



NATIONAL  
ASSOCIATION *of*  
REALTORS®

# ***Statement of Investment Policy***

***(Approved November 2012)***

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## **Introduction**

The following Investment Policy Statement documents the guidelines and principles which will govern the deployment of the investable assets of the NATIONAL ASSOCIATION OF REALTORS. This statement is meant to be sufficiently specific so as to be meaningful in its guidance, yet flexible enough to be practical in its daily application. The statement is meant to provide direction for the stewards of NAR's assets in their support of the fiduciary obligation imposed on the Treasurer by the NAR Constitution and the fiscal obligation imposed on the Leadership of the organization to use the resources of the Association wisely.

## **Association Investment Philosophy**

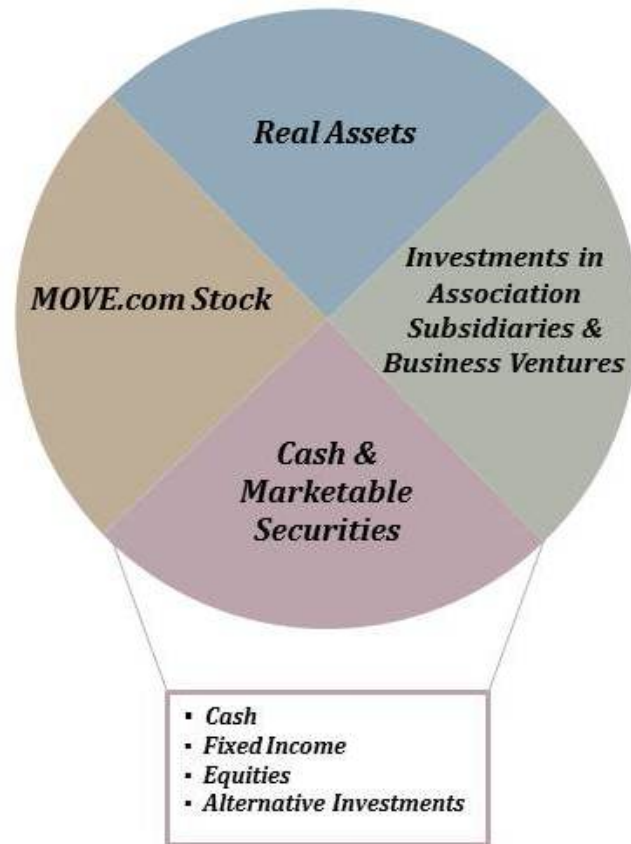
The NATIONAL ASSOCIATION OF REALTORS is a large, diverse, and financially strong tax exempt organization. With the significant increases in membership over the last decade and a half, together with the investment in the public offering of stock by Move, the magnitude of the Association's investable asset base has grown tremendously.

NAR's investable assets can be divided into two investment pools with differing investment guidelines and constraints:

- Assets deployed for the support of current year operations and programming
- Reserves

The leadership of the Association, primarily through the efforts of the Finance Committee and Reserves Investment Advisory Board, is expected to exercise prudence in the management of all assets deemed to be part of the Association's long term Reserves. Monitoring of Reserve levels and any reasons for the diminishment of these reserves should be recognized to be of primary importance to the long term health and well-being of the organization.

# ***Overview: NAR Asset Base***



The investable asset base of NAR Reserves consists of four broad asset types:

- Real Assets
- Move.com Stock
- Investments in Association Subsidiaries & Business Ventures
- Cash & Marketable securities

The diversification provided by these broad asset types enhances the overall value of the organization by offering reduced correlation of asset risks and returns, adding security to the overall asset base.

## **Real Assets**

The Association owns real property for the primary purpose of housing the Association's staff in both Chicago and Washington DC. In both cities, the office and retail space not needed for the conduct of Association business is leased to outside tenants in order to maximize Association revenues and provide staff housing at the lowest possible net cost. Oversight of these assets is the responsibility of the Real Property Operations Committee.

In certain instances, NAR's Leadership and Finance Committee may consider additional purchases of real property when opportunities arise to enhance the value of the organization through achievement of long term strategic goals and objectives. Examples of these opportunities include the purchase of property adjacent to existing Association structures and housing of subsidiary staff where leasing revenues are significantly in excess of returns on marketable securities.

## **Move.com Stock**

The Association's ownership of the realtor.com website has generated holdings of Move.com stock. NAR must maintain a certain level of share ownership in order to retain a seat on Move's Board of Directors. The specific share requirement level is outlined in the Supplemental Information section. See appendix A for a summary of actions taken by NAR's Leadership Team on this topic.

