Brainerd Memorial Library Association

**Investment Policy, Objectives and Guidelines**

# Overview

The Budget and Finance Committee of the Brainerd Memorial Library Association has the responsibility for the development, review and implementation of the investment policy in consultation with investment advisors selected by the Budget and Finance Committee. This responsibility includes (1) determining acceptable levels of market risk, and (2) determining the allocation of assets among common stocks, fixed income, real estate, and cash or other investments.

Recognizing the Library’s long-term financial needs, the primary objectives are to preserve in real terms the future purchasing power of the Endowment, and to provide a prudent level of revenue to support the annual budget. To do this means achieving total return (interest, dividends and capital appreciation) on the Endowment’s assets, consistent with acceptable risk levels and the need to produce a predictable level of revenue from the Endowment toward the support of the annual budget.

# Support to the Annual Budget

The objective of the Endowment is to provide funds to support the annual operating budget from dividends, interest, and other income earned from investments.

# Asset Allocation Policy

The Endowment fund shall be diversified by asset class (common stocks, bonds and preferred stocks, real estate, and cash equivalents). Asset Allocation is the responsibility of the Budget and Finance Committee. The purpose of investing in common stocks is to provide future growth in principal and income while also preserving the purchasing power of the Endowment. The purpose of investing in bonds and preferred stocks is to provide a hedge against deflation, to produce current income and to reduce the overall volatility of the portfolio.

To maintain in real terms the purchasing power of the fund and to increase the level of support from the Endowment each year, the allocation between common stocks and fixed income investments (bonds and preferred stocks) shall generally be as follows based on market value:

Common Stocks. Normally 75%. The Budget and Finance Committee shall monitor this ratio quarterly and rebalancing should take place when this ratio exceeds 85% or falls below 65%. Should the Budget and Finance Committee choose not to rebalance when these investments fall outside of these ratios, the approval of the Board should be sought. Securities convertible into common stocks will be viewed as part of the common stock portfolio in measuring the ratio of common to fixed income investments.

Bonds and Preferred Stocks. Normally 25%. The Budget and Finance Committee shall monitor this ratio quarterly and rebalancing should take place when this ratio exceeds 35% or falls below 15%. Should the Budget and Finance Committee choose not to rebalance when these investments fall outside of these ratios, the approval of the Board should be sought.

Cash. The primary purpose of holding cash or cash equivalents is to have cash available to provide revenue during the year as approved by the Budget and Finance Committee to support the annual budget.

New contributions to the Endowment, dividends and interest earned during the year, shall generally be allocated to maintain the 75%/25% ratio of common stocks to bonds and preferred stocks.

Investment Guidelines.

Common stocks and preferred stocks shall be confined to those issues listed on the New York Stock Exchange and to issues in the over-the-counter market with reasonable trading volume. The common stock portfolio should be diversified such that no more than 6% of the market value of the fund including cash reserves shall be invested in any one company without specific approval of the Budget and Finance Committee. No more than 15% of the market value of the fund including cash reserves shall be invested in common stocks of any one industry without specific approval of the Budget and Finance Committee.

The preferred stock portfolio should be diversified such that no more than 6% of the market value of the fund including cash reserves shall be invested in any one company without specific approval of the Budget and Finance Committee. No more than 15% of the market value of the fund including cash reserves shall be invested in preferred stocks of any one industry without specific approval of the Budget and Finance Committee.

No additional restrictions apply to bond investments backed by the full faith and credit of the United States Government. Bonds which are not guaranteed by the U.S. Government provided they are rated at least “A” or equivalent are acceptable investments provided no more than 6% of the Endowment fund is invested in any one U.S. agency or any one corporation. All corporate bonds must be publicly issued, SEC registered, non-convertible domestic issues and U.S. dollar-dominated.

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