

## **CFMC Investment Management Frequently Asked Questions**

### **Overview**

Assets at the Community Foundation for Monterey County (CFMC) are pooled for investment purposes. These assets comprise more than 500 charitable funds that are in the CFMC's Primary Portfolio. A system of unitization, much like a mutual fund, allocates total return to each component fund. These charitable funds represent the charitable interests of donors and agencies who seek to increase effectiveness and assure future support for Monterey County or the region of their choice. An advantage of pooling funds is greater diversification of investments. This, in turn, provides for greater opportunities while reducing risk.

### **What is the CFMC's investment objective?**

The CFMC's investment objective for the **Primary Portfolio** and **ESG (Environmental, Social and Governance) Pool** is to earn a return that allows a significant distribution of grants while maintaining a fund's future purchasing power. Our goal is to preserve the principal while allowing for inflation and expenses. Accordingly, the current target for total return, net of investment fees (total return is defined as income plus change in market value), is equal to, or exceeding, the policy index.

The investment objective for the **Medium-Term Portfolio** is to exhibit lower volatility than a portfolio with an "in perpetuity" time horizon. Relative to the Primary Portfolio, the Medium-Term Portfolio will have a greater emphasis on capital preservation while maintaining some potential for capital appreciation. The Medium-Term Portfolio is appropriate for donors expecting to grant a significant percentage of their funds in the intermediate term (3-7 years) and willing to tolerate moderate levels of risk in order to get an enhanced rate of return (versus cash) over a full market cycle. It is also appropriate for Stewardship Funds whose assets are not endowed.

### **How are investment returns measured?**

Investment returns are measured in terms of total return, which includes interest and dividend income, as well as realized and unrealized gains and losses.

### **What is the role of the Investment Committee?**

The Committee is responsible for governance and best practices in overseeing the investment management of the foundation's portfolio. Committee members are CFMC board members and non-board members with significant business and investment management experience. The Committee utilizes an investment consultant, Verus. The Committee's top priority is risk control (primarily through diversification and due diligence). The Committee establishes a target asset allocation, selects funds, and monitors the investment performance of these funds. The Committee meets quarterly; between meetings committee members and CFMC staff confer with Verus regarding foundation investments.

### **What is the role of foundation's investment consultant?**

Verus is a Seattle-based investment consulting firm. Verus works with more than 150 institutional clients across the U.S., and consults on more than \$400 billion in assets.\* They provide a deep level of research, recommend fund managers, monitor the performance of managers selected, and assist the Investment Committee in determining the appropriate asset allocation. They are an independent fiduciary, free of conflicts of interest. To learn more, visit [www.verusinvestments.com](http://www.verusinvestments.com).\*(as of 1/1/2018)

### **How are funds for investment selected?**

When the Investment Committee seeks a new fund for a particular asset class (domestic large cap, for example), our consultant identifies funds with a three to five-year outstanding track record for this asset class. The Committee reviews these funds' organizational profiles, investment philosophy, investment process, fees, professional staff, and investment performance in up and down markets. Based on this review, the Committee selects funds for investment.

### **How are funds' investment performance monitored?**

At each quarterly meeting of the Investment Committee, our consultant provides an in-depth analysis of each fund's investment performance. This analysis includes comparisons with other funds in the same asset class, as well as with the appropriate benchmark. In addition, the committee monitors any organizational changes within an investment firm that may influence performance in the future, and confirms that each fund continues to adhere to the CFMC's investment guidelines

### **Does the Investment Committee ever change funds?**

Yes. New funds are selected when the Investment Committee seeks greater depth in a particular asset class. Reasons for removal of a fund include poor performance over a period of time, moving away from the investment discipline for which the fund was included, unfavorable changes in the organizational structure of the investment firm, and loss of the fund's investment talent. However, given the rigorous process by which funds are selected and how consistently their investment performance is monitored and compared, the Investment Committee's practice is to retain a fund for a minimum of three years. In other words, the fact that a fund does not have a good quarter, or even year, compared to the appropriate benchmark for that asset class, does not in itself provide reason for dismissal.

