

# **Community Foundation for Monterey County**

## **Statement of Investment Policy Objectives & Guidelines**



**Effective January 1, 2009**

## I. SCOPE OF THIS INVESTMENT POLICY

This policy is intended to serve as a framework for the overall management of the Foundation's managed funds in conformance with the Uniform Prudent Management of Institutional Funds Act and the Uniform Prudent Investor Act. Foundation policies for donor-advised and other funds are considered a part of these policies.

## II. GENERAL STATEMENT OF PURPOSE

- To seek out, receive and administer endowment and other more specialized funds from private sources and manage them under community control for local charitable purposes.
- Operating under the Uniform Prudent Management of Institutional Funds Act, to achieve a growth in principal that will support a continuing rise in charitable distributions from permanent grantmaking funds.
- To avoid a high degree of risk for any of the Foundation's assets. It is expected that the assets of the Foundation will be invested with the care, skill, prudence, and diligence under the circumstances that a prudent person acting in a like capacity and familiar with such matters would use in the investment of assets of institutions of like character and with like aims.
- To operate in perpetuity, and accordingly, to limit grants from the General Endowment and other permanent endowment funds annually to amounts which are reasonable and prudent after considering total return from investments over time, including interest, dividends, other income, realized gains and unrealized gains. The Foundation shall also consider the effects of expenses, fees, inflation and general economic conditions over time.
- Operating under the Uniform Prudent Investor Act, to achieve returns on trusts reasonably suited to the purpose and duration of the trust, the known needs of the beneficiaries, the risk/return analysis, the effects of inflation or deflation, the expected total return from income and the appreciation of capital, and the projected needs of liquidity, regularity of income, and preservation or appreciation of capital.

## III. ADMINISTRATION

**Board of Directors** - The Board of Directors has general charge of the affairs, property and assets of the Foundation and is responsible for directing and monitoring the investment management of fund assets. As such, the Board of Directors is authorized to delegate certain responsibilities and may employ or arrange for the services of such other persons, agents or assistants as in its opinion are necessary or desirable for the proper administration of the Foundation, and to pay reasonable compensation for their services and expenses.

**Investment Committee** - Subject to approval by a majority of the Board of Directors, this committee is appointed annually by the Board Chair, and consists of a Chairperson, and may include the Treasurer and at least one (1) other Director. Additionally, the

Board Chair may appoint additional non-Directors to serve. This committee provides for the following services to the Board:

1. Annual review and monitoring of investment objectives, procedures, performance, practices and fees for all funds held and administered by the Foundation, including charitable remainder trusts. Performance will be measured and evaluated not less than quarterly relative to generally accepted benchmarks for each investment class or type.
2. Recommendations on the employment of such investment counsel and investment managers as may be required from time to time, and on other matters involving administration of the Foundation's assets.

**Budget/Finance Committee** - Subject to approval by a majority of the Board of Directors, this committee is appointed annually during October by the Board Chair. This committee reviews the annual operating budget for the Foundation.

**Duly authorized trust companies, banks with Trust Departments, and nationally recognized registered broker/dealers** - The Board of Directors may, as it from time to time determines by resolution, delegate in whole or in part the control and management of the property of the Foundation to one or more trust companies or banks or nationally recognized, registered broker/dealers duly authorized to conduct a trust or banking business or provide broker/dealer and custodial services in California.

**Advisory Groups** - If a donor establishes a donor-advised fund with advisory groups or special committees to make grant recommendations to the Board of Directors, such groups have only an advisory relationship to the Foundation, and their recommendations are not binding on the Board of Directors.

#### **IV. INVESTMENT OBJECTIVES**

The objective of investment management of all funds (except the operating fund, funds subject to substantial reduction of principal, bank trustee and pooled income funds, and charitable remainder trusts) is to optimize the growth of the fund assets consistent with minimizing exposure to risks of permanent capital losses and attainment of the Foundation's desired level of grantmaking.

1. The achievement of investment objectives will be viewed in a long-term context, recognizing that rates of return may be volatile on a year-by-year basis and that achievement of the investment objectives will not progress uniformly over time.
2. In making and implementing investment decisions, the Foundation will diversify its investments unless, under the circumstances, it is prudent not to do so. It is the normal investment policy of the Community Foundation to sell contributed assets and then invest new endowment cash and charitable remainder trust assets in a diversified portfolio that includes equities, bonds, and cash.

**Pooled Endowment Funds of the Foundation** - Endowment assets of unrestricted endowment funds, restricted funds, field of interest funds, and donor-advised funds may, at the sole discretion of the Board of Directors, be pooled for investment purposes. Temporarily restricted assets may be placed in pooled investments, unless the fund

agreement or donor recommendation indicates they will be needed in the near term for grantmaking.

