TNSO Investment Policy and Procedure 2025

Although, as an Executive Board member, you may not manage the day-to-day activities of the Tennessee State Organization, Delta Kappa Gamma, you act as a steward and have fiduciary responsibilities under Tennessee law. Specific duties include acting with good faith, loyalty, and care.

The **duty of good faith** means that you must act in good faith and be fair in your dealings with TNSO. You must refrain from taking advantage of TNSO and its resources. You must be upfront and honest in your dealings with TNSO and fulfilling your other fiduciary obligations.

The **duty of loyalty** means that you must act with undivided loyalty in the best interests of TNSO and that you do not seek to benefit personally from the activities or resources of TNSO. If you have a conflict of interest between the best interests of TNSO and your interests, you must comply with Tennessee law in resolving this conflict. Actions that benefit you at the expense of TNSO are a breach of your fiduciary duty.

The **duty of care** means that you must act reasonably, as a prudent person, in similar circumstances would and that you are familiar with TNSO's activities and financial condition and that you regularly participate in board meetings. The Executive Board oversees the TNSO President's work and ensures that the organization faithfully carries out its charitable purpose without extravagance or waste. Failing to honor these obligations can seriously harm TNSO and undermine its charitable mission. Furthermore, under Tennessee law, you may be personally liable to the nonprofit for the harm it suffers if you breach your fiduciary duties. Board members also must disclose material information to the rest of the board. If you are aware of any information you believe could affect or require a board decision, you must share it with your fellow board members unless you cannot legally do so (e.g., the disclosure will violate ethical or confidentiality laws).

WHAT EVERY BOARD MEMBER SHOULD KNOW
A Guidebook for Tennessee Nonprofits
2016 Edition
Edited to reflect TNSO

Purpose

This policy establishes investment objectives, policies, guidelines, and eligible securities related to all assets the Tennessee State Organization, Delta Kappa Gamma, hereafter referred to as TNSO, may hold for investment purposes. In doing so, the policy:

1. Clarifies the delegation of duties and responsibilities concerning the management of all TNSO funds.

2. Identifies the criteria against which the investment performance of the organization's investments will be measured.

3. Communicates the objectives to the Board, investment managers, brokers, and funding sources that may be involved.

4. Confirms policies and procedures relative to the expenditure of TNSO funds.

5. Serves as a review document to guide the ongoing oversight of the management of TNSO's investments.

Delegation of Responsibilities
The Executive Board has a direct oversight role regarding all decisions that impact TNSO's funds. The Board has delegated supervisory responsibility for managing its funds to the Finance Committee. Specific responsibilities of the various bodies and individuals responsible for managing TNSO funds are set forth below.

Responsibilities of the Executive Board
Based on the advice and recommendations of the Finance Committee, the Board shall approve investment policies and objectives that reflect long-term investment with low risk to TNSO. The Board shall continue to approve the biennial budget.

Responsibilities of the Finance Committee
Members of the Finance Committee are held accountable for adherence to the standards and policies outlined in this policy statement. However, the committee members are not held accountable for the less-than-desirable outcomes but rather for adherence to procedural prudence or the process by which decisions are made concerning invested assets. The Finance Committee is responsible for the development, recommendation, implementation, and maintenance of all policies relative to TNSO's funds and shall:

1. propose policy recommendations to the Board regarding managing all funds.

2. recommend long-term and short-term investment policies and objectives for all funds.

3. determine that all funds are prudently and effectively managed with the assistance of the president, treasurer, and any necessary investment consultants and other outside professionals as provided in the budget.

4. monitor and evaluate the performance of all those responsible for managing funds and report such findings to the Personnel Committee.

5. recommend retaining and dismissing investment consultants and other outside professionals.

6. receive and review reports from the treasurer, investment consultants, and other outside professionals, if any.

7. periodically meet with the treasurer, investment consultants, and other outside professionals.

8. biennially evaluate whether this policy and investment activities are consistent with meeting the goals and objectives for managing TNSO funds.

Responsibilities of the Treasurer

The treasurer shall be responsible for the day-to-day administration and implementation of policies established by the Executive Board concerning TNSO funds management. The treasurer shall also be the primary liaison between any investment consultants and other outside professionals that may be retained to assist in managing such funds.

Specifically, the treasurer shall:

1. Oversee the day-to-day operational investment activities of all TNSO funds subject to policies established by the Board.
2. Provide accurate and helpful information.
3. Comply with official accounting and auditing guidelines regarding due diligence and ongoing monitoring of investments.
4. Prepare and issue periodic status reports to the Board and the Finance Committee.