Recognizing that concentrated holdings in a single stock can be imprudent and contrary to most commonly held investment principles, the Reserves Investment Advisory Board has periodically placed some shares of Move stock in a Preset Diversification Plan. Such plans allow for the orderly and systematic divestment of excess shares while providing protection from and ensuring compliance with SEC and market rules regarding insider knowledge and stock trading windows. The Subcommittee identifies projected sales prices that are attainable in favorable markets while attaching a certain sales premium reflective of the intrinsic value that NAR places on both these shares, the underlying value of the NAR relationship with Move and the market significance of the realtor.com website.

Because of significant restrictions on trading of Move stock due to NAR's status as an "insider" with respect to SEC rules and regulations, NAR's holdings in Move stock can only be sold during periods of time specifically designated by Move.com.

## **Investment in Association Subsidiaries & Business Ventures**

Over the last decade, NAR has made investments in various key business ventures designed to serve NAR's members in the long term and enhance various aspects of the real estate industry on their behalf.

These investments, while reducing the available asset base traditionally invested in marketable securities, provide for a return in member value that is real and significant, though perhaps not measurable in a traditional or purely financial sense. Recognizing the long term value provided by these strategic investments and the opportunity for significant growth and monetary returns in the future, the Reserves Investment Advisory Board will work together with the Finance Committee to ensure the appropriate balance between marketable and strategic investments that continues to provide for prudent levels of access to marketable and liquid funds while allowing the Association to invest in the long term health and wellbeing of the industry.

The investments in NAR's corporate subsidiaries are not considered as marketable due to the start-up position of many of the entities and the member-centric nature of the organizations. Collateralization of these assets may be limited by market risk pricing and lack of comparable data.

### **Cash & Marketable Securities**

NAR maintains various portfolios of marketable securities, each with its own set of investment goals, risk profiles, levels of diversification and intended purpose. These portfolios may be managed by Association staff or by various external investment managers, with the input and support of independent investment advisors. The ongoing results of each portfolio are reviewed at least quarterly by the Reserves Investment Advisory Board and measured against stated goals and objectives for risk and return. See appendix D for policy guidelines on the hiring and retention of the various investment support services available to aid the Advisory Board.

Assets deemed to be current year in nature must be invested in marketable securities. The investment time horizon for these assets should be commensurate with the expected usage of the funds within the Association's current year of operations. Investment of operating assets must be limited in exposure to market risk and should be limited to asset classes that fall under the broad classification of fixed income investments.

### **Core Reserves Requirement**

Because marketable securities provide perhaps the best and most logical source of funding for unexpected needs and emerging industry opportunities for the Association, and recognizing that a certain portion of the Association's marketable securities should carry a somewhat more limited exposure to market risk and volatility, an amount equal to 40% of the rolling three year average of Association gross operating expenditure budgets (adjusted appropriately for depreciation expense and capital expenditure cash flows) must be limited to investment in asset classes that fall under the broad classification of fixed income investments. (See the Supplement Information section for supporting detail).

## Investment Guidelines

	<i>Operating</i>	<i>Reserves</i>
<i>Investment Objectives</i>	<ul style="list-style-type: none"> <li>● <i>Preserve capital investment</i></li> <li>● <i>Liquidity to meet financial obligations &amp; as defined by NAR Core Reserve Requirement</i></li> <li>● <i>Minimize market &amp; credit risk</i></li> <li>● <i>Optimize investment return within constraints of the policy</i></li> </ul>	<ul style="list-style-type: none"> <li>● <i>Maximize appreciation of capital</i></li> <li>● <i>Minimize volatility of capital investment</i></li> <li>● <i>Limit exposure to market risk (domestic versus international space)</i></li> <li>● <i>Liquidity (as defined by NAR Core Reserve Requirement)</i></li> <li>● <i>Optimize investment return within constraints of the policy</i></li> </ul>
<i>Investment Horizon</i>	<ul style="list-style-type: none"> <li>● <i>Stated and effective maturities shall be staggered to meet the current &amp; future year financial obligations of the operations</i></li> </ul>	<ul style="list-style-type: none"> <li>● <i>Stated and effective maturities shall be staggered through a laddered approach to maximize investment returns. From time to time, the presence of adverse market conditions may necessitate concentrations in shorter or longer time horizons to optimize investment opportunities.</i></li> </ul>
<i>Diversification</i>	<ul style="list-style-type: none"> <li>● <i>No more than 2% of the portfolio shall be invested with a single corporate or municipal issuer</i></li> </ul>	<ul style="list-style-type: none"> <li>● <i>No more than 2% of the portfolio shall be invested with a single corporate or municipal issuer</i></li> </ul>

### *Prohibited Investments*

*Unless expressly authorized in writing by the Finance Committee, the following investments or strategies are prohibited:*

- *Securities that are not publicly traded*
- *Physical assets not used in the normal operations of the organization, such as jewelry and precious metals*
- *Lending securities or using leverage through the use of futures and margining of marketable securities*
- *Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected, given the objectives of the portfolio*

## **Supporting Guidelines**

- The investable funds of the Association shall be managed with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent business person acting in the capacity of a volunteer committee member familiar with such matters would use in the investment of funds of like character and with like aims.
- Investment of the funds shall be diversified to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. Portfolios should be managed with the target of no more than 50% of available reserve funds invested with outside advisors.
- Investments should be made only through reputable registered investment advisors, brokers, dealers, or other financial institutions that are members of the Securities Insurance Protection Corporation (SIPC) or Federal Deposit Insurance Corporation (FDIC).
- No Officer, board member, committee member, or employee (or any relative of such a person) of the Association may accept or receive a commission or personal benefit resulting from investment activities.
- All dividends and interest received from the investment of Association marketable securities will be included with operating funds to help defray the cost of Association programs.

