

INTERNATIONAL TEST AND EVALUATION ASSOCIATION (ITEA)



**INVESTMENT POLICY ADDENDUM
(MAY 2007)**

AND

**STATEMENT OF INVESTMENT POLICIES
AND OBJECTIVES
(JUNE 2006)**

ITEA Statement of Investment Policies and Objectives

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ITEA INVESTMENT POLICY

(APPROVED ADDENDUM – MAY 23, 2007)

Reserve Policy

The goal of the ITEA Reserve Policy, working in conjunction with the ITEA Investment Policy, is to maintain sufficient liquid assets to meet planned and unplanned expenditures and to provide for the preservation and safety of both capital and non-capital investments.

The objectives and strategies for achieving ITEA's reserve policy are as follows:

1. To sustain day-to-day operations of the association during periods of stability in income and expense.
 - (a) To accomplish stated objective, ITEA will establish one or more Operating Bank Account(s), generally consisting of checking account(s) and/or savings account(s). All cash received by the Association will be deposited into the operating account(s).
 - (b) To the extent possible, the operating account balances should not exceed \$125,000 at the end of each calendar-year quarter. Funds above the \$125,000 threshold at the end of each calendar year quarter will automatically be transferred into an Operating Reserve Account(s), generally consisting of short-term money market investment account(s).

2. To sustain basic ITEA operations and core member services during any short-term economic downturn; loss of significant association revenue source (i.e. key event cancellation); or significant unplanned expenditure (i.e. loss of office space, fire, etc.). Short-term, as defined in the general ITEA investment policy, is a fiscal year cycle.
 - (a) To accomplish the stated objective, ITEA will establish an Operating Reserve Account, generally consisting of short-term funds, such as money market investments, and otherwise as guided by the overall ITEA Investment Policy on short-term fund management.
 - (b) ITEA will maintain a minimum of \$200,000 in its Operating Reserve Account.
 - (c) ITEA has established a reserve target of 30 percent of its annual operating expense budget for the Operating Reserve Account.

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3. To establish a permanent source of long-term funding for the ITEA scholarship program.
 - (a) To accomplish the stated objective, ITEA will establish an Education Reserve Account, generally consisting of long-term funds as guided by the overall ITEA Investment Policy on long-term fund management.
 - (b) ITEA will maintain a minimum balance in its Education Reserve Account greater than or equal to the aggregate of all Chapter balances in scholarship accounts as governed by the ITEA Chapter Scholarship Schedule. This schedule is maintained for accounting purposes and used to track deposits to and disbursements from the Chapter scholarship accounts.
 - (c) ITEA has established a reserve target of 125 percent of the current balance in the Education Reserve Account as its new target balance each year in keeping with the ITEA vision to establish education reserve as a growth fund.
 - (d) Any revenues received into or expenses paid out of the operating account to support the ITEA Chapter Scholarship program will be reconciled to the Education Reserve Account and an appropriate monetary adjustment will be made during the year-end close of financials. The ITEA Chapter Scholarship Schedule will be the source document for reconciling the Education Reserve Account.

4. To provide ITEA with additional capital resources to:
 - a) cover unbudgeted expenditures brought about by unanticipated challenges or opportunities for emergency funding brought about by extraordinary circumstances and one-time or episodic situations;
 - b) unplanned or emergency capital expenditures associated with technological or infrastructure improvements (e.g. server, web site, computer, office equipment, furniture, etc.);
 - c) research and development of new products and services that have the potential to significantly benefit the testing and evaluation profession;
 - d) cover interim planning periods of staffing expenses if new staff positions are approved or gaps occur with existing staffing;
 - e) other proposals that provide a valuable member service; move ITEA into a new revenue-generating or customer-generating areas that replenish the reserve funds; or support an essential infrastructure need.
 - (a) To accomplish the stated objective, ITEA will establish a Capital Reserve Account, generally consisting of long-term funds as guided by the overall ITEA Investment Policy on long-term fund management.
 - (b) ITEA will maintain a minimum of \$75,000 in its Capital Reserve Account.
 - (c) ITEA has established a reserve target of 20 percent of its annual operating expense budget for the Capital Reserve Account.

