

- None

I. Policy Statement

The Interstate Medical Licensure Compact (IMLC) Statute Section 12, paragraph (u), states that the Interstate Medical Licensure Compact Commission (IMLCC) may perform such functions as may be necessary or appropriate to achieve the purpose of the Compact. This policy established how the IMLCC will establish a process for investing its cash assets in order to maximize the return on invested assets while minimizing risk and expenses. All transactions will be for the sole benefit of the IMLCC.

II. PURPOSE

The purpose of this policy is to:

- Ensure a uniform understanding of the IMLCC's cash assets.
- Establish a methodology for investing the cash assets.
- Define responsibilities.
- Authorize the IMLCC Treasurer and Executive Director to take the actions necessary to implement this policy and manage the investment portfolio.
- Create a process to identify target asset allocations, permissible investments and diversification requirements.

III. DEFINITIONS

Cash Assets – Assets consisting of cash and items readily convertible to cash, such as funds held in saving and checking accounts.

Investment Strategy – A prudent methodology for investing cash in investment vehicles, such as stocks and bonds, and other financial investments.

Investment Risk Factor – The risk of investments declining in value because of economic developments or other events that affect the entire market. The main types of market risk are equity risk, interest rate risk, and currency risk.

Professional Fund Manager – An organization or individual responsible for the day-to-day management of an investment portfolio.

Expense Ratio – The yearly cost of a fund investment, whether it makes or loses money. It covers investment management, marketing and administrative costs.

Fund Return – The amount a fund earned during a specified time period (1,3,5 years), minus the management fees and other costs. Often stated as a percentage of the money invested. For future return estimate purposes, investors may consider how the fund has done over various time periods in the past.

Asset mix – The percentage distribution of assets in a portfolio among the three major asset classes: cash and cash equivalents, fixed income (bonds) and equities (shares)

IV. General Provisions

1. All transactions shall be for the sole benefit of the IMLCC.
2. The Budget Committee will conduct an annual review of the IMLCC's investment assets to verify the existence and marketability of the underlying assets or satisfy themselves that such a review has been conducted in connection with an independent audit (if one should exist) of the IMLCC's financial statements.
3. Any investment that is not expressly permitted under this Policy must be placed on the agenda and approved by the full commission at a regularly scheduled meeting.
4. The Treasurer and Executive Director will endeavor to operate the IMLCC's investment program in compliance with all applicable state, federal and local laws and regulations concerning management of investment assets [including IRC §4944 if the IMLCC is classified as a private foundation for federal tax purposes.]
5. Investments will be diversified with a view to minimize risk.

V. AUTHORITY TO ACT AND DELEGATION OF RESPONSIBILITY

1. The Commissioners of the Interstate Medical Licensure Compact Commission have the ultimate responsibility for the investment and management of the IMLCC's investment assets.
2. This responsibility is exercised by the Commissioners through the IMLCC Budget Committee.

3. The Budget Committee may authorize the Treasurer and the Executive Director to act on its behalf in the execution of this policy and the Budget Committee's directives; including but not limited to retaining a Professional Fund Manager and implementing the investment of cash assets.
4. The Budget Committee shall establish a regular reporting process for:
 - a. Monitoring compliance with this policy;
 - b. Reviewing the performance of the investment strategy; and
 - c. Considering changes to the policy or investment strategy.
5. The Budget Committee may authorize the Treasurer and the Executive Director to hire or retain the services of outside experts such as investment consultants or investment managers.

VI. RESPONSIBILITIES OF THE TREASURER AND EXECUTIVE DIRECTOR

The Treasurer and Executive Director are charged with the responsibility of managing the investment assets of the IMLCC. The specific responsibilities, as applicable, include:

1. Communicating the IMLCC's financial needs to the Professional Fund Manager on a timely basis;
2. Determining the IMLCC's risk tolerance and investment horizon;
3. Establishing reasonable and consistent investment objectives, policy guidelines and allocations which will direct the investment of the assets, to be reviewed by the Commissioners on an annual basis;
4. Prudently and diligently selecting one or more qualified investment professionals, including investment managers(s), investment consultant(s), and custodian(s), collectively referred to as "Professional Fund Manager";
5. Routinely evaluating the performance of investment manager(s) to assure adherence to policy guidelines and to monitor investment objective progress; and
6. Developing and enacting proper control procedures; e.g., replacing investment manager(s) due to a fundamental change in the investment management process, or for failure to comply with established guidelines.

