

## **Investment Policy, Updated April 2021**

### **INTRODUCTION**

This statement of investment policy has been adopted by the Board of Directors of the Internet Corporation for Assigned Names and Numbers (ICANN) to provide guidelines for the investment of cash on hand (funds).

As ICANN's activities have become more complex and more visible with the expansion of the domain name system (DNS), it continuously improves its capabilities to plan for the future, to manage and mitigate its exposure to risks, with a high sense of financial responsibility and discipline. This has led ICANN to adopt and live by the simple principle of never spending more than it can afford. ICANN therefore ensures that its expenses never exceed its funding.

### **TYPES OF FUNDS**

For the purposes of managing investment risk and to optimize potential returns within acceptable risk parameters, the investment of funds is divided into three pools of assets.

#### **1) Operating Fund**

This is used to fund the operations of ICANN including all items in the ICANN Board approved annual budget. The Operating Fund is set at a level necessary to fund a minimum of three months expected operating expenses. Amounts in the Operating Fund that exceed this minimum shall be considered for transfer into either of the Reserve Fund or the Supplemental Fund for implementation of Community Recommendations.

#### **2) Supplemental Fund for Implementation of Community Recommendations (SFICR)**

This is used to fund projects and initiatives that were specifically approved to be funded in the annual planning and budget process. The funding of these projects by the SFICR occurs, as approved by the Board, when the size, complexity, and length of the project create a challenge to be solely funded by annual funding. The SFICR is funded through Board-approved allocations from the Operating Fund. The use of the SFICR to fund incremental projects is approved by the Board, typically through and in parallel with the adoption of the annual operating plan and budget. The SFICR shall only be utilized to fund projects approved by the ICANN Board.

#### **3) Reserve Fund**

This is ICANN's funding of last resort to cover large expenses resulting from unavoidable, unpredictable or unplanned events, which cannot be funded from ICANN's Operations. Illustrative examples of such events include:

- the urgent and unbudgeted replacement of large assets, or payment of large liabilities
- the undertaking of major downsizing or significant restructuring of ICANN's operations
- the occurrence of major security and stability threats and attacks
- the occurrence of unplanned large litigation and/or penalty expenses

- undertaking new and major programs resulting from a new strategic plan or exceptional unforeseen external events
- the recovery and continuation of operations after a disaster

ICANN recognizes that it is impossible to foresee all possible events that can trigger large, unavoidable, unpredictable or unplanned expenses, which cannot be funded from ICANN's Operations. As a result, the list above is considered illustrative and non-limitative.

ICANN, like many organizations, is exposed to natural disasters, economic fluctuations and regulatory changes. However, unlike any other organization, ICANN's mission has led the Organization and its multistakeholder model of governance to be subject to the constant changes that affect the Internet, driven by demographic, governmental, economic and technical factors.

No matter how well ICANN plans, manages risks and applies financial discipline, it is highly exposed to unpredictable events that may have an overwhelming impact on its on-going activities, which are supported by its Operating Fund.

In this environment, the only financial resource available to ICANN to face the negative impacts of any events outside of its daily activities, is its Reserve Fund.

The use of any Reserve Fund is restricted by actions of the Board of Directors. The Board of Directors has delegated to the Board Finance Committee (BFC) the authority to act on behalf of the Board of Directors to release funds from the Reserve Fund to pay for items of an emergency nature.

#### **4. Hierarchy of the Funds**

The funds, based on their nature and purpose, reflect the following hierarchy for priority, considering their contribution to ICANN's financial sustainability:

First, the Operating Fund needs to always be at or above its minimum level to enable daily operations. Then, the Reserve Fund must be at above its target level to ensure financial sustainability and resilience to unforeseen events. Finally, the SFiCR can be allocated funds as is deemed useful to support ICANN's project activity.

Any shortfall or excess in any of the funds should be addressed respecting the above hierarchy. If each and all minimum target levels are reached or exceeded, any excess fund can be allocated in the manner considered most appropriate.

#### **PURPOSE OF THE ICANN INVESTMENT POLICY**

The purpose of the ICANN Investment Policy is to:

1. Describe the philosophy of the Investment Policy that will guide investment management decisions.
2. Define and assign the responsibilities of all involved parties including the ICANN Board of Directors, the ICANN Chief Financial Officer (CFO) and personnel, and the Investment Management Company (as defined below).

