

# Community Foundation of South Lake County, Inc.

## Investment Policy & Guideline

Adopted: May 18, 2015

### SECTION I - Investment Philosophy, Strategy and Goals

The investment philosophy, strategy and goals for the Community Foundation of South Lake County, Inc. (the "Foundation") portfolio is described herein, this policy supersedes any previously dated policies and strategies. The philosophy, strategy and goals are as follows:

#### Limitations of Policies

The Foundation holds and administers two types of funds; 1) Endowment Funds and, 2) Non-endowed or Pass-Through Funds. Endowment Funds are those that are used to provide income, which will be used for charitable purposes. These are funds in which principal or a main portion of principal (at least 90%) is to be maintained in perpetuity and only income can be used for charitable purposes. Non-endowed funds are those, which are to be used for charitable purposes with little or no principal remaining to the Foundation: however, the Fiscal Committee provides financial oversight of the moneys.

#### A. Investment Philosophy

The Community Foundation of South Lake County, Inc. (CFSLC) Fiscal Committee (the "Committee") is appointed by the CFSLC Board of Directors to oversee the investment(s) of the Foundation's assets (the "Fund"). As fiduciaries, the Committee will oversee and maintain an investment policy for the Fund, using prudence, care and diligence in accordance with Prudent Investor Act.

It is the responsibility of the CFSLC to preserve the Fund's capital and maximize investment earnings in a prudent manner. This will be accomplished through a sound investment strategy considering the need to maintain a long-term horizon when making investment decisions. The Committee, with the approval of the CFSLC Board of Directors, reserves the right to revise the investment policy of the Fund to accommodate changing legal, economic or investment environments to meet its fiduciary responsibilities.

#### Investment Objective

The Fund shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. In establishing the investment objectives for the Fund, the Committee has taken into account the time horizon available for investment, the Foundation's cash flows and liabilities, and its Spending Policy. Consequently, an investment objective of long-term growth for the Fund has been adopted. Long-term capital appreciation shall be the primary source of return, with income as a supplementary source of gains. The assets are exposed to risk and may experience large fluctuations in market value from year-to-year, since the investments are for the long term. The assets are expected to earn long-term returns sufficient to grow the purchasing power of those assets. The Fund shall be diversified in order to reduce the risk of wide swings in market value from year-to-year.

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### **B. Investment Strategy**

The investment policy for the Fund has been developed through an evaluation of alternatives reviewed by the Committee. This policy represents a consensus of inputs from committee members as well as Investment Managers and Investment Consultants (“Consultants”). Among the factors considered in the development of this investment policy are:

#### *1. Investment Risk and Volatility*

Risk is often defined in terms of portfolio variability relative to achieving the investment goals for a portfolio, as well as the probability of not maintaining purchasing power over the plan's investment time horizon. The Committee understands that in order to achieve its objectives for its accounts, the assets will experience volatility of returns and fluctuations of market value. The Committee will evaluate these risks at least annually and consider adjustments to the asset mix in order to maintain an acceptable level of risk for the Fund's portfolio.

#### *2. Investment Time Horizon*

The time horizon for the Foundation is considered in perpetuity. However, when making investment decisions and evaluating investment performance, the Committee shall focus on an investment time horizon of three -to-five years, allowing sufficient time for capital markets to experience typical valuation, monetary and economic cycles. However, the investment performance will be monitored and compared with designated benchmarks on a quarterly basis using a 3-year rolling average to evaluate overall performance.

#### *3. Role of Various Asset Classes*

The role of equities is to generate total returns in excess of inflation and provide for the Fund's growth while the role of fixed income investments is to provide diversification that reduces the variability of the portfolio and produces income. Cash equivalents are used to meet projected operating needs of the Foundation, the Fund, and to accumulate reserves for timely purchases of long-term investments.

#### *4. Asset Allocation*

The Committee, with the help of its Consultant(s), shall determine the asset allocation strategy. The Committee will manage the asset allocation mix within the ranges described by this investment policy. To implement this strategy, the Committee will use an asset allocation discipline that will diversify investments among asset classes and is intended to meet or exceed the primary investment goals.