Investment Considerations

The Finance Committee must consider the purposes of TNSO and its assets in managing and investing organizational funds. All individuals responsible for managing and investing TNSO's funds must do so in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances. In making any decision relative to the expenditure of TNSO's funds, each of the following factors must be considered and documented in the minutes of the Finance Committee:

1. general economic conditions,
2. possible effect of inflation or deflation,
3. expected tax consequences, if any, of investment decisions or strategies,
4. the role that each investment or course of action plays within the overall investment portfolio of the fund,
5. expected total return from the income and appreciation of investments,
6. other resources,
7. the needs of TNSO and the fund and,
8. an asset's special relationship or unique value to the organization's purposes.

Guidelines for Investing

The investment goal of the total return fund is to achieve a total return (income and appreciation) of 5% after inflation over a full market cycle (3-5 years). The following guidelines apply to the three main investment asset classes:

Money Market Funds: Not to exceed 45% of total funds

A quality money market fund will be utilized for the liquidity needs of the portfolio, whose objective is to seek as high a current income as is consistent with the liquidity and stability of the principal. The fund will invest in "money market" instruments with one year or less maturity rates that have been rated by at least one nationally recognized rating agency in the highest category for short-term debt securities. If non-rated, the securities must be of comparable quality.

Equities: Not to exceed 45% of total funds

The portfolio's equity component will consist of high-quality equity securities traded on the New York, NASDAQ, or American Stock exchanges. The securities must be screened for above-average financial characteristics such as price-to-earnings, return-on-equity, debt-to-capital ratios, etc.

It is acceptable to invest in an equity mutual fund(s) adhering to the investment characteristics identified above, which maintains an expense ratio consistent with those other funds of similar investment styles as measured by the Lipper or Morningstar rating services.

Prohibited equity investments include initial public offerings, restricted securities, private placements, derivatives, options, futures, and margined transactions.
Exceptions to the prohibited investment policy may be made only when assets are invested in a Mutual Fund(s) that periodically utilizes prohibited strategies to mitigate risk and enhance return.

Fixed Income: Not to exceed 45% of total funds

Bond investments will consist solely of taxable, fixed-income securities with an investment-grade rating (BBB or higher by Standard & Poor's and Baa or higher by Moody's) that possess a liquid secondary market. If the average credit quality rating disagrees between the two rating agencies, then use the lower of the two as a guideline. No more than 5% of the fixed-income portfolio will be invested in corporate bonds.

Prohibited securities include private placements, derivatives (other than floating-rate coupon bonds), margined transactions, and foreign-denominated bonds.
Exceptions to the prohibited investment policy may be made only when assets are invested in a Mutual Fund(s) that periodically utilizes prohibited strategies to mitigate risk and enhance return.

Performance Measurements Standards

The benchmarks to be used in evaluating the performance of the two main asset classes will be:

1. **Equities:** *S&P 500 Index*- Goal: exceed the average annual return of the index over a full market cycle (3-5 years)

2. **Fixed Income:** *Lehman Brothers Government/Corporate Index*- Goal: exceed the average annual return of the index over a full market cycle (3-5 years).

It will be the responsibility of the Finance Committee to regularly review the performance of the investment account and investment policy guidelines and report to the Executive Board at least biennially with updates and recommendations as needed.

Donor Restrictions

In all instances, donor intent shall be respected when decisions are rendered concerning the investment or expenditure of donor-restricted funds. If a donor in the gift instrument has directed that appreciation may not be spent, TNSO shall comply with that directive and consider it when making decisions regarding the management and investment of the fund. Any attempt to lift restrictions on any fund shall be conducted in full compliance with the law.

Expenditure Considerations

The Executive Board and the Finance Committee are responsible for the establishment of a balanced spending policy to (a) ensure that over the medium-to-long term, sufficient investment return shall be retained to preserve and grow its economic value as a priority; and (b) to provide funds for the annual operating budget in an amount which is not subject to significant fluctuations from year-to-year to the extent possible.

All decisions relative to the expenditure of TNSO funds must assess the uses, benefits, purposes, and duration for which the fund was established and, if relevant, consider the factors:

1. the duration and preservation of the fund,
2. purposes of TNSO and the fund,
3. general economic conditions,
4. possible effect of inflation or deflation,
5. expected total return from income and appreciation of investments,
6. other organizational resources,
7. all applicable investment policies, and
8. where appropriate, alternatives to spending from the fund and the possible effects of those alternatives.

For each decision, the Finance Committee should keep and maintain a record describing the nature and extent of the consideration of each stipulated factor.

Withdrawals

Each year, TNSO is authorized to withdraw up to 5% of the total market value of the investment account (market value to be determined as of June 30, the last business day of the preceding year) for the organization's operating purposes. The dollar amount and timing of any withdrawal or sale of stock from the investment account will be left up to the discretion of the TNSO President, the Treasurer, and the Finance Committee.

Updated 4/10/2025 by the TNSO Finance Committee