

# Los Angeles County Bar Association Investment Policy

*Approved by Board of Trustees*  
November 20, 2013

---

**Table of Contents**

Section 1 – Introduction & Purpose.....	1
Section 2 – Assignment of Responsibility.....	2
Section 3 – Investment Objectives.....	3
Section 4 – Liquidity & Diversification .....	3
Section 5 – Asset Allocation .....	4
Section 6 – Investment Guidelines .....	5
Section 7 – Definitions of Benchmarks.....	5

---

## Section 1 – Introduction & Purpose

This statement of investment policy (this “Statement”) has been adopted by the Finance Committee of the Los Angeles County Bar Association (“LACBA”) to reflect the investment policy, objectives and constraints for LACBA’s Operating Reserves Account. In general, the purpose of this Statement is to outline a philosophy that will guide the investment management of assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

### Defined Terms

- **Custodian** shall mean any individual or organization engaged directly, or through agreement with a sub-custodian, to: maintain physical possession of securities owned by LACBA, collect dividend and interest payments, redeem maturing securities and effect receipt and delivery of securities following purchases and sales. The Custodian shall also perform regular accounting of all assets owned, purchased or sold as well as movement of assets into and out of the accounts.
- **Fiduciary** shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Operating Reserves Account Assets.
- **Finance Committee** shall refer to the LACBA Finance Committee, under the direction and approval of the LACBA Board of Trustees.
- **Investment Horizon** shall be the time period over which the investment objectives, as set forth in this Statement, are expected to be met. The Investment Horizon for this investment policy is long term.
- **Investment Manager** shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Operating Reserves Account assets. The Investment Manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the investment objectives.
- **Investment Consultant** shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search and performance monitoring. The consultant may assist the Finance Committee in: establishing investment policy, objectives and guidelines; selecting Investment Managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
- **Risk** shall mean the possibility of loss of, reduction of or insufficient return on invested capital.
- **Securities** shall refer to marketable investment securities which are defined as acceptable in this Statement.

---

## **Section 2 – Assignment of Responsibility**

### **Responsibility of the Finance Committee**

The Finance Committee is charged with responsibility for the management of the assets of the Operating Reserves Account. The Finance Committee shall discharge its duties solely in the interest of LACBA, with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The specific responsibilities of the Finance Committee relating to the investment management of LACBA's Operating Reserves Account assets include:

- Determining LACBA's Risk tolerance and Investment Horizon for the Operating Reserves Account and communicating these matters to the appropriate parties;
- Establishing reasonable and consistent investment objectives, policies and guidelines which will direct the investment of the Operating Reserves Account's assets;
- Prudently and diligently selecting qualified investment professionals, including Investment Managers, Investment Consultants and Custodians;
- Regularly evaluating the performance of the Investment Managers to assure adherence to policy guidelines and monitor investment objective progress; and
- Developing and enacting proper control procedures (e.g., replacing Investment Managers due to fundamental change in investment management processes or failure to comply with established guidelines).

### **Responsibility of the Investment Consultant**

The Investment Consultant's role is that of a non-discretionary advisor to the Finance Committee. Investment advice concerning the investment management of assets will be offered by the Investment Consultant and will be consistent with the investment objectives, policies, guidelines and constraints as established in this Statement. Specific responsibilities of the Investment Consultant include:

- Assisting in the development and periodic review of investment policy;
- Conducting Investment Manager searches when requested by the Finance Committee;
- Providing due diligence or research on existing and proposed Investment Managers;
- Monitoring the performance of the Investment Managers to provide the Finance Committee with the ability to determine progress toward the investment objectives;
- Communicating matters of policy, manager research and manager performance to the Finance Committee; and
- Reviewing the Operating Reserves Account investment history, historical capital markets performance and the contents of this Statement with any newly appointed members of the Finance Committee.

### **Responsibility of the Investment Managers**

Each Investment Manager must acknowledge in writing its acceptance of responsibility as a Fiduciary with the oversight of the Finance Committee. Each Investment Manager will have discretion to make all investment decisions for the assets placed under its jurisdiction while observing and operating within all policies, guidelines, constraints and philosophies as outlined in this Statement. Specific responsibilities of each Investment Manager include:

- Discretionary investment management, including decisions to buy, sell or hold individual Securities, and to alter asset allocation within the guidelines established in this Statement;
- Reporting, on a timely basis, quarterly investment performance results;
- Communicating any major changes to economic outlook, investment strategy or any other factors which affect implementation of investment processes or the progress of the Operating Reserves Account's investment management toward the account's investment objectives;

- Informing the Finance Committee regarding any qualitative change to investment management organization (e.g., changes in portfolio management personnel, ownership changes, investment philosophy, etc.); and
- Voting proxies, if requested by the Finance Committee, on behalf of LACBA and communicating such voting records to the Finance Committee on a timely basis (unless this responsibility is reserved by the Finance Committee).

---

### **Section 3 – Investment Objectives**

#### **General Investment Principles**

The Operating Reserves Account will maintain a long term Investment Horizon with the primary objective of maximizing the total rate of return on invested assets subject to the preservation of capital. In order to achieve this objective, the following general principles shall be followed:

- Investments shall be made solely for the best interests of LACBA.
- Investment of the Operating Reserves Account shall be diversified so as to minimize the risk of large losses.
- Understanding that Risk is present in all types of securities and investment styles, the Finance Committee recognizes that some Risk is necessary to produce long-term investment results that are sufficient to meet the primary objective set forth in this Statement.
- Investment Managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

#### **Specific Investment Strategies and Goals**

The goal of each Investment Manager, over the Investment Horizon, shall be to:

- Meet or exceed the market index, or blended market index, selected and agreed upon by the Finance Committee that most closely corresponds to the style of investment management (the list of selected benchmarks is displayed in Section 5 of this Statement); and
- Display an overall level of Risk in the portfolio which is consistent with the Risk associated with each respective benchmark specified above.

