



Here for Good

Community Foundation
for Monterey County

Community Foundation for Monterey County

Investment Policy Statement

Objectives & Guidelines

Board Approved April 24, 2012

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I. Statement of Purpose

The Board of Directors (the Board) of the Community Foundation for Monterey County (the Foundation) has adopted this Investment Policy Statement (IPS) in recognition of its responsibility to supervise the investment of the Foundation's assets in accordance with the Foundation's mission. The IPS 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 (UPMIFA) and the Uniform Prudent Investor Act (UPIA). Foundation policies for donor-advised and other funds are considered a part of the IPS.

The purpose of the IPS is to set forth: (1) an appropriate set of objectives to be attained through the investment of the Foundation's assets; (2) the position of the Investment Committee with respect to the Foundation's risk/return posture, including allocation of assets, and establishment of investment guidelines; and (3) an overall system of investment policies and practices whereby the continuing financial obligations of the Foundation may be satisfied.

The Investment Committee has arrived at this IPS through careful study of the returns and risks associated with various investment strategies in relation to the philanthropic funding goals of the Foundation. This IPS has been chosen as the most appropriate policy for achieving the financial objectives of the Foundation that are described in the "Investment Objectives" section of this document.

The Investment Committee has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighed against the long term potential for appreciation of assets.

II. Statement of Responsibilities

It is expected that the following parties associated with the Foundation will discharge their respective responsibilities in accordance with normal fiduciary standards: (1) with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and of like aims, and (2) by diversifying the investments so as to minimize the risk of large losses.

A. Investment Manager(s): The Investment Manager(s) are charged with the responsibility to conduct day-to-day investment management of the Foundation assets in accordance with this IPS and all laws that supersede it. All Investment Manager(s) must either be (1) registered under the Investment Company Act of 1940, (2) a bank, as defined in that Act, (3) an insurance company qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of Foundation assets, or (4) such other person or organization authorized by applicable law or regulation to function as an Investment Manager. Each Investment Manager managing a separate account for the Foundation must sign an investment management agreement with the Foundation.

B. Custodian(s): The Custodian(s) has been retained by the Investment Committee and is charged with the responsibility for safekeeping securities, collections and disbursements, and providing periodic accounting statements.

- C. Investment Committee:** Subject to approval by a majority of the Board, this committee is appointed annually by the Board Chair, and consists of a Chairperson who is a current member of the Board, and shall include the Treasurer and at least one (1) other Director. The Board Chair may appoint additional non-Directors who shall serve in an advisory capacity. This committee has the responsibility to provide the following services to the Board:
1. The Investment Committee will conduct annual reviews 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. The Investment Committee will recommend the IPS, including broad asset allocation policy and ranges, to the Board but will retain authority over sub-allocations within the broad asset allocations.
 3. The Investment Committee will make recommendations to the Board 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.
 4. The Investment Committee will recommend the annual payout rate to the Board, taking into account factors described in Section III.
 5. The Investment Committee will provide investment oversight of the Foundation's funds as described in Section II. E. 1.
- D. Investment Consultant:** The Investment Consultant has been retained and is charged with the responsibility to assist the Investment Committee with its supervision of the Foundation's assets.
1. The Investment Consultant retained by the Board will assist the Investment Committee in establishing and reviewing this IPS.
 2. The Investment Consultant will monitor asset allocation across and among asset classes. Following the close of a quarter where the actual allocations fall outside the IPS ranges, the Investment Consultant will create directives to reallocate assets in accordance with the rebalance procedure described in Section V.
 3. The Investment Consultant will monitor the investment performance of the Foundation. Performance reports will be provided to the Investment Committee quarterly. The Investment Consultant will report in a timely manner any substantive developments that may affect the management of Foundation assets.
- E. The Board:** The Board 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 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. In addition to the aforementioned responsibilities, the Board is responsible for the following:

1. Oversight of the Foundation's charitable assets. The following types of funds are held within the Foundation's pooled portfolio and are endowments, unless otherwise noted:
 - a. Restricted
 - b. Unrestricted (Community Impact Grants program)
 - c. Field of Interest (Community Impact Grants program)
 - d. Designated (donor has designated an agency beneficiary(s))
 - e. Endowed Donor Advised
 - f. Non-endowed Donor Advised (when large enough, and with a long enough time horizon)
 - g. Agency
 - h. Agency Stewardship (non-endowed; agency has the ability to retrieve part or all of the fund)
 - i. Scholarship
 - j. Administrative (non-endowed board designated; supports operations)
 - k. Temporarily restricted assets (may be in the pooled portfolio)
 - l. Non-pooled Funds
 - m. Other Trusteed Funds (such as charitable remainder trusts, they are not endowed assets and are not in the pooled portfolio)
 2. The Board will set the Mission and Vision of the Foundation.
 3. The Board will approve the Investment Committee members annually.
 4. The Board will approve the IPS, including the broad asset allocation for the Foundation's assets.
 5. The Board will approve the spending policy which includes the annual payout rate.
- F.** Duly authorized trust companies, banks with trust departments, and nationally recognized registered broker/dealers: The Board 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.
- G.** Advisory Groups: If a donor establishes a donor-advised fund with an advisory group or special committee to make grant recommendations to the Board, such groups have only an advisory relationship to the Foundation and their recommendations are not binding on the Board.
- H.** Planned Gift Administrator/Manager: The Planned Gift Administrator/Manager has been retained to manage and administer certain assets including charitable trusts, gift annuity assets, and other similar arrangements.
1. The Planned Gift Administrator/Manager will manage the assets with discretion to make investment decisions for the assets under management, subject to its investment advisory

