

**Independent Lubricant Manufacturers Association**  
Investment Policy Statement

# **Independent Lubricant Manufacturers Association**

## **INVESTMENT POLICY STATEMENT**

Approved by the Board of Directors, July 16, 1998  
Amended by the Board of Directors, April 18, 2001  
Amended by the Board of Directors, April 10, 2003  
Amended by the Board of Directors, April 9, 2007  
Amended by the Board of Directors, August 29, 2009  
Amended by the Board of Directors, November 14, 2014  
Amended by the Board of Directors, April 13, 2019

### **Introduction**

This Investment Policy Statement has been adopted by the Board of Directors of the Independent Lubricant Manufacturers Association (“ILMA” or “Association”) to outline the goals and objectives of and provide guidelines for the prudent investment of funds (or “assets”) held by the Association. Further, this Investment Policy Statement describes the appropriate risk posture for the investment of these funds; specifies the target asset allocation; establishes guidelines for the selection of investment managers, mutual or commingled funds, permissible securities and diversification of assets; specifies the criteria for evaluating the performance of the funds; and, defines the responsibilities of those within ILMA responsible for the management of the assets.

For the purposes of managing investment risk and to optimize investment returns within acceptable risk parameters, ILMA's assets will be divided into three separate investment pools. The process for determining the dollar amount in each pool is set forth in the “Procedures” section below. The investment pools shall be called the “Short-term Reserve”, the “Program Reserve” and the “Long-term Reserve.”

The purpose of the Short-term Reserve is to provide sufficient cash to meet the financial obligations of the Association in a timely manner. The goals for the Program Reserve are to support initiatives to improve or expand the benefits provided to members. The goals of the Long-term Reserve will be to provide for the ongoing income needs (as necessary), financial stability, conservative growth of capital to meet future needs of the Association and to enhance the purchasing power of funds held for future expenditure.

## **Roles and Responsibilities for ILMA's assets are:**

- The **Board of Directors** is responsible for approving ILMA's investment policy and any revisions to it. The Board will receive and review timely reports on investment performance. The Board is responsible for approving outside investment advisors, if any. The **Executive Committee** may act on the Board's behalf between regularly scheduled meetings of the Board; and, its actions are subject to ratification by the full Board at its next meeting. The Board of Directors will remain fiduciaries over all assets and will act in accordance with those standards as necessary to ensure prudent management of the assets. The Board of Directors will review at least annually all costs associated with the management of ILMA's assets.
- The **Treasurer** will assure that all invested funds are subject to appropriate audit tests, and that investment accounts and activities within those accounts are covered by the auditor's opinion in ILMA's independently audited financial statements. The Treasurer, with the assistance of the **Executive Committee**, is responsible for recommending changes in the Investment Policy Statement to the Board. The Treasurer is responsible for timely reporting to the Board of Directors on investment performance. The Treasurer may delegate the execution of these tasks to the CEO.

The **CEO** is responsible for working with the Investment Advisor, assuring the timely receipt and distribution of accurate investment performance reports, and for executing other tasks assigned by the Treasurer, Board of Directors or Executive Committee to implement ILMA's Investment Policy Statement. The CEO shall act as liaison with the Investment Advisor.

- Investment advice and recommendations concerning the management of investment assets will be offered by the **Investment Advisor**, consistent with and observing all policies, guidelines, constraints and philosophies as established in this Investment Policy Statement. The Investment Advisor will acknowledge and agree in writing to its fiduciary responsibility to comply fully with the current Investment Policy Statement and as modified in the future. Specific responsibilities of the Investment Advisor include:
  1. Assisting in the periodic review and proposed modifications to ILMA's Investment Policy Statement.
  2. Assisting in the development and periodic review of an appropriate asset allocation strategy consistent with policy guidelines, return objectives, risk tolerance, liquidity needs and time horizon.
  3. Exercising day-to-day discretion over investments in accordance with ILMA's Investment Policy Statement.
  4. Selecting Investment Managers to implement the overall investment strategy.

5. Providing "due diligence" research on the Investment Manager(s), including ongoing monitoring of Investment Managers for fundamental changes in investment management process and evaluation and potential replacement of Investment Managers upon the occurrence of such events.
6. Reporting investment performance results on a quarterly basis, or as requested, to the CEO, Board of Directors and/or the Executive Committee.
7. Monitoring and reporting the performance of the Investment Manager(s) to provide CEO with the ability to determine adherence to ILMA's Investment Policy Statement and progress toward the investment objectives.
8. Communicating, on at least a quarterly basis, any major changes in economic outlook, investment strategy, or other relevant factors that affect implementation of either the investment process or progress toward investment objectives.
9. Meet with the Board of Directors or Executive Committee periodically, at a minimum of once per year, to review portfolio structure, strategy and investment performance.