## **Delegation of Authority**

The Association's Treasurer is authorized by the NAR Board of Directors to invest NAR's marketable assets within the guidelines of this Policy Statement, always with an eye toward the maximization of monetary and strategic objectives. The Treasurer works within the constitutional governance structure of the Finance Committee and their advisory role of discussion, review and approval of investment related decisions of significance. Recognizing the time commitment which focus and due diligence in this area require, certain members of the Finance Committee are asked to serve on the Reserves Investment Advisory Board, along with other members at large, providing a well-rounded business and financial acumen and diversity of experience and opinion in this area of importance.

The Advisory Board may place reliance on certain professional experts in various investment related disciplines to aid them in the carrying out of their fiduciary responsibilities. Actions covered by the guidelines of this Policy Statement fall within the decision making responsibilities of the Advisory Board, with approval by the Finance Committee of matters of significance within the general context and intent of the policy. Investment decisions not covered within the philosophy of the Policy Statement must be directed by the Finance Committee to the Board of Directors.

See Appendix C for the charter and purpose of the Reserves Investment Advisory Board.

The Treasurer of the Association may delegate day to day responsibilities over the investable asset portfolios to the senior member of the NAR's financial operations, along with other NAR staff as applicable.



**Appendix A**  
**Association Approved Directives**

**REALTOR® Party Funds *(Approved at 2011 Midyear Meeting)***

“That the NAR Dues be increased by \$40/year to fund the program. The funds will be accounted for separately to demonstrate that these are dedicated resources and will not be used for other operational purposes.”

**Long Range Equity Investments – Move.com Stock**  
***(Approved at 2000 Midyear Meeting)***

The Leadership Team recognizes the need for NAR to participate in strategic partnerships with for-profit companies. These strategic partnerships may result in the acquisition by NAR of stock that does not conform with existing investment policies. Such investments should be reviewed individually and an appropriate policy adopted for each to govern the holding or divestiture of the Association's investment.

The individual policy for Move Inc. stock is:

NAR will own at a minimum 125% of the number of shares of stock necessary in order to retain its full rights within RealSelect, Inc. and Move Inc., including NAR's seats on the boards of directors (“Minimum Shares”).

Any sale of the Minimum Shares must be authorized by a majority vote of the NAR Board of Directors.

The sale of stock above the Minimum Shares may be approved by the Leadership Team based upon:

1. The Leadership Team's determination that future cash needs of NAR require additional liquid assets;

Or,

2. Recommendation from the Treasurer, the immediate past Treasurer, the Executive Vice President, the senior financial officer and an investment banker selected by the Treasurer that market factors pertaining to this stock indicate that it would be prudent to sell stock at that time.

## APPENDIX B Allowable Investments

Asset Class	Sub-Asset Class	Operating	Minimum Purchase Requirements	Reserves	Minimum Purchase Requirements
<b>Cash Equivalents</b>	<i>Checking Accounts (FDIC insured)</i>	•		•	
	<i>Money Market (FDIC insured)</i>	•		•	
	<i>Certificates of Deposit (FDIC insured)</i>	•	'A1' rated or higher	•	'A1' rated or higher
	<i>Money Market Mutual Funds</i>	•	'A1' rated or higher	•	'A1' rated or higher
	<i>Overnight Sweep Products</i>	•	'A1' rated or higher	•	'A1' rated or higher
<b>Fixed Income (Bonds/Notes)</b>	<i>U.S. Government</i>	•		•	
	<i>U.S. Agency</i>	•		•	
	<i>U.S. Corporate &amp; Municipal</i>	•	'A' rated or higher	•	'BBB' rated or higher
	<i>U.S. Mortgage Backed (MBS &amp; CMBS)</i>	•	'A' rated or higher	•	'BBB' rated or higher
	<i>U.S. Asset Backed (ABS)</i>	•	'A' rated or higher	•	'BBB' rated or higher
	<i>Guaranteed Investment Contracts (GIC)</i>			•	
	<i>International Government &amp; Corporate</i>			•	
	<i>International Mortgage &amp; Asset Backed</i>			•	
	<i>High Yield</i>			•	
<i>Emerging Markets (Sovereign Bond &amp; Corporate Debt)</i>			•		
<b>Equities</b>	<i>Common Stock (Value, Growth, Cap; Large, Mid, Small)</i>			•	
	<i>Preferred Stock</i>			•	
	<i>Real Estate Investment Trusts (REITS)</i>			•	
	<i>Convertibles (Notes, Bonds, Preferred Stock)</i>			•	
<b>Alternatives</b>	<i>Master Limited Partnerships (MLPs)</i>			•	
	<i>Hedged Equity Funds</i>			•	
	<i>Hedge Fund-of-Funds</i>			•	
<b>Commodities</b>	<i>Energy</i>			•	
	<i>Precious &amp; Industrial Metals</i>			•	
	<i>Environmental</i>			•	
	<i>Financials</i>			•	
<b>Allowable Investment Vehicles</b>	<i>Individual Securities</i>	•		•	
	<i>Mutual Funds</i>	•		•	
	<i>Index Funds</i>			•	
	<i>Exchange Traded: Funds (ETFs) &amp; Notes (ETNs)</i>			•	
	<i>Separate Account</i>	•		•	
<b>Real Assets</b>	<i>Real Estate (under the purview of the Finance Committee only)</i>				

