

AGU Investment Policy and Objectives

Adopted by AGU Board of Directors November 2021

INTRODUCTION

These Statements of Investment Policies and Objectives set forth the American Geophysical Union's (AGU) plan for effectively managing and controlling the organization's investments and fixed assets. For policy purposes, these tangible assets are divided into three categories: Long-Term Investments, Short-Term Money, and Fixed Assets for each of which there is a separate statement.

The statements attempt (1) to identify appropriate risk postures, (2) to state the expectations and objectives for all categories of assets, (3) provide asset allocation guidelines that are consistent with the risks and the objectives, and (4) establish criteria for monitoring and evaluating the performance results of the investment.

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES – TARGET RESERVE REQUIREMENT

Key to the sustainability of AGU and its programs (as outlined in the strategic plan) is the preservation and enhancement of long-term and short-term reserves. AGU will maintain a target unrestricted reserve requirement equal to 100% of annual actual operating expenses averaged over the previous three (3) year period.

This Statement shall remain in effect until modified by the Finance and Investment Committee (the Committee) and approved by the AGU Board of Directors (the Board).

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES – LONG-TERM INVESTMENTS

This Statement of Investment Policy and Objectives governs the management of the American Geophysical Union's investment assets categorized as Long-Term Investments. The investments in this category include unrestricted, donor restricted and Board designated funds and any other funds unless specified as part of a contract. This Statement shall remain in effect until modified as conditions warrant by the Board. The responsibility for ensuring the implementation of the policy and guidelines set forth in this statement rests with the Committee.

A. FINANCIAL AND INVESTMENT OBJECTIVES

All Long-Term Investments have the dual purpose of providing a reserve for the support of the operations including the continued development of AGU in financially stressed circumstances and so long as the identified requirements for reserves are met, serving as a resource that provides funding for special activities approved by the Board. Restricted investments also have the financial goal of preserving and enhancing the inflation adjusted purchasing power.

The objective of the Long-Term Investments is to attain an average annual real return (net of investment management fees) of at least 4.0% as measured over rolling five-year periods. This objective should be achievable within risk levels defined by this policy.

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Based on a desire to align the Long-Term investments with the mission of the organization, AGU will emphasize Mission Related Investments (“MRI”) that include the following characteristics: Environmental, Social and Governance (“ESG”) integration, thematic investments, transparency and women and minority owned or managed investments. AGU supports the practice of integrating ESG factors with other conventional financial analytical tools as part of the investment decision making process. The integration of this approach is designed to improve long term, risk-adjusted returns of the portfolio. Further, AGU will consider thematic investments that are additive to the overall risk and return profile of the Long-Term investments and align with AGU’s mission. AGU will also seek to invest with investment firms that are women and minority owned/ managed and that provide high levels of transparency. AGU recognizes that not all investments will have the desired MRI characteristics; however, AGU will endeavor to exhibit annual progress, as measured by the MRI dashboard.

B. SPENDING POLICY

As long as the minimum target Operating Reserve Fund is met, per the Net Asset Policy, a spending policy which automatically allocates up to 6 percent of the three-year average year-end long-term investment balance will be included in the budget to fund operations. Transfer of any funds from the Long-Term Investment portfolio, to shorter-term investment vehicles or accounts, requires the approval of the Board if outside the budget process and authorization of the General Secretary/Treasurer.

C. INVESTMENT MANAGEMENT STRUCTURE

The Committee will carry out the Long-Term investments through the use of external investment managers specializing in their respective fields. These managers will be chosen based on their coherent and clearly defined investment strategies, their strong long-term track records and their organizational stability as well as the strength of the investment personnel involved. The Investment Consultant will assist in the selection of managers and the ongoing monitoring of managers in the portfolio.

AGU will seek to partner with investment managers that integrate ESG into their investment process. AGU will also encourage its investment managers to include ESG factors in their analytical processes as ESG factors may help identify potential opportunities and risks which conventional tools miss. Relevant ESG factors will vary by sector and geography and should be applied appropriately to help assess risk and return.

AGU will consider thematic investments to the extent that these investments have gone through the same due diligence process as all other investments in the portfolio.

AGU will also endeavor to consider investments in firms or strategies that are owned or managed by women or minorities and are highly transparent in terms of their investment holdings.

The Committee can invest in all standard investment vehicles including mutual funds, commingled funds or separate account vehicles. Limited partnerships may also be used but will require legal review of the partnership documents. No more than 25 percent of the Long-Term Investment portfolio will be in any single fund or vehicle or mutual fund family except that a larger fraction may be in an index fund based on commonly used broad market indices (like the S&P500 Index). It is understood that when Long-Term Investment funds are invested in mutual funds or commingled funds, the Committee will accept the guidelines of the fund(s) and managers chosen.

The Committee will report, at each meeting of the Board, the performance of the Long-Term Investment funds.

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D. PORTFOLIO COMPOSITION AND ASSET ALLOCATION

The Long-Term Investment will be diversified both by asset class and within asset classes (e.g., within equities by economic sector, industry, quality, and size). Moreover, the Equity allocation will be placed with managers who have distinct and different investment philosophies. The purpose of such diversification is to provide reasonable assurance that no single security, class of securities, or specific investment style will have a disproportionate impact on the Long-Term Investment's aggregate results.