The Board of Directors does not reserve any control over investment decisions by the Investment Advisor, with the exception of any limitations set forth in this Investment Policy Statement. The Investment Advisor will be held responsible and accountable to achieve ILMA's investment objectives. While it is not believed the limitations set forth herein will hamper the Investment Advisor, the Investment Advisor should request modifications it deems appropriate.

#### **Procedures**

1. The following procedures will be followed to ensure that this Investment Policy Statement is consistent with the current mission of ILMA and accurately reflects the Association's current financial condition:
  - A. This Investment Policy Statement shall be reviewed regularly by ILMA's Board of Directors or Executive Committee in conjunction with the Investment Advisor. The Executive Committee will recommend any necessary revisions to the Association's Board of Directors.
  - B. The Board of Directors will have final approval on any changes to the Investment Policy Statement.
2. It is anticipated that ILMA's funds will be invested in broadly-defined financial asset and subasset categories with varying degrees of risk, return and correlation in order to manage ILMA's assets for risk management and diversification reasons, so such assets are available for future, unseen contingencies and to offset the effects of inflation on ILMA's purchasing power. The following procedure is for the selection of such categories for the assets:
  - A. The Board of Directors has authorized the Investment Advisor to manage and rebalance the portfolio - Short-term Reserve, Program Reserve and Long-term Reserve -- as needed to maintain proper asset allocations and

investment strategies within the terms of this Investment Policy Statement.

B. The CEO will be the primary contact between ILMA and the Investment Advisor.

### **Miscellaneous**

**Taxes** do not apply to ILMA as a non-profit organization.

**Legal considerations**, *e.g.*, trusts, do not apply to the management of these assets. However, ILMA legal counsel will provide ongoing advice and review.

There are no special considerations which apply to the investment of these assets, except that no more than five (5) percent of the asset value of the Long-term Reserve may be invested in the stock of a member company of ILMA.

### **Selection and Monitoring of Investments**

The investment program will be reviewed on a regular basis, including an evaluation of each investment option in terms of performance against the investment standards and benchmarks, as well as any additional considerations not listed in this Investment Policy Statement that the responsible parties determine prudent and necessary.

Given the broad number of criteria used to evaluate investment options for selection and monitoring, there is no specific formula that will determine whether an investment should be selected or continue to be used. Instead, it will be at the discretion of the Investment Advisor to prudently select, monitor and change the funds within the terms of this Investment Policy Statement; provided, however, that any investment that remains on the Investment Advisor's "watch list" for three consecutive calendar quarters shall be reviewed by the Executive Committee at its next meeting to decide whether the investment should be retained or divested.

## **ILMA SHORT-TERM RESERVE**

### **Purpose**

The purpose of the Short-term Reserve is to provide sufficient cash to meet the financial obligations of ILMA in a timely manner. The Short-Term Reserve shall maintain a minimum value of \$250,000.00.

### **Distribution Policy to Program Reserve or Long-term Reserve**

Any distribution from the Short-term Reserve to the Program Reserve or Long-term Reserve will require approval of the Board of Directors or Executive Committee. Distributions from the Short-Term Reserve to the Program Reserve or Long-term Reserve may not cause the value of the Short-term Reserve to drop below its minimum.

### **Investment Objectives**

The investment objectives of the Short-term Reserve:

1. Preservation of capital.
2. Liquidity.
3. Optimize the investment return within the constraints of this Investment Policy Statement.
4. An investment horizon on one (1) year or less.

### **Investment Guidelines**

The Short-term Reserve may be invested as follows:

1. Federally-insured certificates of deposit.
2. Money market funds and sweep accounts.
3. Interest bearing checking accounts in Federally-insured banks and savings and loans.
4. Direct obligations of the U.S. Government, and its agencies.
5. Agency discount notes.
6. Repurchase agreements.
7. Commercial paper rated A-2/P-2 or higher.
8. Corporate notes rated investment grade or better.
9. Mutual Funds or Exchange Traded Funds (ETFs) invested in securities described in numbers 1-8

Maturity:

The maturities on investments for the Short-term Reserve shall be limited to a weighted average maturity of two years or less, with an appropriate allocation to short-term investments to satisfy any cash flow expectations in a 12-month period.

## Credit Quality

The average credit quality of the fixed income portion of the portfolio shall be “investment grade” or higher.

