

# **Community Foundation of Wabash County, Inc.**

## **Investment Policy**

### **INTRODUCTION**

The investment and spending policies of the Community Foundation, as detailed below, are designed to ensure prudent management of Foundation assets in order to serve the long-term best interests of the community. The Foundation is essentially a collection of individual donations from private citizens and organizations that, in aggregate, form a fund, the earnings from which will support the charitable purposes of the community for generations to come. The Community Foundation has sole control, ownership and responsibility for these assets. Investment policies are designed to reflect the needs and preferences of the community while providing a level of investment sophistication required to preserve the purchasing power of both principal and income in perpetuity. It is through real growth (growth adjusted for inflation) in both principal and income that the fund will maximize its support of charitable activities over a longer time horizon. Investment and spending policies were developed with the long-term interests of the community in mind and adhere to accepted investment principles. In addition, the Board of Directors is aware that it must always maintain the full faith and confidence of the community, and all decisions made in the administration of the Foundation will keep this principle first and foremost in mind.

The investment goals itemized below will be utilized to provide guidelines for the investment of unrestricted and pooled funds given to the Foundation. For non-endowed funds in separate trust, such as charitable remainder trusts, the investment goals may be influenced by the guidelines established by the donor, if any, the relative size of the trust, its spending policy, and other relevant policies.

### **UNIFORM PRUDENT MANAGEMENT of INSTITUTIONAL FUNDS ACT (UPMIFA)**

Endowed funds are governed by federal and state regulations, which embrace the Prudent Investor Rule and comply with the July, 2006 Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board of Directors of the Community Foundation of Wabash County, Inc. will comply with (UPMIFA) in the management of the investment assets of the Foundation. The Foundation is under a duty to the beneficiaries to invest and manage the funds of the portfolio as a prudent investor would, in light of the purposes, terms distribution requirements and other circumstances of the fund. The rule requires the exercise of reasonable care, skill and caution, and is to be applied to investments not in isolation but in the context of the portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the portfolio. The Foundation has a duty to diversify the investment of the portfolio unless, under the circumstances, it is prudent not to do so.

Under UPMIFA, the following factors, if relevant, must be considered:

1. General economic conditions.
2. The possible effect of inflation or deflation.
3. The 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. The expected total return from income and the appreciation of investments.
6. Other resources of the institution.
7. The needs of the institution and the fund to make distributions and to preserve capital.
8. An asset's special relationship or special value, if any, to the charitable purposes of the institution.

9. Management and investment decisions about an individual asset must be made not in isolation, but rather in the context of the institutional fund's portfolio of investments as a whole part and as a part of an overall investment strategy having risk and return objectives reasonably suited to the fund and to the institution.
10. Except as otherwise provided by law other than UPMIFA, the institution may invest in any kind of property or type of investment consistent with this section.
11. An institution shall diversify the investments of an institutional fund unless it reasonably determines that, because of special circumstances, the purposes of the fund are better served without diversification.
12. Within a reasonable time after receiving property, the institution shall carry out decisions concerning the retention or disposition of the property or to rebalance a portfolio, in order to bring the institutional fund into compliance with the purposes, terms, and distribution requirements of the institution as necessary to meet other circumstances of the institution and the requirements of this section of the investment policy.
13. A person that has special skill or expertise, or is selected in reliance upon the person's representation that the person has special skills or expertise, has a duty to use those skills or that expertise in managing and investing institutional funds.

## **MISCELLANEOUS POLICIES AND GUIDELINES**

- A. Liquidity: Liquidity needs are low. Except for investment purposes and spending requirements, the fund requires no sizable liquid reserves. In addition, investing in marketable securities will enable the fund to raise cash on short notice if necessary.
- B. Time Horizon: The fund has a very long time horizon, which is typical for most Foundations. The horizon extends well beyond a normal market cycle, and for the purpose of investment strategy, can be considered to be in "perpetuity."
- C. Investment firms managing Foundation portfolios are expected to act in an ethical manner and with integrity in all phases of the investment process. It is expected that, as a minimum requirement, investment managers will comply with The Code of Ethics and The Standards of Professional Conduct as established by the Association for Investment Management and Research (AMR).
- D. Tax Considerations: The Foundation is exempt from Federal income tax under Section 501 (c) (3) of the Internal Revenue Code. Consequently, tax considerations are not a meaningful constraint for the fund, other than the fact that the securities with tax-exempt features should be avoided.