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5. Operating Reserve and Capital Reserve expenditures will be paid directly from their respective fund accounts. If for any reason these expenditures are instead paid from the operating account, the operating account should immediately be reimbursed for the exact amount from the respective fund account[s].
6. The Ways and Means Committee will review this policy at least annually. The Committee will prepare recommendations as needed to the ITEA Board of Directors, to ensure that the policies are reflective of the needs and circumstances of the Association.
7. Unrealized gains on investment market value should also be separately identified on the reserve allocation and are not available for use. Unrealized losses on investment market value will require an equal portion of the reserve be allocated to offset the deficit.
8. Money will not be allocated from any of the long-term reserve accounts (e.g. Education Reserve Account or Capital Reserve Account) unless a specific opportunity arises; the expenditure is proposed to the Ways and Means Committee and is well-researched, and further submitted to the Board of Directors for approval.
9. The Operating Reserve Account, by its nature, is less restrictive and funds may be transferred by the Executive Director to cover short-term cash flow requirements as needed. The amount of transfer from the Operating Reserves Fund and the rationale for the transfer must be reported to the Ways and Means Committee by the Executive Director.

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(Adopted June 2006)

ABOUT THIS STATEMENT

This Statement of Investment Policies and Objectives establishes the investment policies and guidelines for the management of the investment assets of the International Test and Evaluation Association (ITEA). The purpose of this statement is to assist ITEA and the Executive Director in effectively supervising and managing ITEA's reserve assets. This statement:

- Describes an appropriate risk posture for the assets;
- Specifies the target asset allocation policy and the investment management structure;
- Establishes investment guidelines regarding permissible assets, diversification, quality, transactions costs, proxy voting, etc.; and
- Specifies the criteria for evaluating the performance of the investments.

ITEA believes the investment policies described in this statement should be conservative, yet permit enough flexibility to manage unforeseen financial impacts. These policies should reflect ITEA's current status and current philosophy regarding investment of the assets. The policies will need to be reviewed and possibly revised from time to time to ensure they adequately reflect the changes related to ITEA's assets and the capital markets.

RESPONSIBILITIES

The Ways and Means Committee has the responsibility for establishing, subject to the Board of Director's approval, the Investment Policies that are to guide the investment of the reserve assets. The Investment Policies and Objectives describe the degree of investment risk that the Ways and Means Committee deems appropriate.

The Executive Director will execute the policies and will invest the reserves in accordance with these policies and guidelines concerning relative investment values. The Ways and Means Committee may provide further guidance to insure the Association's financial and investment posture reflect the current health of the Association.

The Ways and Means Committee has the responsibility to monitor the investment status on an ongoing basis, and to provide additional guidance where appropriate, but shall not, however, become involved in the day-to-day management of securities.

GENERAL INVESTMENT POLICY

In recognition of its fiduciary responsibility, the Board of Directors of the International Test and Evaluation Association has adopted the investment management guidelines set forth in the following pages.

The investment policy of ITEA is intended to enhance the value of the portfolio and at the same time provide a dependable source of liquidity and income. The portfolio shall be composed of diversified assets, including but not limited to money markets, equities, and fixed-income investments. The equities are designed to provide current income, growth of income and appreciation of principal and will typically reside in Mutual Funds. The Money Market Accounts are intended to provide an accessible source of cash; the fixed income investments are intended to provide a predictable and reliable source of interest income while reducing the volatility of the portfolio. Investment will be diversified in order to enhance return and appreciation and reduce risk.

It is the intent of these guidelines to conform to a general prudent investor standard. The standard requires the exercise of reasonable care, skill and caution, and is to be applied to investments, not in isolation, but in the context of the governing document and as part of an overall investment strategy, which should incorporate risk and return objectives reasonably suited to the portfolio.