---

### **Section 4 – Liquidity & Diversification**

#### **Liquidity Requirements**

To maintain the ability to deal with unplanned cash requirements that might arise, the Finance Committee requires that a minimum of 1.00% of Operating Reserves Account assets shall be maintained in cash or cash equivalents, including money market funds or short-term U.S. Treasury securities.

After giving consideration to the Operating Reserves Account's longer-term objectives and liquidity requirements, the Finance Committee requires at least 90.00% of Operating Reserves Account assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently, with minimal impact on market price.

## Diversification of Investment Portfolio

In order to achieve a prudent level of portfolio diversification:

- The securities of any one company or government agency should not exceed 5.00% of the total Operating Reserves Account.
- There is no required level of diversification for total allocation to Treasury securities.

## Guidelines for Fixed Income Investments and Cash Equivalents

Operating Reserves Account assets may be invested only in fixed income securities rated B/B- (Moody's/Standard & Poors) or better.

The Operating Reserves Account may at times have investments that are categorized as nonrated. Nonrated securities are primarily comprised of managed futures, derivatives and other synthetic instruments managers utilize to take short positions in their portfolios. While they may not carry ratings, these are liquid vehicles. These securities are deemed acceptable but may require further scrutiny / diligence by the Investment Consultant and the Finance Committee.

Money market funds selected shall contain securities with a credit rating at the absolute minimum of investment grade (BBB by Standard & Poors or Baa by Moody's).

---

## Section 5 – Asset Allocation

### Aggregate Operating Reserves Account Asset Allocation Guidelines

Investment management of the Operating Reserves Account shall be in accordance with the following asset allocation guidelines (at market value):

<u>Asset Sub-Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>	<u>Benchmark</u>
Large Cap Equities	15.0%	35.0%	40.0%	Russell 1000
Small/Mid Equities	5.0%	15.0%	20.0%	Russell 2000
Non-US Equities	5.0%	15.0%	20.0%	MSCI EAFE
US Fixed Income	20.0%	30.0%	50.0%	BC Aggregate
Non-US Fixed Income	0.0%	0.0%	10.0%	SSB World Gov. Bond
Cash Equivalents	1.0%	5.0%	10.0%	T-Bill (90 Day)

The account's asset allocation shall not breach the maximum and/or minimum levels set above without prior approval of the Finance Committee. In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Finance Committee will instruct the Investment Managers to bring the portfolios into compliance with these guidelines as promptly and prudently as possible.

---

## Section 6 – Investment Guidelines

### Allowable Equity Securities

- Common stocks
- Convertible notes & bonds
- Convertible preferred stock
- Non-US common or preferred stock
- Mutual funds that invest in equities
- ADRs of non-US corporations

### Allowable Fixed Income Securities

- US Government & Agency securities
- Corporate notes & bonds
- Mortgage backed bonds
- Preferred stock
- Mutual funds that invest in debt securities
- Non-US fixed income securities

### Allowable Cash Equivalent Securities

- Securities that are eligible under the SEC's Rule 2a-7 of the Investment Company Act of 1940

### Allowable Other Securities

- Guaranteed Investment Certificates (GIC)

### Prohibited Equity Securities

- Options
- Short Equity Positions
- Derivatives

### Prohibited Fixed Income Securities

- None

### Prohibited Cash Equivalent Securities

- None

### Prohibited Other Securities

- Limited partnerships

### Prohibited Transactions

There are no specific prohibited transactions.

---

## Section 7 – Definition of Benchmarks

### Russell 1000

A domestic equity benchmark that measures the performance of the 1,000 largest companies in the Russell 3000 Index, and represents approximately 92% of the total market capitalization of the Russell 3000 Index. As of May 31, 2013, the average market capitalization of companies included in the Russell 1000 is \$96.8 billion.

### Russell 2000

A domestic equity benchmark that measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. As of the latest reconstitution, the average market capitalization of companies included in the Russell 2000 is \$1.4 billion.

### MSCI EAFE

A market capitalization weighted equity index composed of companies representative of the market structure of 20 Developed Market countries in Europe, Asia (including Australia) and the Far East.

**BC Aggregate**

A fixed income benchmark composed of securities from the Barclays Capital Government/Corporate Bond Index (investment grade bonds with maturities greater than 1 year), Mortgage-Backed Securities Index (fixed-rate securitized mortgage pools by GNMA, FNMA and the FHLMC), and the Asset-Backed Securities Index (credit card, auto and home equity loans). Total return comprises price appreciation/depreciation and income as a percentage of the original investment.

**SSB World Gov. Bond Index**

A market capitalization weighted bond index consisting of the government bonds markets of multiple countries. The index includes all fixed-rate bonds with a remaining maturity of one year or longer and with amounts outstanding of at least the equivalent of \$25 million.

**T-Bill (90 Day)**

A fixed income benchmark composed of 3-month United States Treasury Bills purchased at the beginning of each of three consecutive months.