Arthritis National Research Foundation

Investment Policy Statement

Approved by resolution of the Board of Directors
May 22, 2019

Investment Policy Statement Outline

I. Purpose and Scope

II. Statement of Objectives

III. Financial Asset Classification

IV. Organization Accounts

V. Investment Objectives

VI. Roles and Responsibilities

VII. Risk Management

VIII. Donor Restrictions

I) Purpose and Scope

This statement sets forth the policy and operational factors governing the management of the financial assets of the Arthritis National Research Foundation (ANRF). This statement sets forth the responsibilities of ANRF organizational members, the policies for investment decisions, and the objectives and target returns for the various elements of the financial portfolio.

This Investment Policy Statement (IPS) is set forth by the Arthritis National Research Foundation (ANRF) Finance Committee and ratified by the ANRF Board of Directors. Its purpose is to reflect the policies, objectives, and investment parameters related to the financial portfolio of the organization.

The financial portfolio is managed under the direction of the Finance Committee of the board and with the advisement of external Investment Management Consultant(s) and Investment Manager(s). The intent of this Statement is to establish a clear understanding for all involved parties of the investment goals and objectives of fund assets; while establishing guidelines and limitations for their management and disbursement in accordance with best practices for nonprofit organizations. The overall principle for the management of the financial portfolio is to rationally support the organizational goal of funding early stage research through investment policies that provide for both near term financial stability as well as increasing the research funding capacity over time.

II) Statement of Objectives

The primary objectives for the portfolio of financial assets are as follows:

1. Preserve the capital of the organization by utilizing an asset allocation that focuses primarily on more stable equity and fixed income securities with a cash component that provides a buffer on market swings.
2. Taking into account the overall risk profile; provide for the long-term growth of assets, particularly in those elements of the portfolio that are designated as long-term financial accounts.
3. Utilize clear diversification and asset allocation strategies to optimize return while minimizing risk.

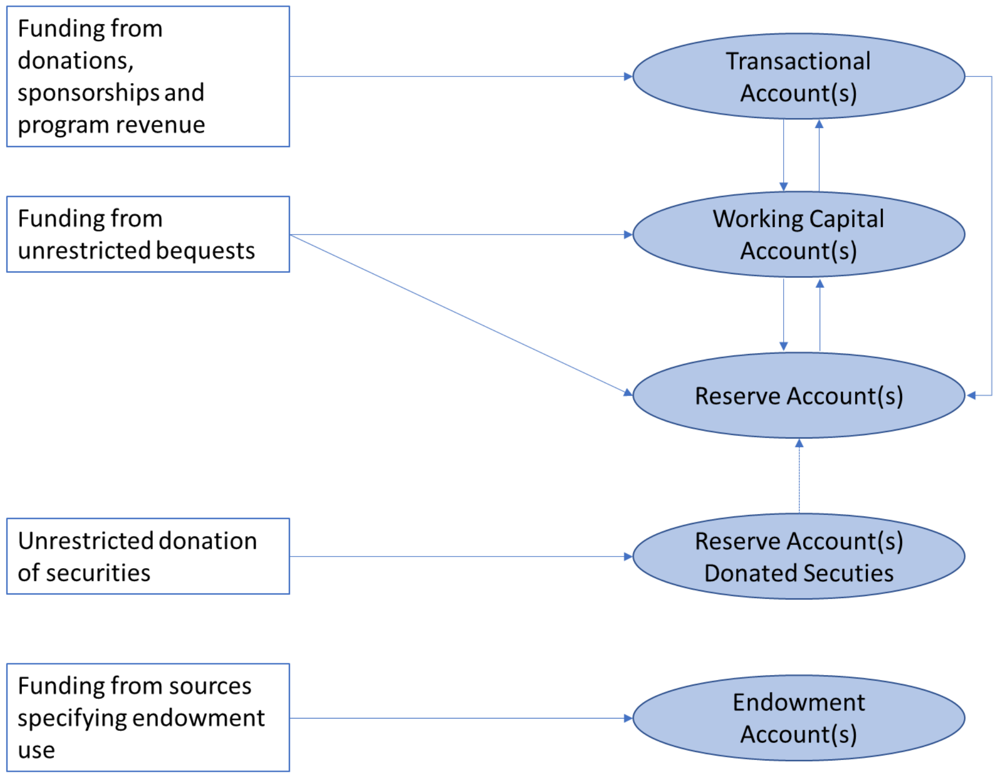
As a general statement it is the intention of the organization to meet normal daily operational cash requirements through the funds the organization receives from donor contributions and revenue from fund raising activities of the organization. Funding of grants will be through the use of a combination of transactional and working capital assets. In no case will a budget be approved that requires funding in excess of the working capital account balance at the time of approval.