## **ILMA PROGRAM RESERVE**

### **Purpose**

The purpose of the Program Reserve Fund is to provide a means for the Board of Directors to develop new programs, expand ILMA's interests or services, invest in new revenue producing opportunities, and to support initiatives to improve or expand the benefits provided to members.

### **Investment Objectives**

The goals of the Program Reserve are to provide for the ongoing income needs, financial stability, conservative growth of capital to meet future needs of the Association and to enhance the purchasing power of funds held for future expenditure.

### **Distribution Policy to Short-term or Long-term Reserve**

Any distribution from the Program Reserve to the Short-term Reserve or Long-Term Reserve will require approval of the Board of Directors or Executive Committee.

### **Investment Objectives**

The objectives of the Program Reserve should be pursued as a long-term goal designed to maximize the returns without exposure to undue risk. It is understood that fluctuating rates of return are characteristic of the securities markets. The greatest concern should be the need for long-term appreciation of the assets and consistency of total portfolio returns. Recognizing that short-term market fluctuations may cause variations in the account performance, the goal of the account will be to achieve the following objectives over a five-year period:

1. The account's total return should exceed the increase in the Consumer Price Index (CPI) by three percent (3%) annually.
2. Achieve a rate of return after all fees that should be measured against an appropriate blended benchmark.
3. The portfolio should be invested to minimize the likelihood of low negative total returns, defined as a one calendar year return worse than negative -20%. It is anticipated that a loss greater than this will occur no more than once out of every 10 years.

### **Investment Guidelines**

The investment policies and restrictions presented in this statement serve as a framework to achieve the investment objectives at a level of risk deemed prudent and acceptable. These policies and restrictions are designed to minimize interfering with efforts to attain overall objectives and to minimize excluding any appropriate investment opportunities. The Investment Policy allows substantial discretion in the asset allocation and diversification of the assets for the purposes of increasing investment returns or reducing risk exposure. The Board of Directors has given the Investment Advisor



authority to shift the assets among the various investment options within the parameters of the Investment Policy Statement.

The part of the portfolio invested in stocks should be representative of the overall stock market. Allowable investments include without limitation professionally-managed accounts, Mutual Funds and Exchange Traded Funds (ETFs) that invest in:

1. Large capitalization domestic stocks.
2. Mid capitalization domestic stocks.
3. Small capitalization domestic stocks.
4. Stocks of foreign corporations.
5. Stocks of real estate investment trusts "REITS".
6. Stocks of emerging markets.

Investments in fixed-income securities will be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums. Allowable investments include, without limitation, professionally-managed accounts, Mutual Funds and ETFs that invest in:

1. Any investment allowed in the Short-term Reserve.
2. Investment grade corporate bonds.
3. High Yield Corporate Bonds
4. Foreign government or foreign corporation bonds, provided they have a readily-ascertainable market value and must be readily marketable
5. Treasury Inflation Protected Securities (TIPS)
6. The weighted-average maturity of the portfolio must be 15 years or less.

Investments in Alternative Investments and other asset classes should be managed to diversify the portfolio, mitigate total portfolio risk, and generate attractive returns within appropriate risk parameters. Allowable investments include, without limitation, professionally-managed accounts, Mutual Funds and ETFs that invest in:

1. Hedge Fund Strategies
2. Commodities
3. Master Limited Partnerships (MLPs)

### **Asset Allocation Parameters**

<b>Asset Class</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Target</b>
US Stocks	20%	45%	34%
Foreign Stocks	10%	20%	16%
Emerging Markets	0%	10%	4%
REITS	0%	8%	3%
Commodities	0%	5%	0%
Investment Grade Bonds	25%	50%	40%
High Yield Bonds	0%	10%	0%
TIPS	0%	10%	0%
Hedge Funds (Liquid)	0%	12%	8%
Cash	0%	25%	0%

The following investments are prohibited:

1. Private placements outside of mutual funds.
2. Letter stock.
3. Options, commodity or futures trading except in mutual funds where the objective is to hedge or preserve principal or for purposes consistent with the mutual fund's investment objective or strategy.
4. Short selling outside of mutual funds.
5. Margin transactions.

The asset allocation within the Program Reserve should be reviewed at least annually by the Executive Committee and the Investment Advisor. The Investment Advisor should make recommendations to the Executive Committee regarding asset allocation as deemed necessary. Further, the CEO and Executive Committee give authority to the Investment Advisor to rebalance the asset allocation to ensure that the overall asset allocation of the Program Reserve remains within the guidelines of the Investment Policy Statement.