## **INVESTMENT OBJECTIVES**

- A. Rate of Return Requirements
  1. The Community Foundation supports the charitable purposes of the community as set forth in the Articles of Incorporation and Bylaws. Spending from investment return provides support to individual programs and organizations throughout the community.
  2. The primary investment objectives of the Foundation are to:
    - a. Preserve the real purchasing power of the principal.
    - b. Provide a stream of income for spending, which grows at a rate equaling or exceeding the rate of inflation, in order to sustain the operations and grantmaking capacity of the Foundation, in accordance with the Foundation's current spending policy.

- c. Investment objectives will be achieved by maximizing total return consistent with prudent risk limits. The total return strategy ensures that investment objectives will be met with the intent of maximizing the long-term return of the entire portfolio, both from market value increases (realized and unrealized capital appreciation) and from current yield (interest and dividends). The Investment Advisor is free to prudently allocate assets within the stated guidelines in a manner that they believe will produce the highest total return without the constraint of generating a specified amount of income for distribution.

**B. Risk Tolerance**

- 1. In light of the Foundation's long-term time horizon and limited liquidity needs over and above a sound spending policy, the fund can assume an average level of risk. Reasonable consistency of return on an annual basis is important to assure the Foundation's capacity to sustain a level of operation that will provide for its continual growth. Accordingly, the funds are to be actively managed in a manner that will limit downside risk. The asset allocation and investment manager structure and guidelines should ensure adequate diversification in order to reduce volatility.

**C. Specific Targets**

- 1. Specific total rate of return goals are expected to be met on a cumulative basis over a three to five year time horizon. These goals are as follows:
  - a. The primary total fund performance objective in order to meet spending requirements will be to achieve an annualized total rate of return equal to or exceeding the U.S. Government Consumer Price Index (C.P.I.) plus five percent (CPI + 5%). In addition, the total fund is expected to exceed a similar portfolio allocation comprised of appropriate blended indexes that model the target allocations. For measurement purposes, the following blended indexes will be utilized.

<u>Global Benchmark</u>	<u>U.S. Benchmark</u>
70% MSCI World	70% Russell 3000
30% Citi World Bond	30% Barclays Aggregate Bond

As available, the total fund will also be evaluated relative to other charitable institutional funds, such as educational endowments and foundations that have similar investment objectives.

- b. Each individual portfolio holding/investment manager will be evaluated relative to its respective asset class and style benchmark.

**ASSET ALLOCATION**

The target asset allocation for the Foundation’s investment portfolio is determined by the Board to facilitate the achievement of its long-term objectives within the established risk parameters. Due to the fact that the allocation of funds between asset classes may be the single most important determinant of the investment performance over the long run, the assets shall be divided into major asset classes as follows:

Asset Class	Target	Range
Income Producing	30%	15% - 45%
Variable Return	65%	50% - 85%
Alternative Assets	5%	0% - 10%

Asset Class definitions are outlined below.

#### Income Producing

Includes three components:

Core Fixed Income Funds which are well diversified across the U.S. Investment grade bond market. These are the traditional bond funds typically included in institutional allocations.

Global Fixed Income Funds generally includes a broader range of bonds such as High Yield, Diversified International, and Emerging Market Debt.

Flexible Income Funds maintain an open mandate to allow the manager to buy any income producing investments regardless of permitted asset class.

#### Variable Return

Includes Core Equity funds which reflect the traditional Morningstar categories such as Large Growth, Large Value, Small, Mid Cap, international etc.; and Flexible Global Allocation mutual funds with an open mandate allowing the manager to move into any permitted asset class.