3. Describe the general investment principles for investment of the funds including the size of the funds, the suggested levels of risk, the expected return on investment, the suggested liquidity level, the expected asset allocation strategy, the expected global focus, and suggested allowable and restricted asset classes.
4. Establish a basis for evaluating and reporting investment results and compliance with the Investment Policy.
5. Clarify the methods by which the Reserve Fund will be funded as well as the process by which the Reserve Fund can be accessed for emergency requirements.

## **PHILOSOPHY OF THE ICANN INVESTMENT POLICY**

The philosophy of the ICANN Investment Policy is to:

- Ensure that funds held by ICANN are invested wisely with due fiduciary care.
- Ensure that funds are safe and held securely to minimize risk of loss to the fullest extent possible.
- Ensure that funds earn appropriate returns commensurate with the level of risk and real rates of return that can offset the effects of inflation over a market cycle.
- Ensure that funds remain liquid enough to be accessible to handle the needs of ICANN's operations (Operating Fund, Supplemental Fund for Implementation of Community Recommendations) and the needs of ICANN, if any (Reserve Fund).
- Ensure clarity on the amounts to be held in the funds.
- Ensure clarity on the method(s) to access the funds for expenditure.

## **AREAS OF RESPONSIBILITY**

### **Board of Directors**

The Board of Directors of ICANN shall oversee the ICANN Investment Policy, including the:

- Creation and approval of the ICANN Investment Policy.
- Periodic maintenance and updating of the Investment Policy.
- Approval of allocation to the Reserve Fund and SCIFR, based on recommendations by the BFC.
- Delegation to the BFC specific duties and responsibilities related to the monitoring of the Investment Policy, including:
  - Approval of the Investment Management Company.
  - Directing the CFO to monitor the Investment Management Company, monitor the performance of the funds, and the compliance with the Investment Policy.
  - Monitor the performance of the Reserve Fund and Operating Fund.
  - Monitoring ICANN's compliance with the Investment Policy.
  - Periodically evaluating ICANN's current risk tolerances and investment objectives.
  - Periodically reporting to the full Board on ICANN org's compliance with the Investment Policy.
  - Approve disbursements from the Reserve Fund.

### **ICANN Org**

ICANN's CFO, with the assistance of certain ICANN personnel, shall take certain steps to oversee the administration of the Investment Policy, including:

- Monitor and direct all activities related to the Operating Fund, including funding daily operations.
- Recommend the Investment Management Company.
- Monitor the activities of the Investment Management Company.
- CFO to ensure that BFC is made aware that any amounts not required for the Operating Fund are presented to the BFC with proposed recommendations. BFC to evaluate the proposed recommendations from the CFO and to make recommendations to Board of Directors.
- Respond to monthly status reports on the performance of the Reserve Fund.
- Periodically report to the Board of Directors on the performance of the Reserve Fund.
- Periodically report to the Board of Directors on compliance with the Investment Policy.

### **The Investment Management Company**

The Investment Management Company shall take certain steps to oversee the Reserve Fund including:

- Hold fiduciary responsibility for all assets in the Reserve Fund.
- Comply with all guidelines and limitations set forth in the Investment Policy.
- Manage, analyze and oversee the execution of investment decisions including buying, selling, and holding of individual securities for all asset types in all asset classes.
- Report monthly to the ICANN CFO on the performance of the Reserve Fund and compliance with the Investment Policy.
- Communicate any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process.
- Be available to report periodically to the Board of Directors on the performance results of the Reserve Fund including comparisons with approved industry benchmarks.
- Be available to report periodically to the Board of Directors on the compliance with the Investment Policy.
- Inform the Board of Directors regarding any significant changes including changes to the investment management company, its financial strength, significant decline in assets under management, SEC investigations, material litigation, changes in portfolio management personnel, ownership structure, investment philosophy, and investment processes.

## **GENERAL INVESTMENT PRINCIPLES**

### **Pools of Funds**

ICANN's investment funds will consist of three pools of funds: the Operating Fund, Supplemental Fund for Implementation of Community Recommendations (SFICR) and the Reserve Fund.

The Operating Fund, sometimes called the Working Capital Fund, is the pool of funds that is used for ICANN's day-to-day operations. The Operating Fund will not be Board restricted and will be used to fund operating expenses of ICANN, including payroll and accounts payable. All disbursements at ICANN shall comply with Board-approved disbursement guidelines and

financial controls. The Operating Fund will be replenished by ICANN's revenues, and can also be replenished by the Reserve Fund if the Board determines that it is necessary.