The purpose of the Equity allocation is to provide a total return that will provide for growth in principal and current income to support any desired spending requirements while increasing the purchasing power of the Long-Term Investment's assets. AGU recognizes that the pursuit of these long-term objectives entails the assumption of market variability and risk

The purpose of the Fixed Income allocation is to reduce the overall volatility of the Long-Term Investment returns and to provide a hedge against the effects of a prolonged economic contraction.

In general, the Fixed Income allocation will be diversified among different sectors of the fixed income market. With the exception of obligations of the U.S. Government and its agencies, no purchase will be made that will cause more than 5 percent of the Fixed Income allocation to be invested in the securities of any one issuer.

The purpose of the real assets allocation is to provide diversification and a hedge against the effects of inflation. The real assets investments will represent a diversified mix of assets that can serve to hedge against different types of inflation.

The purpose of the private equity allocation is to provide total return that will provide for growth in principle to support any desired spending requirements while increasing the purchasing power of the Long-Term Investment's assets. AGU recognizes that the pursuit of these long-term objectives entails the assumption of market variability and illiquidity risk.

The target asset allocation and corresponding ranges for the Equity portfolios and its sub-components are attached as Appendix I to this policy.

E. REBALANCING

The Fund will be rebalanced if an asset class exceeds the minimum or maximum allocation specified within the policy ranges and if portfolio liquidity is sufficient to execute the transition. In addition, the Fund may be rebalanced when there are deviations from the policy target but within the specified policy ranges to move allocations closer to the policy targets. Rebalancing will be completed by the Investment Consultant, in consultation with Staff or a representative with signing authority. Routine cash flows (contributions and spending) can be used to rebalance the allocation to the target allocations. If routine cash flows are insufficient to maintain the allocation within the permissible ranges, balances will be transferred between asset classes as necessary to bring the allocation back within the permissible ranges. Rebalancing will be limited to existing managers and will not include rebalancing to new managers not approved by the Finance and Investment Committee.

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It is recognized that private markets investments in general can be illiquid investments. They can be subject to lock up provisions and capital calls and as such will not be rebalanced in the normal course. From time to time the Net Asset Value of these asset classes may be outside of permissible ranges. The Finance and Investment Committee will consider the relative liquidity of a strategy when making new commitments to illiquid managers.

F. PERFORMANCE OBJECTIVES

In addition to the overall objective of a real return of 4.0 percent over a 5-year rolling period, the following performance objectives are expected to be met by the fund and its individual components.

The total fund is expected to outperform a blended benchmark comprised of the returns of a number of investable indexes in the weightings proportional to the allocation policy set by the Committee.

In addition, the portfolio managers are evaluated versus appropriate passive, fully invested benchmarks regardless of the level of cash assets held by the investment manager. In private equity, the portfolio managers are evaluated versus an appropriate peer benchmark given no passive and investable benchmarks exist.

It is understood that both the portfolio and individual managers may underperform the indices in certain periods and that meaningful performance measurement therefore must be conducted and evaluated over an appropriate time period, here defined as rolling 3-5-year periods.

The composition of the portfolio benchmarks is set out in Appendix II.

G. RISK TOLERANCE

The goal for the long-term investments is to achieve the stated return goal within an acceptable level of market value volatility and illiquidity. The integration of MRI into the Long-Term Investments is partly driven by a desire to further mitigate long term portfolio risk.

H. MONITORING OF OBJECTIVES AND RESULTS

Investments will be monitored for consistency in each manager's investment philosophy, return relative to objectives, investment risk as measured by asset concentrations, exposure to extreme economic conditions, and market volatility. MRI progress will be monitored through multiple metrics (e.g. UN PRI signatory, NEPC ESG rating and third party ESG analysis, transparency, women and minority exposure) and reviewed on an annual basis. A dashboard will be created to monitor these MRI characteristics.

The Committee will regularly review manager results and risk profiles in order to confirm that the factors underlying performance expectations remain in place. They may request that the investment manager(s) be present in person or by phone at periodic meetings to present their portfolios and results to the Committee.

All objectives and policies are in effect until modified by the Finance and Investment Committee and approved by the Board. If at any time a member of the Board, Finance and Investment Committee, Staff or investment manager believes that an established policy or guideline inhibits the investment performance of the Long-Term Investment, it is that individual's responsibility to communicate this view to the General Secretary/Treasurer who chairs the Finance and Investment Committee.

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It is the policy of the Committee and Staff of AGU that all shall act in a manner consistent with their responsibilities to the long-term investments and avoid circumstances in which their financial or other ties to outside persons or entities could present an actual, potential, or the appearance of a conflict of interest or impair the AGU.