PURPOSE OF THE ASSETS

ITEA's investment strategy should reflect the designated purpose of the related funds(s). ITEA's investment policy is based upon three (3) needs:

- To meet current needs, provide daily liquidity (Operating Fund held in banking accounts);
- To meet cyclical needs, fund anticipated projects and capital expenditures within a fiscal year cycle (Short-Term Funds);
- To meet unanticipated expenditures, meet reserve fund requirements, and to grow the assets and a suitable level of risk (Long-Term Funds).

The general investment objectives, specific investment objectives and overall investment guidelines may vary according to the above three needs and as noted on the following pages for the Short-Term and Long-Term Funds. To most effectively meet these needs, the assets be designated as either short-term or long-term assets, and be invested accordingly. The policies set forth below detail how these assets should be managed.

SHORT-TERM FUNDS

GENERAL INVESTMENT OBJECTIVES

Maintain Association assets in accordance with the following objectives in order of importance:

- Protect principal,
- Achieve the money market rate of return or better, and
- Minimize management costs consistent with the other objectives.

SPECIFIC INVESTMENT OBJECTIVES

- The account manager (currently Merrill Lynch) will be expected to generate income at least equal to the money market rate of return.

INVESTMENT GUIDELINES

A. Investments

- Commercial Paper- Only investment grade (A1-P1) or better.
- Certificate of Deposit-issued by banks whose holding companies' commercial paper carry the rating (A1-P1) or better.
- Obligations of the US Government and its agencies- such as Treasury Bills, GNMA, and FDMC.
- High quality short-term money market instruments.

B. Investment Mix

- Maximum of 50% in commercial paper, with no more than 25% invested in any one company, and
- Maximum of \$100,000 invested in individual Certificates of Deposits issued by any one bank, with no more than 25% invested in any one bank.

LONG-TERM FUNDS

Investment Objectives

Maintain association assets in accordance with the following objectives in order of importance:

- Provide for assets to the Short-Term Fund if needed,
- Maximize returns at prudent levels of risk, and
- Minimize management costs consistent with the other objectives.

Risk Posture

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of risk (i.e., volatility of investment returns) assumed and the level of return that can be expected in an investment program. In general, higher risk is associated with higher expected returns.

Given this relationship between risk and return, a fundamental step in developing investment policies for ITEA is the determination of the Long-Term Account's risk posture. We have examined both the Fund's risk tolerance, (i.e., the ability of Entity to take risk), and its risk preference, i.e., the willingness of the (Entity) to assume risk in the reserve portfolio.

In making such a determination, we have assumed an investment horizon of five year's or greater, but with the understanding that the actual investment horizon may be greater or less than five years.

Asset Allocation Policy

Over the long term, asset allocation policy will be the key determinant of the returns generated by the fund and the associated volatility of returns. In particular, the level of equity exposure is the key element within ITEA's investment policies.

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	Percent of Total Fund		
	Minimum	Target	Maximum
Stocks:			
Large Cap Stocks	10%	25%	30%
International Stocks	0%	0%	5%
Small/Mid Cap Stocks	0%	0%	5%
TOTAL STOCKS	10%	25%	30%
Bonds (Fixed Income)	50%	55%	70%
Cash Equivalents	10%	20%	30%

ITEA will instruct the account manager on whether to follow Alternative 1 or 2 as described below.

Alternative 1: Rebalancing

The account manager, along with ITEA, will review this asset mix at least annually and rebalance its portfolio mix at any time that an asset class moves plus or minus 5% of the current target allocation specified above. In rebalancing, the assets will be allocated back to the target mix over a reasonable period of time. (Note: The primary focus in rebalancing will be on overall equity exposure.)

Alternative 2: Tactical Asset Allocation

Within the ranges specified above, the account manager will, with approval from ITEA, adjust Fund's asset allocation. The investment manager will make such tactical asset allocation decisions consistent with its capital market outlook and the Association's stated risk posture. Overall asset allocation will remain within the strategic asset allocation targets specified here.