1. Endowment assets are allocated to include fixed-dollar assets and equities with inflation-resistant characteristics.
2. Every attempt is made to achieve a total rate of return that will provide for annual grants as well as fees, expenses, and, in the case of permanent funds, protection from the effects of inflation over time.
3. The Foundation will maintain sufficient liquidity to allow for a normal level of grants from donor-advised funds on short notice.

**Non-pooled Funds** - Any funds seeking a higher level of current income than that offered by the normal investment and payout policy may request instead an all fixed income allocation. Any funds preferring this alternative investment approach need to understand that growth of capital and future income are not goals of this investment approach. Simply stated, this investment approach will probably not achieve investment results which will keep up with inflation in the years ahead.

**Other Trusteed Funds** - With respect to assets held by the Foundation as trustee under specific or express trusts (including charitable remainder trusts other than pooled income funds), the Foundation seeks to invest such assets so as to comply with the purposes, terms, distribution requirements, and other circumstances of the trust.

1. The Foundation, acting as trustee or co-trustee, will develop an overall investment strategy for each, with risk and return objectives reasonably suited to each trust.
2. The Foundation will consider general economic conditions, the possible effect of inflation or deflation, expected tax consequences, the expected total return from income and the appreciation of capital, other resources of the beneficiaries known to the trustee as determined from information provided by the beneficiaries, and the needs for liquidity, regularity of income, and preservation or appreciation of capital.
3. The Foundation will review the investment plan for each trust annually.
4. The Foundation will document its performance of the above functions, in compliance with the Uniform Prudent Investor Act.

**Operating Fund** – Any funds held for operating purposes are considered short term in nature with the primary purpose of achieving operating goals while minimizing exposure to risk.

1. Operating cash shall be held in interest-bearing bank checking, money market, or CD accounts for disbursement as needed for current Foundation operations.
2. Disbursements will be made in accordance with the operating budget as approved and revised by the Board of Directors.

**Temporary Funds** – In general, funds given to the Foundation for eventual distribution to named charities are placed in an interest-bearing account, with interest being credited to that fund. Funds for special projects shall be placed in an interest-bearing checking account, with interest being credited to the Operating Fund unless otherwise stipulated in the grant or special project agreement. Other temporary funds will be managed according to their fund agreements, as approved by the Board of Directors.

#### **IV. INVESTMENT GUIDELINES**

**Total Return Goal** - The Foundation's pooled investments will attempt to achieve an average annual total return of 8% measured over a rolling 5-year period. The total return goal will be reviewed at least annually by the Investment Committee. Performance of the pooled funds will be measured quarterly by the Foundation's investment consultant, and reviewed quarterly by the Investment Committee. The consultant will also produce a style drift analysis twice a year.

**Target Portfolio Mix** - The pooled investments will have the following targets in each asset class:

7% for cash and cash instruments;

17% for bonds;

21% for international stocks;

10% for real estate and alternative investments;

4% for small cap stocks;

11% for mid cap stocks;

30% for large cap stocks.

This set of allocations is expected to remain fairly stable over the long term, and it will be reviewed by the Investment Committee annually or as needed. Distributions of assets within each class will be determined by the Investment Committee. Asset classes will be represented by 2 or more mutual funds/exchange traded funds/index funds to mitigate the effects of ~~manager~~+risk and/or ~~style drift~~+. Each asset class (except for cash) can range between 5 percentage points above or below the target. The portfolio will be adjusted when any asset class is more than 5 percentage points above or below the target allocation, by adding new donations to asset classes that are below targets and, if necessary, by selling assets from classes that are above their targets and purchasing assets in classes that are below their targets. The timing of adjustments will be at the discretion of the Investment Committee.

**Benchmarks and Indices** - Each fund will be reviewed quarterly, and measured against an index that will be chosen after the fund's returns have been calculated in a regression analysis against the relevant indices, using moving 5-year total returns.