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES – SHORT-TERM MONEY

A. DEFINITION OF CATEGORY

Short-Term Money is the sum of cash and all bank and cash management accounts. The total Short-Term Money should equal or slightly exceed short-term liabilities less current receivables and plus the projected needs for net cash outlay over the next 12 months based on operating and capital budgets and expectations driven by results to date. In calculating the anticipated cash needs the charges for depreciation are added to the net operating income. Unrealized budgeted voluntary contributions and any investment return or loss from the long-term portfolio in the 12-month period under consideration are ignored in the calculation. Responsibility for management of the Short-Term Money is delegated to the EVP, Finance and IT. The EVP of Finance and IT may retain outside management for these funds.

B. PURPOSE OF FUNDS

A large fraction of these funds is required to pay the Union's bills over each 12-month period. An additional amount is earmarked for repayment of the Union's current obligations (such as loan repayments, accrued employee benefits and prepaid subscriptions) if necessary in an emergency. The amount in this category of funds varies through the year as AGU's income is seasonal and concentrated in the November-January time frame, whereas expenses are more evenly spread throughout the year.

C. RISK TOLERANCE

This operating cash must be completely liquid and not subject to significant market (interest rate/duration) risk or credit quality risk. The remaining Short-Term Money is required to cover liabilities that may arise for prepaid orders, subscriptions, and employee benefits. Likewise, these funds should not be exposed to market or credit risk.

D. RETURN OBJECTIVES

The objective is to maximize return consistent with insulation from capital loss. The return on the first \$3 million of such funds should compare favorably with widely used money market fund averages. The surplus over the first \$3 million will be measured against the return on U.S. government notes of 2 years maturity.

E. AUTHORIZED SECURITIES

Types of securities authorized for Short-Term Money include: bank accounts including checking, savings and time deposit accounts, U.S. Treasury bills and other short-term government paper, commercial paper, and other cash equivalents with an average rating of AA and a maturity of two years. The estimated requirements for the operating cash portion are to be kept in bank accounts or invested in cash equivalent securities.

F. MONITORING OF OBJECTIVES AND RESULTS

Individually managed portfolios will be monitored for consistency in each manager's investment philosophy, return relative to objectives, investment risk as measured by asset concentrations, exposure to extreme economic conditions, and market volatility. Portfolios will be reviewed by the Committee on a semi-annual basis.

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The Committee may request that the investment manager(s) be present at periodic meetings to present their portfolios and results to the Committee. In either case, the Committee will regularly review managers in order to confirm that the factors underlying performance expectations remain in place.

All objectives and policies are in effect until modified by the Finance and Investment Committee and approved by the Board. They will be reviewed at least annually for their continued appropriateness. If at any time a member of the Board, Finance and Investment Committee, Staff or investment manager believes that an established policy or guideline inhibits the Short-Term Money investment performance, it is that individual's responsibility to communicate this view to the General Secretary/Treasurer and Chair of the Finance and Investment Committee.

G. TRANSFERS BETWEEN SHORT-TERM MONEY AND LONG-TERM INVESTMENTS

The Finance and Investment Committee will review operating cash projections annually and recommend appropriate transfers between Short-Term and Long-Term Investments, in order to meet current operating, capital, and investment needs.

Transfer of any funds between Short Term and Long-Term Investments requires the approval of the Board if made outside the budget cycle and authorization by the General Secretary/Treasurer.

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES – FIXED ASSETS

A. DEFINITION OF CATEGORY

Fixed Assets include Current Fixed Assets (Land, Building and Leasehold Improvements, and Equipment) and Other Assets (Debt Service Reserve) and the related borrowing and lease-purchases are included in this package for purposes of policy and management. AGU will endeavor to maintain alignment between the mission of the organization and the fixed assets (e.g. AGU building). Responsibility for management of the Fixed Assets is delegated to the Executive Director.

B. MONITORING THE FUNDS

The fixed assets are never expected to be made liquid. The difference between Fixed Assets and the bond indebtedness and other related borrowing and commitments is the amount of non-liquid reserves of AGU. Under no circumstances is the amount of the non-liquid reserves to go below zero nor is it expected to reduce markedly in any given year.

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INVESTMENT POLICY—APPENDIX I

ASSET ALLOCATION, LONG-TERM INVESTMENTS

Asset Class	Target Allocation	Range
U.S. Equity	20%	10% - 30%
Non-U.S. Developed Equity	16%	6% - 26%
Emerging Markets Equity	7%	3% - 12%
Global Equity	11%	0% - 21%
Real Assets**	10%	5% - 15%
Fixed Income	31%	20% - 40%
Private Equity	5%	0% - 10%
Cash*	0%	0% - 10%

* Cash refers to cash or cash equivalents held directly by AGU as part of the long-term portfolio and does not include short-term cash or cash held by the investment managers.

** Real Assets includes liquid and illiquid real asset strategies.

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INVESTMENT POLICY – APPENDIX II

PORTFOLIO BENCHMARKS

Customized Benchmark: 20% - Russell 3000; 16% - MSCI EAFE; 7% - MSCI EM
11% - MSCI ACWI; 31% - Bloomberg Barclays Aggregate
10% - Applicable Real Assets Benchmark
5% - CA US Private Equity 1 Quarter Lag*
*MSCI ACWI will be used as a placeholder until the private equity target is reached

Objective Benchmark: CPI-U + 4%