Investment Guidelines

The following guidelines have been developed for the management of the (Entity's) Long-Term assets. The association intends to primarily use mutual funds as investment vehicles.

Fixed Income Portfolio

- The duration of the fixed income portfolio should be targeted to that of the Lehman Brothers Government/Corporate Bond Index and may vary +/- 150% from the target.
- Fixed income holdings in a single issuer (excluding obligations of the United States Government, its agencies and government sponsored entities) should be limited to 20 percent of the manager's portfolio measured at market value at the time of purchase.
- Acceptable asset categories include money market securities, U.S. Governments, its agencies and government sponsored entities, mortgage backed and asset-backed securities, and corporate securities. All securities may be purchased without regard to the stated final maturity date or average life of the security. The duration, as outlined above, is the measure of the price sensitivity of the portfolio and the interest rate risk control.
- Fixed income investments should be limited to investment grade securities, i.e., securities with ratings of BBB- (Standard & Poor's) or Baa3 (Moody's) or higher. Unrated securities of the U.S. Treasury, government agencies and government sponsored entities are permissible investments. Securities that drop below investment grade should be sold at the manager's discretion.
- Fixed income purchases should be limited to readily marketable securities. Private placements are not permissible investments. Convertible bonds or preferred securities are also not permissible investments.
- Securities may be purchased on a when-issued or delayed delivery basis.

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- The following exotic and toxic derivative securities are prohibited:
 - Inverse floating rate securities
 - Leveraged floaters (securities where the interest rate moves exponentially with some index instead of moving linearly)
 - Interest only tranches of Collateralized Mortgage Obligations (IO's)
 - High risk derivatives - Structured notes and subordinated class CMOs & Remics which do not pass the FFIEC test for fiduciary quality and a 200 basis point stress test done via Bloomberg, Bond Edge, or any other similar testing vehicle at the time of purchase.
 - Portfolios will not be leveraged with derivatives.
- Where common trust funds or mutual funds are used, appropriate guidelines as stated in the prospectus or governing document will apply.

Equity Portfolio

- Equity investments should be composed of Mutual Funds and/or Broad Market Index Funds in order to create a diversified balance of stocks.
- Fund investments should contain a blend of Value and Growth stocks.
- Funds selected should primarily focus on equity investments but may also include hybrid funds containing both equity and fixed income investments.
- Funds selected should contain primarily companies with large sized capitalization.
- Funds selected should maintain a relatively low turnover ratio with low fund fees.
- Investments in Mutual Funds and Index Funds with a narrow sector focus (e.g. health, computers, Real Estate, etc.) will be avoided.

Policy for Utilization of Futures and Options and Leveraging

- Futures and options positions will not be permitted in the management of fund assets. Leveraging portfolio positions through borrowing, short sales, or other encumbrances is prohibited.

Account Manager Responsibilities

The duties and responsibilities of the account manager (currently Merrill Lynch) include:

- Investing the assets of the association with the care, skill, prudence, and diligence that a prudent professional investment manager, familiar with such matters and acting in like capacity, under similar guidelines and circumstances, would use in the investment of such assets.
- Initiating communication with the Association's representative and the Ways and Means Committee whenever the investment manager believes the guidelines should be changed. The Association recognizes that such changes may be necessary from time to time given the dynamic nature of capital markets.
- Meeting with the Association's representative on the frequency agreed upon to review investment objectives, portfolio and performance information, and any other matters affecting management of these funds.
- Informing the Association's representative regarding all significant matters pertaining to the investment of all of the (Entity's) operating account assets. These matters include:
 - Substantive changes in investment strategy or portfolio structure; and
 - Significant changes in the ownership, affiliations, organizational structure, financial condition, and professional staffing of the investment management organization.

This statement of Investment Policies and Objectives was adopted at the ITEA Board of Directors meeting held on June 21, 2006 in Fairfax, Virginia.

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