### **Why is the CFMC invested in different asset classes?**

The Investment Committee has determined that a more consistent return can be gained, with less risk, if the portfolio is well diversified. Asset classes include international as well as domestic stocks, global as well as domestic bonds and real assets (see Target Asset Allocations).

### **What is an asset allocation strategy?**

The Investment Committee determines the best ways to allocate the assets of the portfolios among varied asset classes. The Committee reviews the target asset allocations to determine if they are likely to meet the investment return goals, net of investment fees. As new assets come to the CFMC, they are invested across the CFMC's portfolios.

### **Why are there four different portfolios?**

The **Primary Portfolio** is invested for the long term. The **ESG Portfolio (Environmental, Social and Governance)** is intended for donors who seek both long-term growth and positive social or environmental impact through a diversified portfolio. The **Medium Term Portfolio** has a greater emphasis on capital preservation while maintaining some potential for appreciation. It may be a good choice for those wishing to grant a large percentage of their fund within 3-7 years. The **Money Market Portfolio** is designed to preserve principal, protect assets from market volatility, and produce a small return. It may be a good choice for those who wish to grant a significant percentage of their fund within 1-2 years, or who prefer lower levels of risk.

### **Why does the CFMC have a board-approved payout rate, rather than granting whatever is earned in a given year?**

The payout rate determines the dollar amount available for distribution annually from endowed funds. To determine this amount, we multiply the average of the fund balances at the last three year-ends by the payout rate. This methodology smooths out the peaks and valleys that would be experienced if income and dividends earned (or not earned) by a fund were distributed each year. This is a strategy that has been adopted by most major endowments. **The payout rate for 2018 is 4.5%.**

## What fees does a donor pay to the CFMC?

Funds at the CFMC are assessed fees for foundation costs (see page 6). Foundation fees support the CFMC's administration of the fund, including grantmaking. In addition to the CFMC administrative fee, funds are charged a small fee that pays for our investment consultant. This fee is 7 basis points (.07%).

## What historical rates of return have CFMC investments earned?

<u>YTD 06-30-18</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>
<b>CFMC Primary Portfolio</b>				
0.4%	7.9%	6.4%	7.0%	5.9%
<b>Medium Term Portfolio</b>				
-0.5%	4.1%	NA	NA	NA
<b>ESG Portfolio (Environmental, Social and Governance)</b>				
-0.3%	5.9%	NA	NA	NA

## Target Asset Allocation – Primary Portfolio

(board approved 4/24/12)

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. 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.

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

## **Target Asset Allocation -Environmental, Social and Governance (ESG) Portfolio**

*(board approved 8/23/2016)*

The Investment Pool will emphasize Socially Responsible Investing (SRI) and be considerate of the standards of Environmental, Social and Governance (ESG) criteria.

The Environmental, Social and Governance Investment Pool assets shall be invested in diversified asset segments, the performance of which shall be measured against the indices specified in the IPS with an understanding that the social criteria may impact performance relative to more broadly-based segments.

The Environmental, Social and Governance Investment Pool's assets will be invested in equities and fixed income investments as set forth in the Target Asset Allocation table below. The blended allocation has historic performance characteristics that are in line with portfolios with long-term objectives. This pool will have a risk of loss. Rapid and significant market movements may cause the Environmental, Social and Governance Investment Pool's actual asset mix to fall outside the policy range. The asset allocation of the portfolio shall be reviewed at least quarterly to ensure that the target allocation is in compliance with the following guidelines.

<b><u>Asset Class</u></b>	<b><u>Target Allocation</u></b>	<b><u>Minimum</u></b>	<b><u>Maximum</u></b>
<b><u>Equity</u></b>	<b>60%</b>	<b>50%</b>	<b>70%</b>
Large Cap Domestic Equity		20%	40%
Small/MidCap Equity		0%	15%
International Equity – Dev.		15%	35%
Emerging Markets		0%	5%
<b><u>Fixed Income</u></b>	<b>40%</b>	<b>30%</b>	<b>50%</b>
Core/ Core Plus Fixed Income		25%	45%
TIPS		0%	10%
High Yield Fixed Income		0%	10%
Short Term Fixed Income		0%	10%
Global Fixed Income		0%	10%
Emerging Market Debt		0%	0%
<b><u>Alternative Asset Classes</u></b>	<b>0%</b>	<b>0%</b>	<b>10%</b>
REITS		0%	10%
Liquid Alternatives		0%	10%
<b><u>Cash Equivalents</u></b>	<b>0%</b>	<b>0%</b>	<b>10%</b>
	<hr/>		
	<b>100%</b>		