This Supplemental Fund for Implementation of Community Recommendations (SFICR) is used to fund projects and initiatives that were specifically approved to be funded in the annual planning and budget process. The funding of these projects by the SFICR occurs, as approved by the Board, when the size, complexity, and length of the project create a challenge to be solely funded by annual funding.

Disbursements out of the Reserve Fund are restricted by the Board.

### **Size of Funds**

The size of the funds should be addressed in consideration of the Hierarchy of Funds described in the paragraph 4 of the Section "TYPES OF FUNDS".

The size of the Operating Fund, Supplemental Fund for Implementation of Community Recommendations (SFICR) and the Reserve Fund shall be reviewed on an annual basis as part of the budget preparation process.

The Operating Fund shall contain enough funds to cover ICANN's expected expenditures for three months. Periodically, any funds in excess of this will be transferred to the Reserve Fund.

The Supplemental Fund for Implementation of Community Recommendations (SFICR) shall align to the Board approved balance that is approved during the annual budget process.

The Reserve Fund is expected to reach and maintain a level of funds to maintain a minimum of 12 months of expected expenditures.

### **Investment Horizon and Objectives**

The Operating Fund and Supplemental Fund for Implementation of Community Recommendations (SFICR) have a short-term horizon and a principal preservation objective to meet working capital needs. The Reserve Fund has a medium investment horizon and a conservative-moderate investment objective to enhance return on assets while maintaining the preservation of capital.

### **ESG (Environmental, Social, and Governance)**

In addition to financial considerations and investment criteria included in this investment policy for the Reserve Fund, investment decisions should integrate Environmental, Social, and Governance factors, as appropriate. The manager's proprietary ESG rating will be used to evaluate securities that are rated at the mid-point or higher of its ESG rating scale so that at least 80% of the investments are rated at or above the mid point of each firms' proprietary rating scale.

### **Guidelines: Risk Level of Funds**

Although there are many ways to measure risk, this investment policy primarily measures risk as the possibility of losing nominal asset value in a fund over a given period of time. Historical performance and volatility measures are indicators of its risk profile. A fund with very little risk would never incur losses as measured over any historical period. A fund with moderately low risk would not incur losses over most historical periods. A fund with greater risk might have incurred losses in certain historical periods.

The Operating Fund and Supplemental Fund for Implementation of Community Recommendations (SFICR) will have a conservative risk profile focusing on capital preservation with minimal principal fluctuation.

The Reserve Fund will have a conservative-moderate risk profile that is moderately low risk. The historical performance of the fund should have a very low probability of losses over any given five-year period.

### **Expected Investment Return (%) of Funds**

Funds shall be invested in assets that are expected to yield the greatest investment return given the risk profile and other parameters of the fund. Historical performance and volatility measures are indicators of its risk profile and how the fund may perform under different market conditions.

The Operating Fund and Supplemental Fund for Implementation of Community Recommendations (SFICR) is expected to earn rates of return commensurate with a principal preservation fund. The three-month US Treasury Bill is therefore considered an appropriate benchmark for a nominal rate of return.

The Reserve Fund is expected to earn rates of return commensurate with a moderately low risk portfolio. The performance objective of the investments is to provide a total investment return in excess of the performance of the agreed upon composite benchmark. A comparison shall be made with relevant market benchmarks as well as the composite returns for other peer groups with similar philosophies. The appropriate benchmark is a function of the asset classification currently in place and may consist of a balanced or weighted average index underlying such asset classes. The total return is expected to rank above the median versus a manager universe with a similar asset mix.

The Reserve Fund should preserve the real (inflation-adjusted) purchasing power of the Reserve Fund's assets while maximizing real income. Real income is defined as the sum of dividends, interest, and realized gains/losses less the inflation rate as measured by CPI (Consumer Price Index) over a market cycle or rolling 10- year period.

### **Guidelines: Liquidity Level of Funds**

Liquidity is a measure of whether the assets of the fund can be sold for cash without a significant realized principal loss. A highly liquid fund would not suffer losses even if there were an immediate sale of the assets of the fund. A moderately liquid fund would not suffer significant losses even if the assets were sold over a period of time of less than one year.

The Operating Fund and Supplemental Fund for Implementation of Community Recommendations (SFICR) will be highly liquid and only invest in cash, cash equivalents, or money market instruments (including certificates of deposits, commercial paper or SEC 2a-7

money market funds.) All funds are daily valued and can be accessed within 5 business days without any significant loss in value.