III) Financial Asset Classification

The internal classification of the financial assets is set forth in the following table:

Category	Code	Purpose
Transactional	T	Accounts in this category provide for the near-term operational cash requirements of the organization. Funds are held in traditional checking accounts and the time horizon for this asset category is in aggregate 6 months. To the extent that incoming funds are not sufficient to meet operational needs, cash will be transferred from the working capital accounts(s) to manage cash flow. Operationally, funds received from donations, sponsorships and program revenue will be initially deposited into this account and to the extent that the balance exceeds operational funding requirements money will be transferred to the Working Capital or Reserve accounts.
Working Capital	W	The working capital category consists of those financial assets that are held to cover the intermediate needs of the organization; in particular, these assets are designated for the funding of the grants awarded by the organization. Funds from this account may be transferred to the transactional accounts if unusual circumstances would deplete the transactional accounts. The timing for this category of asset is 12 months, with the focus on holding funds required for 50% of the current year grant funding and a small cushion of monthly operating expenses. Essentially these accounts serve as sweep accounts for excess transactional account cash. All elements may be withdrawn from this account (corpus, interest, dividends and growth).
Reserve Capital	R	This category of financial asset is deemed to be a long-term capital reserve for the organization. Generally funds from these accounts will only used for unusual funding requirements, such as a facility relocation or if there is an occasion where the working capital funds are not able to support transactional requirements or in the case where grant funding cannot be provided from the working capital accounts. The timing for management of assets in these accounts is >24 months. All elements may be withdrawn from this account (corpus, interest, dividends and investment gains).
Endowment	E	The endowment account holds those funds that have been donor designated as donations to the endowment. In addition, the board may from time to time designate additional board designated capital contributions. Once funds have been designated to this account no withdrawal of the corpus is allow, under any circumstance, short of organization dissolution. Only interest, dividends and investment gains may be withdrawn from this account upon the approval of a 2/3 majority of the board. The time horizon for the management of these funds is perpetuity.

The following graphic conceptually portrays the flow of funds into the organization and the general deployment of the funds in the various accounts.


Funding from donations, sponsorships and program revenue
Transactional Account(s)
Funding from unrestricted bequests
Working Capital Account(s)
Reserve Account(s)
Unrestricted donation of securities
Reserve Account(s) Donated Secuties
Funding from sources specifying endowment use
Endowment Account(s)

IV) Organization Accounts

Category	Institution/Acct	Notes
Transactional	CNB6083	Traditional checking account. Goal is to maintain 2-4 months operating cash balance.
Transactional	CNB4352	Account used to collect donations, both checks and automatic bank transfer. Goal is to maintain a minimum of 4 months operating cash after maintaining 6083 account at 2 or more months of operating cash. Cash will be transferred from WF1642 to maintain the target level.
Working Capital	WF1642 (Money Market)	This account provides for the intermediate needs of the organization with respect to transactional requirements and grant funding. The goal is to maintain an amount necessary to meet the next grant payment in the current year (50% of annual grant budget)..
Reserve Capital	WF8204R (Vanguard)	This account provides a backstop for the intermediate needs of the organization with respect to transactional requirements and grant funding. The goal is to maintain 12-18 months of operating cash in addition to 100% of projected grants for the coming year.
Reserve Capital	WF8361 (Aristotle)	This account provides for long term capital reserve with no expectation that funds would be utilized to support ongoing operations, either for transactional or grant funding purposes. At this time there is no specific goal for this account, it will hold cash in excess of the other accounts after the target balances are achieved. Funds from this account would only be deployed under exceptional circumstances.
Reserve Capital	Basic Securities Account 229-019053-265 MS9053	Funding for this account comes from the receipt of stocks and bonds from donor bequests. The primary purpose of this account is the receipt and management of financial assets received from donors. Transfers from this account would only occur under exceptional circumstances where other reserve capital accounts were insufficient to meet organizational needs.
Endowment	New Account TBD	The endowment account holds those funds that are specifically designated by donors for the organization endowment account. From time to time the board may designate and transfer funds to this account at which time they are subject to the provisions of the endowment account. The endowment account will grow organically over time and it is the philosophy of the organization to not make withdrawals from this account except under most exceptional circumstances.