#### Alternatives Assets

Includes but not limited to: Hedge Funds, Real Estate, Commodities, Managed Futures, Private Equity, etc. The Foundation acknowledges that other alternative asset classes are available and is not limited to just these investment opportunities. It intends to periodically evaluate the merits of adding new asset classes.

From time to time, it may be desirable to amend the target allocation policy or calculations. When the Board makes such changes, updates will be incorporated and/or attached to this Investment Policy Statement as an *Appendix* and will be considered part of this Investment Policy Statement.

### **INVESTMENT HOLDINGS**

Foundation assets shall be invested in a diversified portfolio consisting primarily of liquid marketable securities (stocks trading on major stock exchanges, mutual funds or unit investment trust), U.S. government and/or agency obligations, foreign or corporate bonds, certificates of deposit, and cash equivalents.

The Foundation portfolio will adhere to the following asserts specific guidelines for all directly owned securities and separately managed portfolios:

1. Equity portfolios shall consist of marketable securities that may be purchased on recognized exchanges in the U.S. and, in the case of international stocks, throughout the world. The following restrictions apply to the aggregated endowment:
  - a. The equity securities of any one corporate issue should not exceed ten percent of the equity position, based on market value, of any manager's portfolio; and
  - b. The equity securities of any single corporation and its related entity should not exceed five percent of the total issued and outstanding shares of such corporation.
2. Direct purchase of fixed income securities shall be limited to obligations of the U.S. government and its agencies, federally insured certificates of deposit, repurchase agreements, corporate obligations rated "A-2" or better by Moody's or "A" by Standard

and Poor's, foreign sovereigns (bonds issued by foreign governments) and foreign corporations. Corporate obligations whose rating falls into the "BBB" or lower category after being purchased directly for Foundation portfolios should be reported to the Committee and shall not make up more than 15% of the fixed income holdings (unless as part of a collective, pooled or mutual fund portfolio). It is expected that the general quality of fixed income securities held in the portfolio will be high and within prudent risk limits. No more than 10% of the fixed income portfolio may be placed with a single corporate issuer. In addition, corporate bonds shall at no time exceed 75% and foreign bonds 50% of the fixed income portfolio of an individual manager's portfolio or the total Foundation portfolio based on current market value. At no time may a debt maturity exceed 20 years unless as part of collective, pooled or mutual fund portfolio.

3. Money market funds rated "A-1" (Standard and Poor's) or "P-1" (Moody's Investors Service) or higher should be utilized.
4. Strict adherence to specific elements of these guidelines may be waived by the Finance and Investment Committee when collective, pooled, or mutual funds are utilized to meet the Foundation's investment objectives. Best efforts will be utilized to monitor the portfolio holdings, inclusive of collective, pooled or mutual funds, to ensure that the guidelines are met at the aggregate level. The Committee will monitor portfolio transactions to identify variances from the guidelines.

Alternative Investments are generally illiquid and may be included subject to the Alternative asset class ranges and definitions.

#### Restricted Securities

Investment strategies included, but not limited to those listed below, do not represent acceptable risks and, therefore, should be avoided (unless as part of a collective, pooled, or mutual fund):

- a. Purchasing and selling futures or commodities or such contracts.
- b. Selling securities short.
- c. Purchasing securities on margin.
- d. Writing, purchasing, or selling naked options.

### **INVESTMENT ADVISOR**

An Investment Advisor is used by the CFWC to provide professional advice and guidance in developing and monitoring the CFWC investment strategy. The Investment Advisor is also relied on to recommend asset allocation advice and specific investment options/portfolio managers. This advice and guidance shall include the relevant information needed for the Investment Committee to manage a prudent investment process.