VII. RESPONSIBILITY OF PROFESSIONAL FUND MANAGER

1. Each Professional Fund Manager will invest assets placed in their care in accordance with this policy;
2. Each Professional Fund Manager must acknowledge in writing, acceptance of responsibility as a fiduciary;
3. Each Professional Fund Manager will have full discretion in making all investment decisions for the assets placed under his, her or its care and management, while operating within all policies, guidelines, constraints, and philosophies outlined in this Investment Policy.
4. The specific responsibilities include:
 - i. Discretionary investment management, including decisions to buy, sell, or hold individual securities, and to alter allocation within the guidelines established in this statement;
 - ii. Reporting, on a timely basis, monthly investment performance results;
 - iii. Communicating any major changes in the economic outlook, investment strategy, or any other factors that affect implementation of investment process;
 - iv. Informing the Commissioners, or if authority is delegated, the Treasurer and Executive Director, regarding any changes in portfolio management personnel, ownership structure, investment philosophy, etc.;
 - v. Voting proxies, if requested by the Commissioners, or if authority is delegated, the Treasurer and Executive Director, on behalf of the IMLCC; and
 - vi. Administering the IMLCC's investments at reasonable cost, balanced with avoiding a compromise of quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the IMLCC.

VIII. GENERAL INVESTMENT GUIDELINES

1. A copy of this policy shall be provided to all Professional Fund Manager(s).

2. The IMLCC is a tax-exempt organization as described in section 501(c)(6) of the Internal Revenue Code. This tax-exempt status should be taken into consideration when making IMLCC investments.
3. The IMLCC is expected to operate into perpetuity; therefore, a maximum of a 5-year investment horizon must be employed. Interim fluctuations should be viewed with the appropriate perspective.
4. A cash account will be maintained with a zero to very low risk tolerance in order to keep cash available for payments to state boards, tax obligations and other anticipated expenses.
5. Transactions will be executed at a reasonable cost, taking into consideration prevailing market conditions, services and research provided by the executing broker.
6. Permitted investments include:
 - i. Investment portfolios with a risk factor asset mix risk scale higher than a low- to moderate-range of an equivalent measurement.
 - ii. Investment portfolios with an asset mix of no greater than 60% stock/40% bond.
 - iii. Investment portfolios with a greater than 0.20% Expense ratio.
 - iv. Investment portfolios with a positive average 5-year rate of return.
7. No fixed income security shall have an equivalent credit quality below investment grade at the time of purchase, defined as:
 - i. BBB by Standard & Poors for straight bonds and convertibles.
 - ii. Baa3 by Moody's Investor Service for straight bonds and convertibles.
 - iii. A1 by Standard & Poors for short term securities.
 - iv. P1 by Moody's Investor Service for short-term securities.
 - v. AAA for money market accounts.
8. The following transactions are prohibited:
 - i. Purchase of non-negotiable securities;

- ii. Derivatives;
- iii. High risk or junk bonds;
- iv. Private placements;
- v. Precious metals;
- vi. Commodities;
- vii. Short sales;
- viii. Any margin transactions;
- ix. Straddles;
- x. Warrants;
- xi. Options;
- xii. Life insurance contracts;
- xiii. Leverage or letter stock.

IX. DIVERSIFICATION

1. The IMLCC shall maintain a reasonable diversification of investment assets between asset classes and investment categories at all times.
2. Investments in equity securities of any one company shall not exceed 5% of the portfolio nor shall the total securities position (debt and equity) in any one company exceed 10% of the portfolio.
3. Reasonable sector allocations and diversification shall be maintained. No more than 25% of the entire portfolio may be invested in the securities of any one sector.
4. Investments within the investment portfolio should be readily marketable.
5. The investment portfolio may not be a blind pool; each investment must be available for review.

X. ASSET ALLOCATION

1. The asset allocation policy will be predicated on the following factors:

- i. Historical performance of capital markets adjusted for the perception of the future short- and long-term capital market performance.
 - ii. The correlation of returns among the relevant asset classes.
 - iii. The perception of future economic conditions, including inflation and interest rate assumptions.
 - iv. Liquidity requirements for the projected grants and other charitable expenditures.
 - v. The relationship between the current and projected assets of the IMLCC and projected liabilities.
2. Rebalancing will be done on a semi-annual basis or more frequently if approved by the Budget Committee based on the recommendations from the Treasurer and Executive Director.
3. Allocation Range:

Asset Allocation Range	Target	Upper Limit
Cash & Equivalents	20%	20 – 25%
Fixed Income	40%	20 – 60 %
Equities: Domestic Large Cap	20%	15 – 40%
Equities: Domestic Small/Mid Cap	15%	10 – 15%
Equities: International	5%	0 – 5%

XI. PERFORMANCE

Performance objectives are to met on a net of fees basis. The investment performance of each asset allocation class will be measured on two levels: against inflation objectives for the IMLCC and against index objectives for individual portfolio components. Investment performance shall be measured no less than quarterly on a net of fees basis. Performance shall be evaluated on a three-to-five-year basis to allow for market fluctuations and volatility

XII. RESPONSIBILITY

The Treasurer shall be responsible for administering this policy and ensuring that this policy is current, compliant with all statutory requirements and case law, and consistent with other applicable standards. The Treasurer may delegate administration and maintenance of this policy to the Executive Director. This policy shall be reviewed by the IMLCC Budget Committee and must be renewed prior to the start of each fiscal year.