V) Investment Objectives

The following table provides an overview of the organization philosophy with respect to asset returns and risk profile for the various categories of financial assets.

Category	Proj Returns	Risk Profile
T	No return expected	Risk free FDIC/SIPC insured deposits
WC	Current money market rate	Low risk
RC	>91 day US Treasury +0.25% <91 day US Treasury +2.0%	Balance of low and moderate risk investments as well as fixed income.
E	≤ 91 Day U.S. Treasury + 3.0%	Moderate risk, predominantly equity investments

Investment restrictions and guidelines

ANRF prohibits any direct investments which jeopardizes the safety of principal concept. The following types or methods of investments are prohibited in all categories of financial assets:

1. Trading securities on margin
2. Trading in commodities futures
3. Investing in working interests in oil or gas wells
4. Purchasing "puts" and "calls" and "straddles"
5. Selling short
6. Derivatives
7. Limited Partnerships
8. Venture capital or private equity investments
9. Individual real estate properties

Investment Concentration Limits

The investment concentration limits set forth below are to be implemented in the context of the aggregate portfolio and will be assessed at the time of the yearly portfolio review.

1. No more than 15% of the equity portion of the portfolio is to be invested in companies with capitalization of less than $1 billion.
2. No more than 10% of the market value of all equities is to be invested in the issues of one company.
3. No more than 20% of the equity component of the portfolio can be allocated in international securities.

Guidelines for Fixed Income Portfolios

Annual return: the portfolio is expected to produce a total annual return that exceeds the appropriate statistical bond index to be determined on a three-year rolling average basis. Eligible Investments will be limited to:

1. Securities issued or guaranteed by the U.S. Government or its Agencies and US companies.
2. Repurchase Agreements fully collaterized by U.S. Government securities, its Agencies or mortgage-backed securities guaranteed by Government sponsored entities. (Same as above)

Credit quality shall meet the following parameters:

1. Short-term investments shall have a credit rating of not less than A-1 and or P-1, and an underlying long-term credit quality of not less than A as rated by Moody's and Standard & Poor's. Short-term investments with credit ratings of A-1 and P-1 do not require a long-term rating (Asset backed commercial paper programs)
2. Investments in corporate issues with maturities longer than nine months must be the equivalent of BB or better as rated by Moody's and Standard and Poor's.
3. The overall average credit quality of the portfolio shall be A or higher.

Investment Concentration Limits

1. Securities issued by the U.S. Government and its Agencies – No limit.
2. Investment in other security types limited by individual issuer to a maximum of 10% of total portfolio.
3. Money Market Mutual Funds – no limit.

Specific comments relative the implementation of these investment guidelines to each of the categories of financial assets are noted in the following section:

Transactional Capital Fund

The primary goal of the investment strategy for this category of financial assets is to provide daily liquidity and funding for the organization. The focus of this investment strategy is capital protection and liquidity; these funds shall be kept in daily liquid instruments and available for immediate withdrawal.

The combined transactional accounts will be managed in aggregate to maintain a minimum of six (6) months budgeted expenses averaged on an annualized basis. These funds shall be deposited at an FDIC member institution(s) and covered to the maximum extent possible under FDIC protection. To the extent that the allocation to this investment strategy may surpass traditional FDIC insurance coverage limits, these assets may be invested in interest-bearing accounts/instruments that extend further FDIC, SIPC or other supplemental asset protection insurance coverage. However, the preservation of capital and expected liquidity needs of the organization should be considered and shall not be infringed.

These accounts will be monitored monthly by the ANRF CEO and Treasurer for excesses and deficiencies. Any deficiencies in the account will be cured using funds from the ANRF Working Capital Fund as quickly as prudently possible. Any surpluses in this strategy will be reallocated to the Working Capital Fund at the discretion of the Finance Committee preferably not less than quarterly.

