

# INTERSTATE MEDICAL LICENSURE COMPACT

## **#9 – Policy on Investment Strategies**

ADOPTED: June 8, 2021

EFFECTIVE: June 8, 2021

REVIEWED: N/A

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

- None Proposed – November 16, 2021

### **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 establishes the fiduciary process for investing its cash assets in order to maximize the return on investment while minimizing risk and expense. All transactions will be for the sole benefit of the IMLCC.

### **II. PURPOSE**

The purpose of this policy is to promote the stability of the IMLCC as it moves forward toward the goal of self-sustainment through the moderation of its revenue and efficiency of its financial management. Pursuant to that purpose is the development and growth of five key reserve funds to be managed collectively and set aside for the support and unfettered use by the IMLCC for its growth and sustainability, namely the Restricted Capital Reserve Fund, the Restricted Special Project Reserve Fund, the Restricted IT Reserve Fund, the Restricted Reserve Fund and the Unrestricted General Fund.

Paramount to this purpose ~~are~~are these overriding objectives:

- 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.
- Facilitate the Professional Fund Manager's understanding of liquidity needs related to the IMLCC's internal administrative growth assumptions for the next

ten years, namely consistent growth leading to full state acceptance and ultimate sustainability.

### 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 applicable types of market risk are equity risk, sector risk, liquidity 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, 10 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 changes to the IMLCC's financial and liquidity needs to the Professional Fund Manager on a timely basis through e-mail or personal contact;

2. Determining the IMLCC's risk tolerance and investment horizon with tools utilized by the Professional Fund Manager;
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 and communicated to the Professional Fund Manager;
4. Prudently and diligently selecting one or more qualified investment professionals, including investment managers(s), investment advisor(s), and custodian(s), collectively referred to as "Professional Fund Manager";
5. Routinely evaluating the performance of the Professional Fund Manager 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. The Professional Fund Manager will invest assets placed in their care in accordance with this policy;
2. The Professional Fund Manager must acknowledge through the standard application process utilizing a signed client agreement-in-writing, acceptance of responsibility as a fiduciary;
3. The Professional Fund Manager will have full discretion in making all investment decisions for the assets placed, ~~while operating within all policies, guidelines, constraints, and philosophies outlined in this Investment Policy on the Professional Fund Manager's discretionary platform.~~
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-quarterly investment performance results;

- iii. Communicating opinion on any major changes in the economic outlook, investment strategy, or any other factors that may affect implementation of investment process or performance of invested assets;
- 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 which the Professional Fund Manager determines to be impactful to the IMLCC's investment portfolio.;
- ~~v. Voting proxies, if requested by the Commissioners, or if authority is delegated, the Treasurer and Executive Director, on behalf of the IMLCC;~~
- ~~vi.v.~~ Administering the IMLCC's investments prudently and without compromising -at reasonable cost, balanced with avoiding a compromise of quality of service. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the IMLCC;
- ~~vii.vi.~~ Providing contact information (name, address, email, and phone number) and availability to the Treasurer and Executive Director that allows for ease of administration and service; and
- ~~viii.vii.~~ Annually reviewing this Policy for and any modifications, and implementing such changes into investment management decisions.

## VIII. GENERAL INVESTMENT GUIDELINES

1. A copy of this policy shall be provided to the Professional Fund Manager.
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 minimum of a 5-year investment horizon must be employed. Interim fluctuations should be viewed with the appropriate perspective.
4. All funds invested in cash or cash alternatives ~~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. These cash funds may be held outside the discretion of the Professional Fund Manager.

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% equity/40% fixed income.
  - 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 individual 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.
8. The following transactions are prohibited:
  - i. Purchase of non-negotiable securities;
  - ii. Derivatives;
  - iii. Individual high risk or junk bonds, although a diversified Mutual Fund or ETF with such investments may be allowed;
  - iv. Private placements;
  - v. Precious metals;
  - vi. Individual commodities or commodity future contracts;
  - vii. Short sales;
  - viii. Any margin transactions;

- ix. Straddles;
- x. Warrants;
- xi. Options;
- xii. 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. ~~Individual~~ investments in company shares equity securities of any one company shall not exceed 5% of the portfolio nor shall the total securities position (fixed income and equity) in any one company exceed 10% of the portfolio.
3. Reasonable asset sector allocations targets for professionally managed investments and diversification shall be maintained. No more than 25% of the entire portfolio may be invested in the securities of any one industry sector.
4. Investments within the ~~investment managed~~ portfolio should be readily marketable under the Professional Fund Manager's trading platform.
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; and
  - v. The relationship between the current and projected assets of the IMLCC and projected liabilities.

2. Rebalancing will be done at least on an annual basis or more frequently ~~if appropriate and directed by the Budget Committee based on the recommendations from the Treasurer and Executive Director.~~ as advised and recommended by the Professional Fund Manager.

3. Targeted Allocation Range:

<u>Asset-Target</u> Allocation Range	Target	Range Limits
Cash & Equivalents	15%	10 – <del>100</del> 25%
Fixed Income	45%	20 – 60 %
Equities: Domestic Large Cap	20%	15 – 50%
Equities: Domestic Small/Mid Cap	15%	0 – 20%
Equities: International	5%	0 – 15%

## XI. PERFORMANCE

Performance objectives are to be measured by the IMLCC met on a net of fees basis. The investment performance of each asset allocation class will be measured on two levels: First, against inflation objectives for the IMLCC and Second, 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.