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The currently approved asset allocation ranges are:

<b>Asset Class</b>	<b>Target</b>	<b>Allocation Range</b>
Equities :		
Large Cap	25%	15%- 35%
Convertibles	5%	0% - 10%
Mid Cap	5%	0% - 10%
Small Cap	5%	0% - 10%
International	10%	5% - 15%
REITS	5%	0% - 10%
Total Equities:	55%	30% - 65%
Alternative Investments (including MLPs) **	10%	0% - 15%
Fixed Income	30%	20%- 40%
Cash	5%	0% - 10%

Extreme market conditions may warrant variations from these designated ranges. However, variations to these ranges must be approved in advance by the Committee and the Foundation's Board of Directors. The Committee will have the authority to approve variations within these ranges.

### 5. Rebalancing Procedures

The allocation to each asset class and to investment styles within asset classes is expected to remain relatively stable over most market cycles. Since capital appreciation (depreciation) and trading activity in each individually managed portfolio can result in a deviation from the overall asset allocation, the aggregate asset allocation will be monitored and the Committee will review the asset allocation and manager structure at least annually. Should an allowable range for an asset class be violated, the Committee must rebalance the existing assets to the target asset mix within three months of the deviation. In addition, the Committee shall review the actual asset allocation at least quarterly in order to ensure conformity with the adopted strategic allocation.

To achieve the rebalancing of the Fund, the Committee may re-direct contributions and disbursements from individual investment managers as appropriate, in addition to shifting assets from one

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Investment Manager to another. The Committee shall coordinate all rebalancing actions with the Consultants.

The Committee recognizes the importance of maintaining a long-term strategic asset mix for the Fund and does not intend to engage in any tactical asset allocation or market timing asset mix shifts.

### 6. Correlation of Various Asset Classes

The Committee and the Consultant(s) will evaluate the relationship of various asset classes (the correlation) in determining the appropriate asset allocation strategy. The goal will be to combine various asset classes to produce the desired return with the minimum amount of expected volatility.

### C. Investment Goals

Investment goals or targeted returns (index) for all invested funds of the CFSLC are to meet, and if prudent, exceed certain benchmarks:

1. Performance goal is 5% (spending policy) plus CPI on a rolling average.
2. Investment managers should equal or exceed an agreed upon 1, 3 and 5 year returns "index".

The goal of each Investment Manager shall be to meet or exceed the market index, or blended market index, selected and agreed upon by the Committee. The Investment Manager shall display an overall level of risk in the portfolio that is consistent with the risk associated with the asset style and relevant index. Risk will be measured by the standard deviation of quarterly returns on a 1, 3, and 5-year basis.

### SECTION II - Investment Guidelines

The Committee and Consultants will consider investments appropriate for the Fund and properly diversified in order to reduce the risk of large concentrations in a single asset class. Permissible assets include domestic and international equities, REITS, alternative investments, master limited partnerships, domestic and foreign fixed income instruments, and cash and equivalents. These assets will be professionally managed, which can include the use of index funds as an alternative.

#### A. Equity Investment Guidelines

1. Investments may be made in;
  - Common Stocks
  - Convertible bonds and preferred stocks
  - American Depository Receipts and Ordinary Shares,
  - Mutual funds and/or ETFs invested in domestic and/or international securities
  - Publicly traded Master Limited Partnerships
2. No initial or additional investment in any one company shall exceed five percent (5%) of the total equity portion of the portfolio.

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3. No single issue shall exceed five percent (5%) of the market value of that manager's total portfolio without the Committee's approval.
4. The investment manager shall not buy, sell, or otherwise engage in:
  - Speculative derivative instruments
  - Non-marketable securities
  - Short sales/short against the box
  - Margin purchases
  - Stocks of companies involved with tobacco, liquor products, or gambling interest (excluding mutual funds)