Working Capital Fund

The primary goal of the investment strategy for this category of assets is short term liquidity and capital preservation and as such these funds shall be invested in money market instruments.

The Working Capital Fund shall be defined as 50% of the current grant commitment for the current fiscal year. In addition, excess cash from the transactional account will be swept into this account and on a semi-annual basis any excess will be transferred into the reserve account(s). The goal is to have backup coverage for the currently awarded grants which provides certainty that the organization can meet the current year operating expense and grant obligations. The Working Capital Fund shall be invested and managed for minimal volatility and in assets with a very low risk of default.

The Finance Committee has the discretion to transfer balances or funds from the Capital Reserve accounts should it be necessary to meet the target balance for the Working Capital fund. The fund should not sustain a drawdown of more than 25% in any calendar year Should the committee take this action, it must be notified to the board within two (2) months. These funds shall be invested in cash or US government securities and/or repurchase agreements.

This investment strategy will be monitored by the ANRF CEO, and Finance Committee for excesses and deficiencies. Any deficiencies in the account should be cured using funds from the Capital Reserve Fund. Any surpluses in this strategy will be reallocated to the Capital Reserve Fund at the discretion of the Finance Committee preferably not less than semi-annually.

Capital Reserve Fund

There are currently three accounts designated for long term capital reserve with the aggregate goal of moderate growth and income generation with modest risk. The goal for the aggregate of the accounts is to hold balances in excess of thirty-six (36) months of operating expense and one and one-half (1.5) years of projected grant funding. The three accounts are managed with a slightly different focus on investment horizon as follows:

> **Wells Fargo account 8204**: designated as the immediate portfolio for backup to the working capital portfolio. The goal for this account is to achieve a rate between ≥ 91 Day U.S. Treasury + 2% and ≤ 91 Day U.S. Treasury Bill + 3%, in normally functioning market environments. The total return on this investment strategy will

be evaluated on an annual basis with a goal of achieving its stated return objective over a 3-5 year market cycle. This investment strategy may require quarterly liquidity but should place a focus on income creation and capital appreciation.

Wells Fargo account 8361: designated as a mid-term capital reserve account with no expectation for funding of working capital. This account is managed by a third party advisor (Aristotle) and the goal for this account is to achieve a rate between ≥ 91 Day U.S. Treasury + 3% and ≤ 91 Day U.S. Treasury Bill + 5%, in normally functioning market environments. The total return on this investment strategy will be evaluated on an annual basis with a goal of achieving its stated return objective over a 5-7 year market cycle. This investment strategy should not require quarterly liquidity but should place a focus on capital appreciation.

Morgan Stanley account 9053: this account is specifically designated to receive donated securities and bonds and is structured as a longer term capital reserve account with no expectation for funding of working capital. As the investment composition of this account is contingent from time to time on donated assets, the general strategy is to generally maintain the donated assets with minimal trading activity. The portfolio in this account will generally be reviewed on an annual basis by the Finance Committee and in that meeting a strategy for portfolio management for the coming year will be recommended. As this account will not be as actively managed as other capital reserve accounts, the goal for this account is to achieve a minimum rate of growth of 50% of the S&P 500 index in normally functioning market environments. The total return on this investment strategy will be evaluated on an annual basis with a goal of achieving its stated return objective over a 7 year market cycle. The investment strategy should focus on conservative balancing of the portfolio as donated assets are acquired with a focus on long term capital appreciation.

Although the capital reserve accounts have somewhat different philosophies, the aggregate guideline for portfolio allocation is:

Asset Class	Range of Allocation
Equities	55%-70%
Fixed Income	30%-40%
Inflation Hedges	10%-15%
Cash	5%-20%

The Capital Reserve Fund shall be invested and managed in a manner that may produce moderate volatility and in doing so will take on a reasonable amount of risk. It is the expectation of this committee that the fund should not sustain a drawdown of more than 10% in any calendar year.

