

System Dynamics Society Investment Policy Statement

Authors

SDS Investment Committee
SDS Finance Committee

Introduction

This document sets forth the guidelines for investment of the System Dynamics Society's endowment. It defines the investment goals for the Society's endowment as determined by the Finance Committee in conjunction with the Investment Committee; outlines the responsibilities of the relevant parties; and presents other important considerations related to the investment activity.

Responsibilities

The Finance Committee will:

- Annually review the general goals for the Society's endowment funds and cash management models with input from the Investment Committee
- Provide guidance on expected cash flows to and from the endowment fund
- Appoint members of the Investment Committee according to the policies of the Society
- Maintain records of investment accounts to be shared with the Investment Committee

The Investment Committee will:

- Devise investment strategies designed to fulfill the endowment fund's goals
- Determine the risk tolerance for the endowment and review the tolerance on an annual basis
- Determine the target asset allocation for the endowment and review the allocation on an annual basis
- Select and manage third party investment managers who will be responsible for investing the endowment's funds
- Monitor investment performance at least quarterly and make adjustments as required
- Review investment manager performance on an annual basis
- Provide periodic performance reports to the Finance Committee

Risk Management

Risk management is an important component of the investment management process. The investment committee will:

1. When making investment decisions, make a reasonable effort to consider all the relevant risks – liquidity, market, business, credit, interest rate, and inflation are examples
2. Determine the appropriate risk tolerance for the Society’s investments by taking into consideration:
 - a. The endowment’s investment goals
 - b. The endowment’s ability and willingness to assume investment risk
 - c. Current and expected economic and market conditions
3. Review the endowment’s risk tolerance on an annual basis and adjust as market and other conditions change

Investment Goals

Investment managers, strategies and methodologies will be selected with the goals of growing the Society’s endowment to a size that will generate sufficient annual investment returns to:

1. Cover occasional shortfalls in the Society’s operating budget
2. Ensure annual awards (e.g. Dana Meadows, JWF) are adequately funded
3. Provide funding for growth in operating programs
4. Build a buffer fund for exceptional expenses

It is anticipated that the Finance Committee will provide specific investment goals each operating year.

Asset Allocation

Asset allocation is an important component of risk control. To diversify risk in the portfolio, Investment Committee will:

1. Determine the appropriate target asset allocation for the endowment giving due consideration to:
 - a. The endowment’s risk tolerance
 - b. Industry best practices for risk diversification
 - c. The endowment’s investment goals
2. Review the target asset allocation on an annual basis and adjust as required
3. Potentially reallocate funds quarterly if allocations have deviated from their target by more than 5%

Investment Guidelines

The overall investment guidelines for the Society’s endowment are:

1. As a 501(c) (3) corporation, the Society is not subject to Federal income or capital gains taxes.
2. A target rate of return of at minimum 8% per year net of fees

3. The Investment Committee will seek to have the endowment funds 100% invested with minimal cash positions. These investments should yield sufficient income to support the purposes of the endowment.
4. When selecting investment managers and their funds, all other things being equal, the fund with the lower expenses should be selected
5. Investment performance will be reviewed quarterly to ensure performance is consistent with the stated investment strategy and market conditions
6. Investment portfolios/managers will be reviewed annually to ensure performance is consistent with the Society's investment goals

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