## **Target Asset Allocation – Medium Term Portfolio**

*(board approved 8/25/15)*

The Medium Term Portfolio's assets shall be invested in diversified asset segments, the performance of which shall be measured against the indices specified in the IPS. The Medium Term Portfolio's assets will be invested in equities, fixed income and alternative investments as set forth in the Target Asset Allocation below.

The blended allocation has historic performance characteristics that are less volatile than portfolios with longer term objectives. This pool will have a risk of loss. The asset allocation of the Foundation portfolios shall be reviewed at least quarterly to ensure that the target allocation is in compliance with the following guidelines. Rapid and significant market movements may cause the Medium Term Portfolio's actual asset mix to fall outside the policy range.

<b><u>Asset Class</u></b>	<b><u>Target Allocation</u></b>	<b><u>Minimum</u></b>	<b><u>Maximum</u></b>
<b><u>Equity</u></b>	<b>35%</b>	<b>20%</b>	<b>50%</b>
Large Cap Domestic Equity		10%	25%
Small/MidCap Equity		0%	5%
International Equity – Dev.		5%	20%
Emerging Markets		0%	5%
<b><u>Fixed Income</u></b>	<b>65%</b>	<b>40%</b>	<b>75%</b>
Core/ Core Plus Fixed Income		35%	75%
TIPS		0%	10%
High Yield Fixed Income		0%	10%
Short Term Fixed Income		10%	25%
Global Fixed Income		0%	10%
Emerging Market Debt		0%	0%
<b><u>Alternative Asset Classes</u></b>	<b>0%</b>	<b>0%</b>	<b>10%</b>
REITS		0%	5%
Liquid Alternatives		0%	10%
<b><u>Cash Equivalents</u></b>	<b>0%</b>	<b>0%</b>	<b>10%</b>
	<hr/> <b>100%</b>		

### **What if I have more questions?**

The CFMC's financial audits and form 990s are available online at [www.cfmco.org/finances](http://www.cfmco.org/finances) and investment reports are available on request. Or you may contact Dan Baldwin, President/CEO, at 831.375.9712 x115 or [danb@cfmco.org](mailto:danb@cfmco.org) or Diane Nonella, Director of Finance and Human Resources at 831.375.9712 x117 or [diane@cfmco.org](mailto:diane@cfmco.org).

### Overview of Fund Types & Fees

FUND TYPE	MINIMUM	FEES*
<b>DONOR ADVISED FUNDS</b>		
Non-endowed	\$5,000	1.25% first \$1MM 1.00% next \$2MM .50% amounts over \$3MM
Endowed	\$25,000	Same as above
<b>ENDOWED FUNDS (SPECIFIC PURPOSE)</b>		
Field of Interest	\$25,000	2.0%
Designated to benefit specific agency(ies)	\$10,000	1.25% first \$1MM 1.00% next \$2MM .50% amounts over \$3MM
Scholarship	\$25,000	2.00%
<b>FUNDS CREATED BY AGENCIES</b>		
Stewardship <i>(assets may be retrieved through vote of agency board of directors)</i>	\$50,000	1.00% first \$1M .75% next \$2MM .50% next \$2MM .25% next \$2MM .10% next \$3MM .05% amounts over \$10MM)
Agency Endowment	\$10,000	Same as above
<b>OTHER GIVING OPTIONS</b>		
Unrestricted Gift	none	2.00%
Bequest with specific purpose (see above)	none	2.00% one-time contribution to CFMC Operating Fund Thereafter, fees are assessed based on the type of fund created.
Charitable Remainder Trust	varies	Kaspick Investment Managers 1.0% Community Foundation <u>.2%</u> Total CRT Fees 1.2%

*\*All fees are per annum, assessed quarterly unless otherwise noted. Based on the size and purpose of the fund, fees may be negotiable. Fees are subject to change*

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