contract, the statement of investment guidelines (as noted in Attachment 1) and other instructions provided by the Foundation.

2. The Planned Gift Administrator/Manager will select and monitor the underlying equity and fixed income managers, using the usual standards of fiduciary prudence while incorporating any instructions provided by the Investment Committee. Monitoring will include: return relative to objectives, consistency of investment philosophy, investment risk, and cost.
3. The Planned Gift Administrator/Manager will provide the Investment Committee with detailed quarterly investment reports and other reports, as requested.

III. Spending Policy

The Board's objective is to establish a spending policy which balances the Foundation's shorter-term grant making with its goal to provide grants in perpetuity. The Board recognizes that investment returns may be volatile and that shorter-term spending must be flexible enough to endure periods of underperformance without excessive deterioration of real principal.

The maximum allowable payout rate for the Foundation shall be reviewed and set no less than annually by the Board. In setting the payout rate, the Board 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 payout rate available for grants, as set by the Board and in accordance with UPMIFA, can be no more than 5% of the twelve quarter average of the fair market value of a given fund as of September 30 each year.

The payout rate shall be applied to the twelve quarter average of the balance of a given fund following the annual payout rate approval at the December board meeting. Should there be a change to the payout rate, the new rate takes effect on January 1.

In the case of donor-advised funds, the above notwithstanding, donor advisors may recommend that the Foundation grant less than the Board-designated payout rate.

IV. Investment Objectives

The objective of the 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 grant making.

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.

In making and implementing investment decisions, the Foundation will diversify its investments unless, under the circumstances, it is prudent not to do so. The policy of the Foundation is to sell

contributed assets, upon receipt, or, in the case of real estate or other physical assets, as soon as is practical, 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, designated, agency, scholarship and donor-advised funds may, at the sole discretion of the Board, 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 grant making. 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 donors seeking a more aggressive spending schedule than that offered by the normal investment and payout policy may request an all fixed income allocation. Any donors preferring this alternative investment approach shall be advised that growth of capital and future income are not goals of this investment approach.

Other Trusteed Funds - With respect to assets held by the Foundation as trustee (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.

The Foundation, acting as trustee or co-trustee, will develop an overall investment strategy for each trust, with risk and return objectives reasonably suited to each trust. 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.

The Foundation will review the investment plan for each trust annually. 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. Operating cash shall be held in interest-bearing bank checking, money market, or CD accounts for disbursement as needed for current Foundation operations. Disbursements will be made in accordance with the operating budget as approved and revised by the Board.

Non-endowed Funds – In general, non-endowed funds with a relatively short time horizon 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 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.

Medium & Long Term Performance Objectives – The total fund’s objective is to produce, after investment expenses, a minimum annual compound total real rate of return in excess of the Foundation’s spending policy and expenses. It is understood that in a low return environment, the purchasing power of the portfolio may not be preserved.

The Foundation’s assets shall be invested in diversified asset segments, the performance of which shall be measured against the indices below. Within each of the following segments, the objective of an index fund is to match the respective index while the objective of an active manager is to exceed the return of the respective index. Additionally, active managers are expected to perform in the top half of their peer group. These managers may invest in out-of-benchmark securities and/or cash, and, as a consequence, the actual asset allocation may differ from the target allocation

<u>Segment</u>	<u>Benchmark</u>
Large Cap Core Equity	S&P 500
Large Cap Growth Equity	Russell 1000 Growth
Large Cap Value Equity	Russell 1000 Value
Mid Cap Equity	S&P Mid Cap 400
Small Cap Equity	S&P Small Cap 600
International Developed Equity	MSCI ACWI ex US
Emerging Markets Equity	MSCI Emerging Markets Free
Core/Core Plus Fixed Income	Barclays Capital Aggregate Bond
High Yield Fixed Income	Barclays Capital High Yield
Short Term Fixed Income - Treasury	Bank of America ML 1-3 Year Treasury
Short Term Fixed Income - Credit	Barclays Capital Credit 1-5 Year
Global Fixed Income	Barclays Capital Global Aggregate Bond
Emerging Market Debt	JP Morgan EMBIG or JP Morgan EMLI
TIPS	Barclays Capital US TIPS
Liquid Alternatives	CPI + 5%/ Hedge Fund of Funds
Commodities	Dow Jones UBS Commodity TR
REITS	FTSE NAREIT Equity REIT
Core Real Estate	NCREIF Property
Opportunistic/Value Add Real Estate	NCREIF Property
Private Equity/ Opportunistic	Cambridge Associates U.S. Private Equity