➤ With Reserves Investment Advisory Board approval, outside investment advisors may invest funds in any sub-classes denoted with '•'

➤ All allowable internally managed investment vehicles are denoted by: •

## Investment Grade Chart

A bond is considered **investment grade** or **IG** if its credit rating is BBB- or higher by Standard & Poor's or Baa3 or higher by Moody's. Generally they are bonds that are judged by the rating agency as likely enough to meet payment obligations that banks are allowed to invest in them.

Ratings play a critical role in determining how much companies and other entities that issue debt, including sovereign governments, have to pay to access credit markets, i.e., the amount of interest they pay on their issued debt. The threshold between investment-grade and speculative-grade ratings has important market implications for issuers' borrowing costs.

Bonds that are not rated as investment-grade bonds are known as **high yield** bonds or more derisively as junk bonds.

The risks associated with investment-grade bonds (or investment-grade corporate debt) are considered noticeably higher than in the case of first-class government bonds. The difference between rates for first-class government bonds and investment-grade bonds is called investment-grade spread. It is an indicator for the market's belief in the stability of the economy. The higher these investment-grade spreads (or risk premiums) are, the weaker the economy is considered.

Moody's		S&P		Fitch		
Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	
Aaa	P-1	AAA	A-1+	AAA	A1+	Prime
Aa1		AA+		AA+		High Grade
Aa2		AA		AA		
Aa3		AA-		AA-		
A1	P-2	A+	A-1	A+	A1	Upper Medium Grade
A2		A		A		
A3		A-	A-2	A-	A2	Lower Medium Grade
Baa1		BBB+		BBB+		
Baa2	P-3	BBB	A-3	BBB	A3	
Baa3		BBB-		BBB-		
Ba1		Not Prime		BB+		B
Ba2	BB		BB			
Ba3	BB-		BB-			
B1	B+		B+	Highly Speculative		
B2	B		B			
B3	B-		B-			
Caa	Not Prime		CCC+	C	CCC	C
Ca		CCC	Extremely speculative			
C		CCC-	In default with little prospect for recovery			
/		D	/			
/	DD					
/	D					

Source: Wikipedia

## **Appendix C**

### **Reserves Investment Advisory Board Charter**

#### **Advisory Board Structure**

The Reserves Investment Advisory Board (the Advisory Board) is comprised of 12 members who are each appointed for a service term of one (1) year. The Treasurer selects the at-large members of this Advisory Board, subject to the President's approval. Advisory Board composition:

- Chair (Shall be the Association Treasurer)
- Vice Chair
- 10 members at-large (Five must be current Finance Committee members)

#### **Purpose of the Advisory Board & Reporting Structure**

The purpose of the Advisory Board is to implement and oversee the NAR investment policies as approved by the Finance Committee, Executive Committee, and Board of Directors. In its fiduciary capacity, the Advisory Board is accountable to the Finance Committee and Board of Directors for overseeing the investment portfolios for cash/marketable securities and Move.com stock in accordance with the approved investment policies.

The Finance committee is delegated with the responsibility to develop the investment policy and monitor the execution of the policy as approved by the Board of Directors.

The NAR Board of Directors administers the investment of assets as specified by this document.

#### **Responsibilities of the Advisory Board**

The investment policy and supporting guidelines contained herein have been formulated to be consistent with the Association's anticipated financial needs and in consideration of the Association's tolerance for assuming investment and financial risk, as reflected in the majority opinion of the Advisory Board.

The intention of the investment policy statement is to provide guidelines for ensuring that the investable funds are managed in a consistent manner based on the short-term and long-term financial goals of the Association. At the same time, it is intended to provide for sufficient investment flexibility in the face of changing market conditions and with the financial circumstances of the Association.