#### Investment Advisor Selection and Performance Evaluation

##### A. Advisor Appointment and Approval

1. Investment advisor and/or trustees of Foundation assets shall be approved by the Board of Directors based upon recommendations from the Investment Committee. Investment advisor serves at the discretion of the board and for such period of time, as the board determines.
2. Particular emphasis will be placed on a firm's ethical and financial viability, reputation, quality of reporting, fees for services provided, organizational structure, and experience of key personnel, in addition to their historical performance record in both up and down

markets. Also considered is the ability to be a resource for the Foundation in its development activities.

**B. Performance Evaluation**

1. The Investment Committee will meet quarterly within six weeks of the close of the calendar quarter to review investment advisor/managers' adherence to investment objectives and guidelines and portfolio management performance. In advance of these meetings, the investment advisor/managers shall provide written reports to the Foundation containing listings of assets, earnings, transactions, fees, and sufficient schedules and narrative to evaluate their performance relative to investment objectives and guidelines. The investment advisor shall meet with the Committee to review individual reports at least quarterly, and should be prepared to discuss investment strategies to be implemented or maintained over the near term. The results of the review will be reported to the Board of Directors.
2. Portfolio managers will provide the investment advisor and Foundation office with such monthly, quarterly, and annual reports as may be required for its accounting and bookkeeping purposes.
3. Performance shall be measured on a total return, time-weighted basis. Performance for periods greater than one year should be expressed on an annualized basis.
4. In order to facilitate performance comparisons, investment results should be expressed net of fees.
5. Portfolio managers' time-weighted total returns will be compared to the appropriate market benchmarks for the asset class, peer universes of active fund managers and managers of similar investment style, i.e., growth, value, small-capitalization growth, etc.

**SPENDING POLICY**

- A. The Foundation maintains a separate spending policy in order to allocate total earnings from the portfolio between current spending and reinvestment for future earnings, and to provide a predictable and growing stream of income to beneficiaries of Foundation grants. Achievement of these dual objectives will ensure that the fund preserves real purchasing power in perpetuity while providing ongoing operational support to designated charitable activities.
- B. Any amounts from the current year's budget that remain unspent or unencumbered for operations or grants at the end of each year shall not be carried over for disbursement in the following year unless approved by the Board.

**NON-CASH CONTRIBUTIONS**

- A. With the exclusion of publicly traded securities, the transfer of ownership of any non-cash contribution to the Foundation, either real or personal property, is subject to approval by the Investment Committee. Acceptance will be based on guidelines established by the Committee, the intent of which is to eliminate financial risks associated with holding title to such property and to ensure compliance with the excess business holding rules for donor advised funds. In the case of contributions of real property, a Phase I environmental audit should be performed, at the donor's expense, prior to acceptance of the property by the Committee. Donors may make gifts of interests in business entities (i.e., closely-held corporations, partnership interests, interests in limited liability companies). These can be accepted if the Foundation assumes no liability in receiving them. In evaluating a gift proposal of such assets, the Committee may consider the probability of conversion to a liquid asset within a reasonable period of time, projected income that will be available for distribution and administrative fees, and the nature of the business from which the asset is derived.

- B. It is the intent of the Foundation to liquidate all non-cash contributions that are not suitable investments from the perspective of the investment manager assigned to the portfolio receiving the assets or when doing so is necessary to comply with the excess business holding rules. Therefore, no contributions will be accepted that are subject to donor restrictions in terms of usage or holding period, unless approved by the Investment Committee.
- C. Valuation of non-cash contributions and the preparation and filing of Internal Revenue Form 8283, or other required forms, for the purpose of obtaining a charitable tax deduction will be the responsibility of the donor.

## **INVESTMENT COMMITTEE**

- A. Responsibility for execution of the policies and procedures outlined in this statement shall be delegated by the Board of Directors of the Foundation to the Investment Committee.
- B. The Committee shall be composed of five to nine members with a minimum of three Board members identified as having expressed interest in serving on the Committee.
- C. It is the goal of the Committee to select additional members from the community at large based on their recognized expertise in the financial services area.
- D. Terms for Committee members shall be three years, with a maximum of two consecutive terms of service.
- E. The starting dates for individual terms shall be staggered to provide continuity.

Investment Policy  
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