Endowment

The endowment account holds funds that are designated by donors and the corpus of this account may not be withdrawn. While the organization is permitted to utilize growth and income from this account, the strategy is to have sufficient other capital reserve assets to avoid making disbursements from the endowment account. As the focus of this account is purely long-term capital appreciation, the goal is to achieve a return of 90% of the aggregate of the S&P 500 index and the 3 month US Treasury index on a portfolio weighted basis in normally functioning market environments. The total return on this investment strategy will be evaluated on an annual basis with a goal of achieving its stated return objective over a 7 year market cycle. This investment strategy is focused on capital appreciation.

Guideline Portfolio Allocation for the endowment category:

Asset Class	Range of Allocation
Equities	70%-75%
Fixed Income	15%-20%
Inflation Hedges	10%-15%
Cash	5%-15%

Any disbursement or transfer of permitted funds from the endowment category will require a two third (2/3) vote of the board of directors.

VI) Roles and Responsibilities

CEO and Treasurer

The CEO and Treasurer are delegated by the board such authority as necessary to facilitate an investment program in accordance with this policy statement and resolutions of the Finance Committee or Board, including the authority to jointly open appropriate accounts and establish safekeeping accounts to other arrangements for the custody of securities and to execute such documents as may be necessary.

ANRF Finance Committee

The Board of Directors of ANRF has delegated to the Finance Committee the responsibility for directing and monitoring the investment management of fund assets in a fiduciary capacity. As such the Finance Committee assumes the following responsibilities:

a. Support the CEO in the development of annual and long term strategic financial plans for the organization
b. Approve the investment objectives and policies of the Funds
c. Determine the allocation of assets into the following categories: Transaction, Working Capital, Capital Reserve and Endowment
d. Conduct a semi-annual and annual review of the performance of the financial assets of the organization and take such actions as necessary to bring the various accounts into alignment with the objectives set forth in this investment policy.

e. Oversee ANRF's Investment Management Consultant(s)
    i. Granting ANRF's Investment Management Consultant(s) discretionary control for purchases and sales of securities previously approved by ANRF. ANRF's Investment Management Consultant(s) shall have no authority to withdraw funds from ANRFs accounts, except to cover payment of previously agreed to fees or at ANRF's specific written direction
    ii. Directing ANRF's Investment Management Consultant(s) to recommend changes regarding policy, guidelines, goals on a timely basis
    iii. Providing ANRF's Investment Management Consultant(s) with all relevant information on ANRF's financial conditions and risk tolerances and any changes to this information
f. Reading and understanding the information contained in the prospectuses for ANRF's investment portfolio
g. Exercising or delegating all rights, including voting rights, as are acquired through the ownership of securities
h. Reviewing custodial statements and performance reports
i. Providing regular reports to the board regarding the performance of the investment portfolio, actions taken to achieve the investment objectives for each category of asset and any recommendations for revisions to the Investment Policy Statement.

The Finance Committee is also authorized to delegate specific responsibilities to professional experts in various fields. These include, but are not limited to:

Investment Management Consultant(s)
The Investment Management Consultant is any individual or organization employed to provide advisory services, including advice on investment objectives and asset allocation, manager selection, and performance monitoring. The Investment Management Consultant(s) will be responsible for guiding ANRF through a disciplined investment process.

The Finance Committee and the Board will not reserve control over investment decisions, except specific limitations described in these statements. Investment Manager(s) will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment manager(s), each manager should request modifications that they deem appropriate.

Investment Management Consultant(s) shall act in a fiduciary capacity with ANRF and the Finance Committee. All expenses for such experts must be customary and reasonable and will be borne by the respective Fund as deemed appropriate and necessary.

The primary responsibilities of the Investment Management Consultant(s) include:
    a. Designing, implementing and maintaining an appropriate asset allocation plan consistent with the investment objectives, time

horizon, risk profile, guidelines and constraints outlined in this statement

b. Meeting with ANRF to discuss ANRF's investment policy at appropriate intervals and advising ANRF about the selection and allocation of asset classes
c. Periodically reviewing the suitability of ANRF's investments and monitoring the performance of all selected assets and noting any prohibited transactions and conflicts of interest
d. Recommending changes to this Investment Policy Statement
e. Reviewing existing custodians and recommending changes to custodians when circumstances change to safeguard ANRF's assets

Custodian(s)