The investment policy is reviewed annually by the Advisory Board and the senior financial officer, with recommendations for any necessary revisions presented to the Finance Committee. Recommendations for any revisions are made by the Finance Committee to the Executive Committee and Board of Directors.

The investment policy will be reviewed as needed with the investment advisors.

Any asset class additions or additional investment types must be recommended by the Reserves Investment Advisory Board to the Finance Committee for approval.

The Advisory Board, with the Finance Committee's final approval, may engage the services of one or more investment management advisors to attain investment objectives, as well as replace any investment advisor.

In the evaluation of portfolio performance, various factors affecting the investment return results will be taken into consideration by the Advisory Board in its assessment and subsequent decision-making process. These may include, but are not limited to, the extent of market losses in comparison to current market conditions, key losses of original principal, impact of fee structure, and investment manager and/or investment advisor ability to achieve desired investment results.

The Advisory Board shall exercise prudence and reasonableness with respect to investment and supporting guidelines. Should market conditions and/or financial needs of NAR cause portfolio characteristics to differ from guidelines, it is expected that compliance will be achieved within a six (6) month corrective period. Previously employed guidelines may still provide an important context for current decisions.

### **Responsibilities of Support Staff & Outside Advisors**

Detailed monthly statements are received from the investment custodians employed by the outside investment advisors. Staff analyzes the results and reports income gains or losses in the monthly financials of the Association. As well, a summary recap of investments is presented within the monthly Association financials.

At regularly scheduled quarterly meetings of the Advisory Board, the senior financial officer presents summary performance recaps of all portfolios. Investment advisors present detailed results of outside managed portfolios.

On a monthly basis, the investment advisors provide performance summaries of the outside managed portfolios to the senior financial officer, who in turn, promptly disseminates the results to both the Reserves Investment Advisory Board and Finance Committee members via email communication.

Should concerning circumstances arise relating to the management of a particular fund, it is the responsibility of the investment advisor to immediately apprise the senior financial officer of the situation. The Advisory Board chair is notified by the senior financial officer of the matter. If needed, a conference call with the Advisory Board members and investment advisor is held to discuss the matter, review advisor recommendations, and decide an appropriate course of action.

### **Risk Management Strategies**

Adopting a clear investment strategy includes a reasonable set of assumptions about the Association's risk tolerance and expected returns of the portfolio. The Advisory Board should discuss risk factors by considering the following:

- What are risks involved?
- Which risks are most likely to happen and which ones will have the greatest impact?
- How much risk is manageable?

Several risk management strategies provide the core for the Advisory Board's decision-making authority in order to carry out its fiduciary responsibilities:

- Asset Allocation
- Target Returns
- Benchmark Comparisons
- Portfolio Rebalancing

### **Asset Allocation**

The portfolio construction involves developing and maintaining an asset allocation strategy that meets the Association's short and long term goals. Strategic allocation of portfolio holdings across broadly defined asset and sub-asset class categories, with varying degrees of risk and return, will be the most significant determinant of long-term investment returns and portfolio asset value stability.

Diversification across and within asset classes is a primary means to avoid undue risk of large losses over long periods of time. Excessive investment concentrations should be avoided.

The Advisory Board should review asset allocations once a year unless prevailing market conditions necessitate more frequent review.

### **Target Returns & Benchmark Comparisons**

The objective of outside managed portfolios is to meet or exceed an average target rate of return per year as approved by the Advisory Board. Determination of an overall target rate of return is dependent upon the level of risk assumed by the Advisory Board in its investment fund choices. Investment advisors play key roles in working with the Advisory Board by presenting various risk/return scenarios to aid in the decision making process. Factors such as historical composite returns, current market conditions, and comparisons to individual or blended market index benchmarks need to be carefully weighed in arriving at a reasonable target return for a given portfolio.

### **Rebalancing**

It is expected that the portfolio's actual asset allocation will vary from its target asset allocation as a result of varying periodic returns earned on its investments in different asset and sub-asset classes. The portfolio should be rebalanced to its target asset allocation under this process:

- The investment advisor reviews the portfolio quarterly with the Advisory Board (March 31, June 30, September 30, & December 31) to determine the deviation from target weightings.
- The investment advisor provides a rebalancing recommendation based on the quarterly review and discussion with the Advisory Board.

## **Appendix D**

### **Guidelines for Outside Managed Funds**

The Reserves Investment Advisory Board (Advisory Board) is authorized to delegate certain responsibilities to professional experts in the investment management field, subject to final approval of the Finance Committee. These may include:

**Investment Management Advisor:** The advisor assists the Association in the selection of investment managers and regularly reviews those managers to measure and evaluate investment performance. The advisor will also assist the Advisory Board in establishing investment policies, objectives, and guidelines, as well as perform other tasks as deemed appropriate.