### **Distributions/Spending**

Each year, the Board of Directors, upon recommendation from the Executive Committee, approves the distribution rate from the Program Reserve that establishes the percentage of the value of the Program Reserve that is made available for spending. To assist the Board of Directors and Executive Committee, the Investment Advisor provides input to the Board of Directors and Executive Committee regarding the long-term expected return of the Program Reserve.

## **ILMA LONG-TERM RESERVE**

### **Purpose**

The goals of the Long-term Reserve are to provide for the ongoing income needs, financial stability, conservative growth of capital to meet future needs of the Association and to enhance the purchasing power of funds held for future expenditure.

### **Distribution Policy to Short-term or Program Reserve**

Any distribution from the Long-term Reserve to the Short-term Reserve or Program Reserve will require approval of the Board of Directors or Executive Committee.

### **Investment Objectives**

The objectives of the Long-Term Reserve should be pursued as a long-term goal designed to maximize the returns without exposure to undue risk. It is understood that fluctuating rates of return are characteristic of the securities markets. The greatest concern should be the need for long-term appreciation of the assets and consistency of total portfolio returns. Recognizing that short-term market fluctuations may cause variations in the account performance, the goal of the account will be to achieve the following objectives over at least a five-year period:

1. The account's total return should exceed the increase in the Consumer Price Index (CPI) by three percent (3%) annually.
2. Achieve a rate of return after all fees that should be measured against an appropriate blended benchmark.
3. The portfolio should be invested to minimize the likelihood of low negative total returns, defined as a one calendar year return worse than negative -20%. It is anticipated that a loss greater than this will occur no more than once out of every 10 years.

### **Investment Guidelines**

The investment policies and restrictions presented in this statement serve as a framework to achieve the investment objectives at a level of risk deemed prudent and acceptable. These policies and restrictions are designed to minimize interfering with efforts to attain overall objectives and to minimize excluding any appropriate investment opportunities. The Investment Policy allows substantial discretion in the asset allocation and

diversification of the assets for the purposes of increasing investment returns or reducing risk exposure. The Board of Directors has given the Investment Advisor authority to shift the assets among the various investment options within the parameters of the Investment Policy Statement.

The part of the portfolio invested in stocks should be representative of the overall stock market. Allowable investments include without limitation professionally-managed accounts, Mutual Funds and Exchange Traded Funds (ETFs) that invest in:

1. Large capitalization domestic stocks.
2. Mid capitalization domestic stocks.
3. Small capitalization domestic stocks.
4. Stocks of foreign corporations.
5. Stocks of real estate investment trusts "REITS".
6. Stocks of emerging markets.

Investments in fixed-income securities will be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums. Allowable investments include, without limitation, professionally-managed accounts, Mutual Funds and ETFs that invest in:

7. Any investment allowed in the Short-term Reserve.
8. Investment grade corporate bonds.
9. High Yield Corporate Bonds
10. Foreign government or foreign corporation bonds, provided they have a readily-ascertainable market value and must be readily marketable
11. Treasury Inflation Protected Securities (TIPS)
12. The weighted-average maturity of the portfolio must be 15 years or less.

Investments in Alternative Investments and other asset classes should be managed to diversify the portfolio, mitigate total portfolio risk, and generate attractive returns within appropriate risk parameters. Allowable investments include, without limitation, professionally-managed accounts, Mutual Funds and ETFs that invest in:

13. Hedge Fund Strategies
14. Commodities
15. Master Limited Partnerships (MLPs)

### **Asset Allocation Parameters**

<b>Asset Class</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Target</b>
US Stocks	25%	45%	35%
Foreign Stocks	10%	25%	18%
Emerging Markets	0%	10%	5%
REITS	0%	8%	4%
Commodities	0%	5%	0%
Investment Grade Bonds	25%	50%	35%
High Yield Bonds	0%	10%	0%
TIPS	0%	10%	0%
Hedge Funds (Liquid)	0%	12%	8%
Cash	0%	15%	0%

The following investments are prohibited:

1. Private placements outside of mutual funds.
2. Letter stock.
3. Options, commodity or futures trading except in mutual funds where the objective is to hedge or preserve principal or for purposes consistent with the mutual fund's investment objective or strategy.
4. Short selling outside of mutual funds.
5. Margin transactions.

The asset allocation within the Long-term Reserve should be reviewed at least annually by the Executive Committee and the Investment Advisor. The Investment Advisor should make recommendations to the Executive Committee regarding asset allocation as deemed necessary. Further, the CEO and Executive Committee give authority to the Investment Advisor to rebalance the asset allocation to ensure that the overall asset allocation of the Long-term Reserve remains within the guidelines of the Investment Policy Statement.