V. Target Asset Allocation

The asset allocation of the Foundation shall be reviewed at least quarterly to insure that the target allocation is in compliance with the following guidelines.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Minimum</u>	<u>Maximum</u>
<u>Equity</u>	49%	40%	60%
Large Cap Domestic Equity		10%	30%
Small/MidCap Equity		0%	15%
International Equity – Dev.		6%	26%
Emerging Markets		5%	15%
<u>Fixed Income</u>	27%	20%	40%
Core/ Core Plus Fixed Income		10%	30%
TIPS		0%	10%
High Yield Fixed Income		0%	10%
Short Term Fixed Income		0%	10%
Global Fixed Income		0%	10%
Emerging Market Debt		0%	5%
<u>Alternative Asset Classes</u>	22%	12%	32%
Commodities		0%	8%
Real Estate		0%	12%
REITS		0%	7%
Private Equity/ Opportunistic		0%	6%
Liquid Alternatives/ Hedge Funds		0%	10%
<u>Cash Equivalents</u>	2%	0%	10%
	100%		

The asset allocation target and acceptable minimum and maximum ranges established by the Investment Committee represent a long-term view. Rapid and significant market movements may cause the Foundation's actual asset mix to fall outside the policy range.

Adherence to Policy Targets and Rebalancing Procedure – To ensure that divergence from the target asset allocation policy is within acceptable limits, the Investment Consultant will report to the Investment Committee on whether the portfolio is within balance. The Investment Consultant will make recommendations to the Investment Committee on transactions that will bring the portfolio into balance. The Investment Committee is authorized to affect those transactions that will bring the target allocations into balance. When possible, target allocations will be maintained through managing cash flows.

VI. Investment Guidelines

For the assets of the Foundation which are invested in commingled funds, mutual funds and exchange traded funds the investment guidelines that govern the management of these respective accounts will be governed by the applicable governing document. 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. No more than 10% of the overall fixed income portfolio shall be invested in non-investment grade debt. The Foundation shall not buy securities on margin, or purchase futures, options and derivatives, except through regulated investment companies.

Conversion of Securities and Other Assets - The Foundation's general practice is to sell securities as soon as they are donated to the Foundation. The Foundation's general practice is to sell real property, artifacts, and other illiquid 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 operating expenses. All cash receipts are recorded and deposited into these accounts, or other banks, money market funds, and/or the commingled investment fund. Specific cash management policies are promulgated by and are the responsibility of the Foundation's Finance Committee.

VII. Investment Performance Review and Evaluation

The most important performance expectation is the achievement of long-term investment results that are consistent with the Foundation's IPS. Implementation of the policy will be directed toward achieving this return and not toward maximizing return without regard to risk.

The Investment Committee recognizes that this return objective may not be attainable during some time periods. In order to ensure that investment opportunities available over a specific time period are fairly evaluated, comparative performance statistics (including benchmark indices) will be used to evaluate investment results. To that end, the Investment Committee will periodically review the investment results of the Investment Managers. Performance comparisons will be made against a representative performance universe and the performance objectives set forth in this IPS.

The Investment Committee with the assistance of the Investment Consultant shall also periodically review the qualitative developments of each Investment Manager. This evaluation shall include: changes in ownership, personnel turnover, adherence to investment style and philosophy, and any other qualities that the Investment Committee deems appropriate.

VIII. Fees and Expenses

The Foundation will charge quarterly fees as determined by the Board against the balances of all funds, including charitable remainder trusts. These fees will be credited to the Operating Fund. Fees for endowed funds, or non-endowed funds held in the Foundation's portfolio, are calculated at the end of each quarter based on the prior quarter's ending fund balances. Fees on non-endowed funds which are held in fixed income instruments are assessed at the time of the initial gift, with fees on remaining fund balances taken annually in the 1st calendar quarter, based on the fund's December 31 balance.

IX. Investment Policy Review and Revisions

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

<p><i>ADOPTION OF INVESTMENT POLICY STATEMENT</i></p> <p><i>The Community Foundation for Monterey County has reviewed, approved and adopted this Investment Policy Statement prepared with the assistance of Wurts & Associates.</i></p> <p><i>Signature</i> _____ <i>Date</i> _____</p>