**Investment Manager:** The investment manager has the discretion to purchase, sell, or hold the specific securities that will be used to meet the Association's investment objectives.

**Custodian:** The custodian physically (or through agreement with a sub-custodian) maintains possession of securities owned by the Association. In that capacity, the custodian collects dividend and interest payments, redeems maturing securities, and effects receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Association accounts.

#### **Responsibilities of Investment Management Advisor**

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

- Conducting investment manager searches, as needed or when requested by the Advisory Board, and providing 'due diligence' research on the investment managers.
- Monitoring the performance of selected investment managers and providing the Advisory Board with the necessary information to determine whether progress towards the Association's investment objectives is being achieved.
- Communicating matters of policy, manager research, and manager performance to the Advisory Board.
- Monitoring the investments of all investment managers to determine whether the asset allocation ranges and the investment guidelines defined for each portfolio as a whole are being complied with, and to promptly notify the senior financial officer and the Reserves Investment Advisory Board of any non-compliance, and advise on how best to achieve compliance.
- Performing asset allocation studies and proactively recommending allocation changes or rebalancing.
- Assisting with development and periodic review of client's investment policy.

### **Responsibilities of Investment Manager**

In the course of constructing an outside managed portfolio, the services of a qualifying investment manager will likely be sought to manage portions of the investment portfolios of the Association. The Advisory Board will rely on the due diligence of the investment management advisor in selecting the investment managers. Investment managers being considered will be evaluated on several factors, including but not limited to, the needs of the Association, the pattern of the historical rates of return and the volatility to those returns, styles of management, adherence to style, research capability, staffing, fees, and other factors considered relevant and incorporating best practices. In consultation with the investment management advisor, the Advisory Board will review the proposed investment manager selections and retain investment managers as appropriate.

Each investment manager has full 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. The investment manager shall be responsible for:

- Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
- Communicating to the investment management advisor any major changes to economic outlook, investment strategy, or any other factors which affect implementation of the investment process, or fulfilling the Association's investment objectives.
- Informing the investment management advisor regarding any qualitative change to investment management organization. Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
- Voting proxies on behalf of the Association in its best interest.

The Board of Directors, Finance Committee, Reserves Investment Advisory Board or the Association's Officers does not reserve any control over investment decisions, with the exception of specific limitations described in the Investment Policy Statement. Investment managers will be held responsible and accountable to achieve the Association's investment objectives. While it is not believed that the limitations will hamper investment managers, each manager should request modifications if deemed appropriate. All expenses for such experts must be customary and reasonable.

### **Selection of Investment Managers**

The Advisory Board's selection of investment managers must be based on prudent due diligence procedures, including consideration of prospective investment managers' performance, fee structure, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that will impact their ability to achieve results. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company.



### **Termination of an Investment Manager**

The Advisory Board and senior financial officer, in consultation with the investment management advisor, evaluates quarterly each of the investment managers' trailing 12 month performance, as well as rolling three year period results. The Treasurer and senior financial officer reserve the right, between meetings of the Advisory Board, to recommend the termination of an investment manager for any reason. These could include:

- Unacceptable justification of poor investment results given the discipline employed and the risk parameters established.
- Failure to adhere to the Investment Policy Statement, including communication and reporting requirements.
- Significant changes to the investment management organization deemed adverse to the interests of the Association Funds.
- Evidence of a change in investment manager fees which adversely affects investment return.

### **Investment Manager Performance Review and Evaluation**

Performance reports generated by the investment management advisor are compiled quarterly and reviewed with the Advisory Board. The investment performance of the total portfolio, as well as its asset class components, is measured against commonly accepted performance benchmarks which correlate to the investment strategy. Investments in each asset class are measured against their respective style benchmark. Consideration is given to the extent that the investment results are consistent with the portfolio's risk and return objectives, as well as absolute return objectives.

Investment management advisors will regularly provide the Advisory Board with their assessments of hired investment managers including review of performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact the investment manager's ability to achieve the desired investment results.

### **High Yield Bond Portfolio**

All high yield investments are preferred to be rated at least B- or equivalent at the time of purchase, by one of the established rating agencies (generally Moody's or S&P). If the issue is split rated, the lower rating is applicable for guideline purposes. Purchases can be rated below B- by S&P or B3 by Moody's based on the Investment Manager's professional judgment. A maximum 5% of the portfolio may be held in bonds that have a rating of CCC or below. Non-rated issues may comprise up to 5% of the portfolio, provided that the Investment Manager determines that, if such an issue were rated, it would be allowed under the guidelines listed above. The portfolio may have a High Yield allocation up to 10% (at cost), with a maximum allocation of 15% (at market value).

### **Marketability of Assets**

Unless otherwise approved by the NAR Board of Directors, all assets of the Association must be invested in securities that can be transacted quickly and efficiently with minimal impact on market price.

