

MEDICAL ASSOCIATION OF GEORGIA

INVESTMENT POLICY

INTRODUCTION

The finances of the Medical Association of Georgia (MAG) are separated into two categories: “Operating Funds” and “Long Term Investments.” This document represents the Investment Policy for operating funds that are invested and for long-term investments.

Operating Funds: Operating Funds are generated from two sources: Dues Revenue and Non-Dues Revenue. These funds are used to finance the day-to-day operations of the association and are maintained in a “Commercial Paper Account” similar to a money market account so that they are available on a day-to-day basis. A majority, but not all, of the funds in the Commercial Paper Account are “swept” into an investment account at the end of the business day and returned to the Commercial Paper Account before the beginning of the next business day. This allows MAG to earn additional interest on these funds. Funds that are generated early in the membership year that are not needed for the day-to-day operation of the association are often invested in other instruments for use later in the year to meet cash flow needs. When cash on hand exceeds anticipated cash flow needs, the Finance Committee shall assess whether such excess funds should be invested in longer term securities to enhance return on investment.

Long Term Investments: Long Term Investments are those funds that are typically invested for the long-term growth of the association. Funds that comprise MAG’s Long Term Investments were generated by the sale of our PPO known as Georgia Health Network. These funds are maintained in a separate account referred to as managed care funds.

Purpose

The purpose of this Investment Policy is to set forth the investment objectives and investment guidelines for the association’s Invested Operating Funds and Long-Term Investments. The Committee expects this policy statement to assist in perpetuating the decision making for both the Operating Funds and Long Term Investments.

Investment objectives have been formulated with attention to:

- Assuring that the association has sufficient cash flow to allow its uninterrupted operation;
- Maximizing return on investment relative to the risk tolerance of the Medical Association of Georgia;

- The need to achieve prudent diversification of assets; and
- The strategic financial goals of the association.

Duties of the Board of Directors

The Board of Directors has the fiduciary obligation to ensure that the assets of the association are invested in a prudent manner. The Board of Directors will receive a report from the Treasurer at each of its meetings and approve (or disapprove) the financial statements of the association. The Board of Directors approves the budget and submits a report on the budget and management of the association's finances to the House of Delegates.

Duties of the Treasurer and Finance Committee

The Treasurer is elected by the HOD and serves a term of two years. The Treasurer chairs the Committee on Finance, which is comprised of at least seven (7) members of the Board of Directors appointed by the Chairman of the Board.

The Committee on Finance shall cause to be audited at least annually all accounts of the association. The Committee shall propose an annual budget for the fiscal year beginning on January 1 and submit that budget to the Board of Directors at its last meeting in the last quarter of the fiscal year for Board approval

Objectives

(a) All investments shall fall within the legal requirements and regulations governing the association's legal status as a 501 (c) 6 corporation.

(b) Investments of current budget year's revenue should be structured to conserve principal and earn the highest return available on short-term liquid investments.

(c) Monies in excess of amounts needed for short-term obligations should be invested to earn the highest return available on long-term investments within the risk tolerance as set in allowable ranges for asset categories.

Types of Investment and Quality Ratings

The following is a list of investment type and quality ratings:

Cash Equivalents

- Treasury Bills (T-Bills): That are guaranteed by full faith and credit of the U.S. government.
- Banker's Acceptances (BAs): May be purchased from banks or trust companies, subject to approved FDIC guaranteed insurance limitations, organized under the

laws of Canada or the United States of America or any province or state thereof, which have combined capital and surplus of at least \$1,000,000,000 in U.S. dollars.

- Repurchase Agreement (Repos): May be purchased from banks for trust companies, organized under the laws of Canada or the United States of or any province or state thereof, which have combined capital and surplus of at least \$1,000,000,000 in U.S. dollars.
- Commercial Paper rated “prime” or its equivalent by either the National Credit Office, Inc. or Standard & Poor’s Corporations, or their successors, and unrated commercial paper of similar quality in which the bank is also investing funds held by it in a trust or trusts subject to the jurisdiction of the Probate Courts of the State of Georgia (including any investment in pools or mutual funds of such commercial paper owned by the bank).
- Cash because of their liquidity and short-term to maturity for purposes of this investment policy, treasury bills, repos, commercial paper, and many money market funds are considered cash equivalents.