The Reserve Fund is suggested to be moderately liquid. Reserve Fund assets do not need to be sold for cash except in an emergency. The Reserve Fund may invest in money market instruments and SEC 2a-7 money market funds. It is suggested that the Reserve Fund be liquid enough to realize one-third of its value without significant loss within 30 days, two-thirds of its value without significant loss within two months, and all of its value without significant loss within six months. A significant loss is defined as more than 15% realized loss. Losses in excess require BFC and Board approval.

### **Permissible Investment Vehicles**

The Investment Management Company may recommend investments in actively managed and/or passive strategies that invest in marketable securities. These strategies may be institutional mutual funds, collective trusts or commingled funds. The underlying security holdings must be transparent. The strategies must be non-lending portfolios.

### **Expected Asset Classification/Portfolio Mix and Allocation Constraints of Funds**

The asset classification/portfolio mix guides the Investment Management Company to create a portfolio that best reflects the risk posture, expected return, and other investment parameters described in the Investment Policy. The categories of classification described, and the measurements expected to be complied with, in this Investment Policy are a percentage of cash equivalents, a percentage of bonds, and a percentage of equities. In addition, the allocation constraints allow the Investment Manager to rebalance the portfolio within a risk-controlled framework and should avoid market-timing changes. Rebalancing should not incur losses or administrative burdens. Portfolio rebalancing is required at least semi-annually and may be as frequent as quarterly or monthly.

The Operating Fund and Supplemental Fund for Implementation of Community Recommendations (SFICR) asset classification is 100% cash, cash equivalents, money market instruments or SEC 2a-7 money market fund. The constraint is zero.

The Reserve Fund's Normal Asset Allocation is 65% Global Bonds and 35% Global Equities and Real Estate. The Asset Allocation is a long term asset allocation target. The Investment Management Company will manage a Tactical Asset Allocation Non-Lending Portfolio consistent with the allocations within the Allowable Investment Range. The portfolio will be rebalanced generally to maintain the allocations. The Investment Management Company may also rebalance in response to changes in economic and market conditions, liquidity requirements or provide defensive positioning to improve downside protection. Market timing is not permissible. The table below indicates the asset allocation ranges:

<b>Asset Class</b>	<b>Normal Asset Allocation</b>	<b>Allowable Investment Range</b>
Global Fixed Income	65%	45%-85%
Global Equities & Real Estate	35%	15%-55%

### **Guidelines: Global Focus of Funds**

ICANN's funds are to be invested in well diversified assets that perform well in terms of return on investment and also are invested safely to reduce the risk of loss on the portfolio. Safety and performance are the most important priorities. The ICANN Investment Policy assumes that a well diversified portfolio designed for investment performance and safety should contain a significant amount of investments in non-US assets and are also based in non-US dollar denominated currencies.

The Investment Policy recognizes that ICANN is a U.S.-based organization, but it also must recognize that ICANN has a distinctly global focus. The funds that ICANN invests in should reflect the global nature of ICANN. The actual assets allocated to non-U.S.-based assets and non-U.S. dollar denominated investments shall be suggested by the Investment Management Company and approved by the ICANN CFO.

The Operating Fund and Supplemental Fund for Implementation of Community Recommendations (SFICR) may be denominated in their functional currencies to meet operating needs but does not require a significant global focus.

The Reserve Fund is suggested to have a significant global focus. The Investment Policy enables the Reserve Fund to invest in global assets. Actual allocations are to be monitored by the Board and may be subject to further limitations between developing and emerging foreign markets consistent with ICANN's risk profile.

### **Guidelines: Asset Classes of Funds**

The Investment Policy requires the Investment Management Company to recommend particular active and/or index fund managers, institutional mutual funds, collective trusts or commingled funds, categories of investments, etc., that comply with the Investment Policy principles and guidelines.

### **Operating Fund Allowable Assets**

#### **Cash, Cash Equivalents, and Money Market Instruments**

- Checking accounts in acceptable investment grade financial institutions
- Certificates of Deposit – issued by acceptable investment grade financial institutions
- U.S. Government Treasury securities
- U.S. Agency securities – obligations issued or guaranteed by an agency of the U.S. government
- Commercial Paper – issued by corporations possessing the highest rating issued by Moody's or Standard & Poor's (A1/P1)
- Money market funds – SEC 2a-7 money funds

#### **Reserve Fund Allowable Assets**

#### **Investment Grade Fixed Income Securities**

- U.S. Government and Agency Securities (e.g., GNMA and FNMA)
- Corporate Notes and Bonds
- Mortgage Backed Bonds
- Asset Backed Securities (e.g., Auto and Credit Card)



- Sovereign Governments, Agencies and Supranationals
- Local Authorities
- Institutional mutual funds or commingled funds which invest in fixed income securities, Money market instruments, and SEC 2a-7 money market funds
- Floating rate securities have a stated final maturity of up to 5 years. Floating rate securities have interest rates linked to a well-recognized money market index such as the Treasury Bill, SOFR, LIBOR or Federal Funds with coupon resets daily, weekly, monthly, quarterly, semi-annually or annually are eligible investments.