The following primary indices will be used, in addition to others where appropriate:

Large cap value - Russell 1000 Value  
Large cap growth - Russell 1000 Growth  
Small cap growth - Russell 2000 Growth  
Small cap value - Russell 2000 Value  
Mid cap . Russell 2500  
Vanguard 500 Index Fund - S&P 500  
International - MSCI Global Ex U.S.  
Bond Funds - Lehmann Brothers Aggregate  
Alternative Investments - S&P 500  
Real Estate - Realty Index

## **Restrictions**

1. **Equities** - No more than 10% of the assets of the Foundation shall be invested in the securities of any one issuer, other than mutual funds, or any class of insurer, other than U.S. Government Bonds or regulated investment companies.
2. **Corporate and Municipal Bonds** - The Foundation may invest in corporate bonds, debentures, notes and equipment trust certificates with a Standard and Poor $\text{\$}$ , Moody $\text{\$}$  or an equivalent Fitch $\text{\$}$  Investor Service investment grade rating, or in the case of mutual funds, no more than 10% below investment grade.
3. **Investment Restrictions** (not applicable to regulated investment companies).
  - No trading in margins, futures, or puts and calls.
  - No program-related investments
4. **Other** - In general, the Foundation does not seek non-income producing gifts. Artifacts and collections may be accepted, however, if they can be converted to cash or given to other charitable beneficiaries. The Community Foundation will use an independent third party to prepare appraisals on donated property for its own use.

## **VI. FEES AND EXPENSES**

**Endowment Funds** - The Foundation will charge quarterly fees as determined by the Board of Directors against the fair market value of all endowment funds. These fees will be credited to the Operating Fund. The fees are calculated at the end of the quarter based on the prior quarter ending fund balances.

### **Temporary Funds (funds held two years or less) -**

1. Normally, all income received from temporary funds is credited to the Foundation $\text{\$}$  Operating Fund. Any exception must be approved by the President/CEO.
2. A fee of 2% of the amount to be distributed, with a minimum fee of \$500, is assessed at the time of the initial gift and again on the amount remaining to be

passed through at the beginning of the thirteenth month following the gift. The fee is charged against such funds (except for gifts from current Board members) and is also credited to the Operating Fund. If a temporary fund grant requires research by the Foundation staff to determine appropriate grantees, the management fee will be negotiated on a case-by-case basis.

3. The Board of Directors may, at its sole discretion, negotiate other fee structures for temporary funds of \$1 million or more.

**Charitable Remainder Trusts** - The Foundation will charge fees as determined by the Board of Directors against the fair market value of all charitable remainder trusts. This fee will be credited to the Operating Fund.

## **VII. PROCEDURE FOR HANDLING CASH AND INVESTMENTS**

**Conversion of Securities and Other Assets** - It shall continue to be the Foundation's general practice to sell securities as soon as they are donated to the Foundation. It shall continue to be the Foundation's general practice to sell real property, artifacts, and other non-cash assets as soon as reasonably possible after they are donated to the Foundation, with expenses of sale to be borne by the fund or funds created with those assets.

**Cash Management** - The Foundation maintains accounts with recognized banks for monthly operating expenses. All cash receipts are recorded and deposited to these accounts, or to other banks, to money market funds, or to the commingled investment fund. Two signatures for checks over \$20,000 are required for all accounts, including the President/CEO and an officer of the Foundation or two officers.

## **V. SPENDING POLICY**

The Board of Directors will attempt to balance the Foundation's shorter-term grant making obligations with its goal to provide grants into perpetuity, and therefore design a spending policy which is flexible. Since expected investment returns from "riskier" portfolios are not consistent and predictable, the Board of Directors feels that shorter-term spending in dollar terms must be flexible enough to endure periods of underperformance without excessive deterioration of real principal.

## **VI. PAYOUT GUIDELINES FOR ENDOWMENT AND LONG TERM FUNDS**

The maximum allowable spending rate for the Foundation shall be reviewed and set no less than annually by the Board of Directors. In setting the spending rate, the Board of Directors shall take into consideration general economic conditions, the possible effects of inflation or deflation, the expected total return from income and the appreciation of investments, other resources of the Foundation, and the investment policy of the Foundation.

The spending rate available for grants, as set by the Board of Directors, is typically between 4% and 6% of the twelve quarter average of the fair market value of a given fund as of September 30 each year.

The formula shall be applied on each January 1 to the twelve quarters ending the prior September 30, and withdrawals shall be made no earlier than January 1 following each October 1 calculation. Additional amounts are expended from funds annually for administrative fees. The administrative fee schedule for endowed funds is outlined in the Foundation's Administrative Fee Policy, which is periodically reviewed by the Board of Directors.

**General Endowment, Other Unrestricted, Restricted, and Field of Interest Funds -**

The grants payout of the Foundation will be evaluated at least annually by the Investment Committee, in light of total return from investments, fees, expenses, and the effects of inflation.

**Donor Advised Funds** - The annual grants payout for permanent donor advised funds with fund agreements that seek preservation and growth of principal shall also be evaluated at least annually by the Investment Committee, using the same criteria as for restricted funds. Donors may advise the Foundation to use less than the Board-designated amount.

**VII. INVESTMENT POLICY REVIEW**

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Investment Committee plans to review investment policy at least annually and to recommend any changes to the Board of Directors.