Fixed Income

- Certificate of Deposit (CD’s): May be purchased from banks or trust companies, subject to approved FDIC guaranteed insurance limitations, organized under the laws of Canada or the United States of America or any province or state thereof, which have combined capital and surplus of at least \$1,000,000,000 in U.S. dollars.
- Government Bonds or other obligations of the United States government the principal and interest of which constitute direct obligations of the United States of America.
- Federal agency bonds, which include obligations of the Federal National Mortgage Association, Federal Intermediate Credit Banks, Federal Farm Credit Banks and Federal Home Loan Banks, Federal Home Loan Mortgage Corporation.
- Corporate Bonds with a quality rating of no less than A. If downgraded after purchase, then the investment manager and treasurer will monitor until it returns to A.

Equities

- Stocks or equivalent investments in mutual funds upon the advice of MAG’s investment advisor.

INVESTMENT OF OPERATING FUNDS

Purpose of Operating Funds

Operating funds are used for the day-to-day operations of the association. The primary source of operating funds is Dues Revenue. Because dues are collected in the fall of the year for the next membership year, MAG often has more funds on hand than required for operations early in the year. Surplus membership dues and Non-Dues Revenue should be invested for the primary purpose of assuring that sufficient funds are available later in the year to meet cash flow needs. Operating Funds in excess of those needed for cash flow purposes may be invested for longer terms.

Time Horizon for Investment of Operating Funds

Typically, operating funds are needed for cash flow purposes and are invested for one year or less.

Risk Aversion

Since Operating Funds are used to finance the day-to-day operations of the association and preserve cash flow, the association has a low tolerance for risk of loss in value of invested Operating Funds.

Asset Allocation

The portfolio for the invested Operating Funds should be conservative reflecting the primary need for asset preservation and a low tolerance for risk.

Asset allocation guidelines for investment of operating funds will be as follows:

| <u>ASSET CATEGORY</u> | <u>ALLOWABLE RANGE</u> |
|---------------------------|------------------------|
| Equities | 0% - 30% |
| Fixed Income | 0% - 50% |
| Cash and cash equivalents | 50% - 100% |

INVESTMENT OF LONG-TERM FUNDS

Purpose of Long-Term Investments

Long-Term Investments are not usually needed to fund the day-to-day operations of the association. Rather, these funds are available to pursue strategic goals of the association such as the purchase of a building or financing a new project. They may also be needed to pay an unexpected debt.

This document records the Finance Committee's logical and diligent process and study of the most suitable combination of investment risk levels and rates of return which will satisfy MAG's long term objectives,

The Committee recognizes their duty to remain aware of conditions and developments in the investment activity of the Long Term Investment strategy, but it is not believed desirable or productive for the Committee to react to short term events in a manner which contradicts the long term approach underlying this policy statement.

Time Horizon for Investment of Long Term Investments

Long-term funds are invested for three (3) to five (5) years or longer.

Risk Aversion

We are willing to bear some short-term decline in value of Long Term Investments in an effort to achieve higher long-term returns.

Asset Allocation

The portfolio for the Long-Term Investments should be consistent with the goal of accumulation of capital and the preservation of its value for the economic betterment of MAG.

Asset allocation guidelines for investment of long-term funds will be as follows:

| <u>ASSET CATEGORY</u> | <u>ALLOWABLE RANGE</u> |
|-----------------------|------------------------|
| Equity | 0% - 60% |
| Fixed | 0% - 60% |
| Cash | 10% - 100% |

INVESTMENT GUIDELINES

Investment Authority

The Treasurer shall have authority to make/approve investment decisions based upon the Investment Policy developed by the Finance Committee and approved by Board of Directors. This authority may be delegated to the Executive Director.

Investment Manager

MAG expects any investment manager to review the specific investments at a frequency that will ensure the highest available return on its investments reflecting changes in the economy, interest rates and other market factors and recommend changes to the Investment Portfolio if such change is indicated by these factors.

The investment manager shall meet quarterly with the Treasurer and/or Executive Director to discuss strategies and review quarterly performance and assess the overall risk of the portfolio relative to the market as a whole. The investment manager must receive approval from the Treasurer prior to making or changing investments.

The Treasurer shall be responsible for the following activities, but may delegate such authority to the Executive Director:

- Making or changing investments recommended by the investment manager;
- Opening accounts with brokers and dealers;
- Setting up safekeeping for securities;
- Signing specific documents.

The Executive Director shall report to the Treasurer any actions taken on delegated activities within 3 business days of taking such action.

Policy Amendments

Any change to this policy shall be given to the fund/investment managers in writing and such amendments shall be signed by at least two MAG officers. The Finance Committee shall review the investment policy annually.