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### **Non-Investment Grade Fixed Income Securities**

No more than 10% of the total portfolio may consist of U.S. marketable securities rated below investment grade (limited to BB and B rated), and may include high yield, notes, bonds, 144A, fixed rate and floating rate securities. In the event that registered mutual funds, collective trusts or commingled funds hold fixed income securities below investment grade, the Investment Management Company and ICANN CFO will monitor the percentage holdings and take the appropriate action to reduce exposures consistent with ICANN's moderately low risk profile.

### **Average Portfolio Credit Quality**

The minimum weighted average credit quality of the portfolio shall be A2/A.

### **Equity Securities**

- Common Stocks
- Preferred Stocks
- Convertible Notes and Bonds
- Convertible Preferred Stocks
- Stocks of Non-US Companies (Ordinary Shares)
- Stocks of REITs
- Non-Lending Institutional Mutual Funds, Collective Trusts or Commingled Funds which invest in securities as allowed in this statement

There shall be no direct investments in non-marketable securities.

### **Prohibited Assets and Transactions**

- Exchange traded or OTC Commodities and Futures Contracts Private Placements
- Private Placements
- Credit default, interest rate and commodity swaps
- Exchange traded or OTC Options
- Limited Partnerships
- Venture-Capital Investments
- Real Estate Properties
- Derivative Investments

- Hedge funds
- Short Selling
- Margin Transactions
- Commodities

In certain circumstances, institutional mutual fund, collective trusts or commingled fund investments may engage in transactions that include prohibited transactions for the purpose of hedging operations to minimize transaction costs, rebalancing and replicating the benchmark.

In the event that institutional mutual funds or commingled funds hold prohibited assets defined above, the Investment Management Company and CFO will monitor the holdings and take the appropriate action to reduce exposures consistent with ICANN's moderately low risk profile.

### **Securities Lending**

This policy prohibits ICANN from undertaking a Securities Lending Program. The institutional mutual funds, collective trusts or commingled funds must be non-lending portfolios.

### **Fair Value of Investments**

The Investment Management Company must make all investments in securities and funds that have readily determinable fair values. All fair value measurements must be consistent with ASC 820 (FAS 157) which defines fair value and establishes a framework for measuring fair value (market value).

### **Ethics and Conflicts of Interest**

All Board Members, the CFO, and the Investment Management Company personnel shall comply with all applicable conflicts of interest policies and otherwise refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Any known or suspected violations must be disclosed to ICANN's General Counsel.

### **APPROVAL OF DISBURSEMENTS FROM THE RESERVE FUND**

The Reserve Fund is the pool of investments held by ICANN for the purpose described in the Introduction section of this document. The Reserve Fund is funded by any assets not required for use by ICANN's Operating Fund. Use of any funds from the Reserve Fund is restricted by action of the Board of Directors of ICANN. The Board at its sole discretion and judgment shall determine whether an emergency exists for purposes of releasing funds from the Reserve Fund.

Due to the nature of a requirement to release funds from the Reserve Fund, it may be necessary to make a rapid decision. For this reason, the Board of Directors has delegated to the Board Finance Committee (BFC) the authority to act on behalf of the Board of Directors of ICANN to disburse funds of up to \$5 million from the Reserve Fund. Any such action by the BFC will be communicated to the full Board of Directors within seven days of such action.

### **PERIODIC REVIEW/APPROVAL OF POLICY AND EXCEPTIONS**

This policy will be subject to periodic review by the CFO and BFC. Specific elements to be reviewed include:

1. Appropriate operating fund limits (currently three months' operating expenses)
2. ICANN's investment objectives and risk tolerances
3. Allowable and permitted investments
4. Portfolio asset allocation and mix
5. Portfolio benchmarks
6. Portfolio rebalancing

Exceptions to this policy require BFC and Board approval as necessary. All exceptions should be communicated by the ICANN CFO to the BFC within a 48-hour period, or as soon thereafter as is practicable, including details of appropriate action to be taken.