To ensure marketability and liquidity, investment advisors are required to execute equity transactions through the following exchanges: New York Stock Exchange; American Stock Exchange; and NASDAQ over-the-counter market.

### **Derivative & Alternative Investments**

The Advisory Board has maintained a conservative position on derivative securities due to the level of risk. Unless a specific type of derivative security is allowed in this document, the investment management advisor must seek permission from the Advisory Board to include derivatives in the portfolio by presenting detailed information regarding expected return and risk characteristics of such investment vehicles.

The Advisory Board recognizes that alternative investment strategies may provide added benefits in the form of increased return and/or reduced volatility through greater diversification. Accordingly, the Association may invest a portion of an outside managed portfolio in market neutral and/or hedge equity strategies, with the goal of enhancing the investment returns while also moderately reducing risk.

It is understood that hedge equity and market neutral strategies are less transparent than traditional investments, but reasonable levels of transparency and reporting are expected in order to monitor the investment appropriately. In addition, it is understood that liquidity in such investments may be limited. Liquidity constraints, including lock-up provisions will be taken into consideration when making allocations to such investments. Allocations in market neutral strategies should only be made through a Fund-of-Funds investment structure.

# Appendix E

## **Glossary of Terms & Supplemental Information**

### Glossary of Terms

**Absolute Return:** A measure of the gain or loss on an investment portfolio expressed as a percentage of invested capital.

**Asset Backed Securities:** A security whose value and income payments are derived from and collateralized (or "backed") by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually. Pooling the assets into financial instruments allows them to be sold to general investors; a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can include common payments from credit cards, auto loans, and mortgage loans, to esoteric cash flows from aircraft leases, royalty payments and movie revenues.

**Cash & Cash Equivalents:** Highly liquid investments that can be immediately converted to cash. Maturity time horizon is 3 months or less.

**Commercial Paper:** An unsecured promissory note with a fixed maturity of 1 to 270 days. Commercial Paper is a money-market security issued (sold) by large banks and corporations to get money to meet short term debt obligations (for example, payroll), and is only backed by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note.

**Commodities:** Products for which there is demand, but which are supplied without qualitative differentiation across a market and are the same no matter who produces it.

**Convertible Bonds:** Exchangeable for stock. Convertible bonds commonly offer greater potential for appreciation in value if stock prices rise.

**Convertible Notes:** A debt instrument that can be converted into stock at the option of the holder or the issuer.

**Convertible Preferred Stock:** Preferred stock with special provisions that allow conversion to common stock at designated times or specific prices.

**Corporate Bonds:** A debt contract (IOU) of a corporation whose original maturity is more than five years.

**Corporate Notes:** A debt contract (IOU) of a corporation whose original maturity date is five years or less.

**Credit Risk:** The risk of loss due to a debtor's non-payment of a loan or other line of credit (either the principal or interest (coupon) or both).

**Derivative Investments:** Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, CMOs (PAC bonds, IOs, POs, residual bonds, etc.), and interest rate swaps, among others.

**Exchange-Traded Funds (ETFs):** A security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange, thus experiencing price changes throughout the day as it is bought and sold. Because it trades like a stock whose price fluctuates daily, an ETF does not have its net asset value (NAV) calculated every day like a mutual fund does.

**Exchange-Traded Notes (ETNs):** A senior, unsecured, unsubordinated debt security issued by an underwriting bank. Similar to other debt securities, ETNs have a maturity date and are backed only by the credit of the issuer. Typically, ETNs do not offer principal protection.

**Fiduciary:** Any individual or group of individuals that exercise discretionary authority or control over funds management or any authority or control over management, disposition or administration of fund assets.

**Guaranteed Investment Contract (GIC):** Insurance contracts that guarantee the owner the principal repayment and a fixed or floating interest rate for a predetermined period of time. Guaranteed investment contracts are typically issued by insurance companies and marketed to institutions that qualify for favorable tax status under federal laws. These products provide institutions with guaranteed returns.

**Hedge Fund:** An aggressively managed portfolio of investments that uses advanced investment strategies such as leverage, long, short and derivative positions in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark).

**Hedged Fund-of-Funds:** A fund of hedge funds with a diversified portfolio of numerous underlying hedge funds to spread and reduce risk.

**High Yield Bonds:** (Also known as non-investment grade bond, speculative grade bond or junk bond). A bond that is rated below investment grade at the time of purchase. These bonds have a higher risk of default or other adverse credit events, but typically pay higher yields than better quality bonds in order to make them attractive to investors.

**Interest Rate Risk:** The risk borne by an interest-bearing asset, such as a loan or a bond, due to variability of interest rates. In general, as rates rise, the price of a fixed rate bond will fall, and vice versa. Interest rate risk is commonly measured by the bond's duration.