Custodians are responsible for the safekeeping of ANRF's Fund investments. The specific duties and responsibilities of the custodian include:

a. Holding in custody for safekeeping all cash, securities and other property delivered to ANRF's investment account(s) and collecting and retaining income and other distributions credited to those account(s)
b. Effecting transfers of cash and securities credited to or debited from ANRF's account(s), including transfers incident to the settlement of purchase and sale transactions
c. Providing monthly or quarterly reports showing receipts, disbursements, and transfers in connection with ANRF's account assets, trade settlements, and balances
d. Providing all tax-related reporting to the Internal Revenue Service for ANRF's account(s)

VII) Risk Management

Diversification across and within asset classes is the primary means by which the Finance Committee expects the Funds to avoid undue risk of substantial losses over long time periods. To protect the Funds against unfavorable outcome within an asset class due to assumptions of significant risk, the Finance Committee will conduct an annual review with an external Investment Management Consultant(s) to assess compliance of the portfolio with the risk management and investment criteria set forth for each category of investment and, evaluate the performance of each investment manager and assess the appropriateness of the investment policy guidelines as set forth in this document.

VIII) Donor Restrictions

In all instances, donor intent shall be respected when decisions are rendered concerning the investment or expenditure of donor restricted funds. Funds that have been designated for the organization endowment shall be duly recorded and deposited in the endowment account, where the corpus will be preserved in perpetuity. If a donor, in the gift instrument, has directed that appreciation not be spent, ANRF shall comply with that directive and consider it when making decisions regarding the management and investment of those funds. Any attempt to lift restrictions on any fund shall be conducted in full compliance with the law.

IX) Investment Policy Revision

The Finance Committee will conduct a comprehensive review of the Investment Policy Statement during January every second year, or as deemed necessary due to changes in economic conditions or circumstances of the organization. Such review will be conducted with an external Investment Management Consultant and will include commentary and recommendations regarding the policy as well as suggested actions to bring the investments of the organization in line with the policies set forth in this document.

This report will be provided in written form to all board members in advance of the annual meeting in March where any recommended actions will be presented to the board for approval.

X) Selection of Investment Advisors and Custodians

The investment committee will on a biennial basis solicit proposals from external investment advisors and custodians to ensure that the organization is using the most cost effective and experienced firms to carry out this investment policy. The request for proposals will be initiated each January in even numbered years with the intention of evaluating all proposals and making a recommendation to the board in March of the same year with any change in advisors or custodians implemented at the beginning of the fiscal year.

For the recommendation of investment advisors and custodians the selection committee shall be comprised of the finance committee, the chairperson and vice-chairperson of the board, as well as one at large board member selected by joint agreement of the board and finance committee chairpersons.

As the ANRF has benefitted from relationships with firms where board members are principals, the organization will accept proposals from those firms provided board members agree to abide by the organization conflict of interest policy. Consistent with the conflict of interest policy, no member with an interest in a firm may vote on the RFP submitted by that firm.

XI) Conflict of Interest

The directors, finance committee members, and staff of the ANRF aspire to the highest level of ethical conduct in our work. The foundation also values the knowledge, experience and business relationships that each member brings to the organization. Inevitably, from time to time, such affiliations may create or appear to create conflicts with the individual's duty to the Foundation. To ensure that the Foundation's decisions are free of any conflicts or other inappropriate influences, the board has adopted the following policy concerning conflicts of interest.

In carrying out this policy, the Foundation relies on the good judgment and integrity of its directors, finance committee members, and staff. The Foundation encourages a culture of transparency in which such individuals fully and promptly disclose all affiliations, interests, which they are aware that might present a conflict relating to actions taken on behalf of the organization. Directors should bring to the attention of their colleagues, and staff members to their supervisors' attention, all personal and professional interests or affiliations that might conflict with their duty to the Foundation. In situations where conflicts are uncertain, the Foundation encourages individuals to err on the side of disclosure.

Directors, finance committee members, and staff who have a conflict of interest regarding a proposed transaction should not vote on or approve the transaction.

The chair of the board or the chair of the finance committee, as the case may be, in consultation with the president and if necessary, external counsel, will determine whether a director with a material affiliation should also be excused from the meeting when the matter is being discussed.

The Foundation will maintain a record of actions taken when there is a conflict of interest present with respect to a transaction. The chair of the finance committee will provide an annual report to the audit committee reflecting all transactions in which there was a conflict of interest and the actions taken.