**Intermediate Term Securities:** Bonds or other instruments that have a maturity time horizon up to 5 years.

**Investment Horizon:** The time period over which the investment objectives are expected to be met. Each investment fund will have a specific time horizon for analyzing various asset allocation strategies and risk and return assumptions.

**Investment Management Advisor:** Any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.

**Investment Manager:** Any individual, or group of individuals, employed to manage the investments of all or part of a fund's assets.

**Investment Return:** Normally expressed as a percentage, it is the change in value of an investment over a given period of time.

**Liquidity Risk:** The risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit).

**Long Term Securities:** Bonds or other instruments that have a maturity time horizon greater than 5 years.

**Managed Futures:** An account that is like a mutual fund, except that positions in government securities, futures contracts and options on futures contracts are used to manage the portfolio. Commodity trading advisors (CTA) oversee managed futures accounts, deciding on their positions based on expected profit potential. Managed futures offer the potential for reduced portfolio volatility and the ability to earn profit in any economic environment.

**Market Neutral:** A hedge fund strategy that seeks to exploit differences in stock prices by being long and short in stocks, or by being within the same sector, industry market capitalization, country, etc. This strategy creates a hedge against market factors.

**Master Limited Partnership (MLP):** A type of limited partnership that is publicly traded. There are two types of partners in this type of partnership: The limited partner is the person or group that provides the capital to the MLP and receives periodic income distributions from the MLP's cash flow, whereas the general partner is the party responsible for managing the MLP's affairs and receives compensation that is linked to the performance of the venture. One of the most crucial criterion that must be met in order for a partnership to be legally classified as an MLP is that the partnership must derive most (~90%) of its cash flows from real estate, natural resources and commodities.

**Money Market Mutual Fund:** Money market mutual funds are investment companies that invest in short-term, liquid assets in order to provide money-market rates of return to investors. These funds maintain a fixed net asset value per share, usually one dollar, and distribute income daily in the form of fractional shares. Typically, a money market mutual fund is not FDIC insured.

**Mortgage Backed Securities:** An asset-backed security or debt obligation that represents a claim on the cash flows from mortgage loans, most commonly on residential property.

**Municipal Bonds:** A bond issued by a city or other local government, or their agencies. Potential issuers of municipal bonds include cities, counties, redevelopment agencies, school districts, publicly owned airports and seaports, and any other governmental entity (or group of governments) below the state level. Municipal bonds may be general obligations of the issuer or secured by specified revenues.

**Municipal Notes:** Short-term municipal obligations, generally maturing in one year or less.

**Mutual Fund:** An investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

**Real Asset:** Any asset with intrinsic value, such as real estate, a factory, or a patent. This classification explicitly excludes financial instruments (such as debt or currency).

**Relative Return:** The return that an investment achieves over a period of time compared to a benchmark. The relative return is the difference between the absolute return achieved by the investment and the return achieved by the benchmark.

**Short Term Securities:** Bonds or other instruments that have a maturity time horizon greater than 3 months and up to 3 years.

## **Supplemental Information**

### **Association Real Assets**

Real property may be leveraged to provide additional needed cash flow. As of 2012, only NAR's building in Washington DC has any element of leverage with tax exempt bond holdings of \$15 million traded in the open market, collateralized by NAR's property. All other properties could be considered for further leverage as needed.

### **Move.com Stock**

As of 2012, NAR owns approximately 1 million shares, as adjusted for the November 2011 reverse stock split. The minimum level of share ownership NAR must own in order to retain a seat on Move's Board of Directors is 46,806.

### **Investments in Association Subsidiaries & Business Ventures**

As of 2012, the NAR investments in this asset base include:

SentriLock, LLC  
RE Formsnet/dba Ziplogix  
Second Century Ventures (including investments in Ifbyphone, DocuSign and Xceligent)  
REALTORS® Property Resource  
REALTORS Information Network™  
Center for Specialized Real Estate Education

### **Core Reserves Requirement**

Components defining the basis for calculating the core reserves requirement:

- 1) Three year rolling average: Includes current year of operations plus two (2) previous years.
- 2) Operating expenditures: Those expenses supported by dues revenue and programmatic non-dues revenue. This excludes expenses supported by any special assessments.
- 3) Depreciation expense: Reduces gross operating expenses because there is no cash or reserves impact.
- 4) Capital expenditures: Added to gross operating expenses because these costs are a use of cash or reserves, but are not counted in operating expense budget.

### **Previously Employed Guidelines**

*For historical reference purposes only:*

- No more than 35% of a total portfolio placed in the securities of a single agency lacking the explicit backing of the U.S. Government. (25% threshold for externally managed funds).
- No more than 20% of a portfolio concentrated in a single industry.
- Reserve funds maturities staggered up to 15 years with no more than 20% of the funds in maturities greater than 10 years.