### C. Fixed Income Investment Guidelines

1. Portfolio maturity shall be consistent with a broad bond index (Barclays Aggregate).  
Portfolio duration shall not exceed 135% of the duration of the Barclays Aggregate Index.
2. Permissible investments include:
  - US Dollar denominated instruments
  - International Fixed Income instruments
  - Mutual funds managed in a manner similar to these guidelines
3. The portfolio will only be invested in investment grade fixed income securities, defined as those bonds with a rating of at least Baa3 by Moody's or BBB- by S&P and High Yield Mutual Funds.
4. The **average** rating of the fixed income portfolio will be at least A3 by Moody's or A- by S&P.
5. Prudent diversification will be maintained across issuers, market sectors and industries.  
Except for US Government issues, the holdings of any one issuer shall not exceed five percent (5%), at market, of the portfolio.
6. The Investment Manager shall not buy, sell or otherwise engage in:
  - Options
  - Securities lending

### D. Cash Equivalents and Short-Term Investment Guidelines

1. Each security shall have a maturity of thirteen months or less.
2. Approved market sectors and instruments include:
  - a) issues of US Government and federal agencies and issued backed by the full faith and credit of the US Government; corporate and bank issues including commercial paper, corporate notes, bankers acceptances, certificates of deposit, time deposits and other debt instruments deemed suitable.
  - b) Repurchase Agreements, which are subject to 102% collateralization with daily valuation and in the custody of a trustee or custodian appointed by the Committee.
  - c) Money market mutual funds and variable rate preferred.
3. Cash equivalent reserves shall consist of cash instruments having a quality rating by at least one rating agency of a 1 by S&P, P-1 by Moody's, F-1 by Fitch, maturing in 13 months or less.

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4. Prudent diversification will be maintained across issuers, market sectors and industries. Except for US Government and Agency issues, the holdings of any one issuer shall not exceed 10% (at market) of the portfolio.

### SECTION III Investment Responsibilities

#### **A. The Committee is responsible for:**

1. Conduct quarterly meetings with selected Consultants.
2. Establishing, reviewing and amending the CFSLC's Investment Policy with the approval of the CFSLC Board of Directors.
3. Selection, review and termination of Investment Consultants, Investment Managers, and financial custodians. Although there are no strict guidelines that will be utilized in selecting Investment Consultants or Investment Managers, the Committee will consider the length of time the firm has been in existence, its track record, fees, assets under management, and the amount of assets the Foundation already has invested with the firm.
4. Enforcing established investment philosophies, strategies and goals.
5. Providing annual cash flow requirements for Investment Managers.
6. Reviewing monthly investment account statements and reporting any items of significant interest to the Committee and Board of Directors.
7. Monitoring adherence to the established investment philosophies, strategies and goals.
8. Maintaining working knowledge of the factors pertinent to the prudent supervision of the Fund.

#### **B. The Investment Managers are responsible for:**

1. Compliance with the CFSLC's established philosophies, strategies and goals.
2. Communicating ideas, forecasts and other pertinent information with the Executive Director and The Committee that may positively or negatively impact the Fund.
3. Submitting monthly statements that will include, at a minimum:
  - a) Asset allocation percentages.
  - b) Detail of all expenses including fees.
  - c) Activity detail describing all transactions.
  - d) Asset detail of all current holdings with cost/market values, number of units, percentage of sector and total portfolio, estimated annual income, and market yield.
  - e) Also, on a quarterly basis, provide total returns net of all fees for the total fund and each asset class, in comparison with designated benchmarks. Include year-to-date, trailing 12 months, and 3- and 5-year returns, where applicable.

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4. The Investment Manager shall handle the voting of proxies and tendering of shares in a manner that is in the best interest of the Foundation and consistent with the investment objectives contained herein.
5. Investment Managers will be required to meet with the Committee as requested to review their investment performance. The Committee requires Burgess Chambers & Associates to meet with the Committee on a quarterly basis to review its performance alongside our Investment Policy.

### **C. The Investment Consultant is responsible for:**

1. Serving as outside advisors to the Committee, Investment Consultants will have limited discretion to invest the assets within the guidelines currently approved by the Committee.
2. All investment advice offered by the Investment Consultant will be consistent within the investment objectives, policies, guidelines and constraints as established in the Investment Policy statement.
3. The Investment Consultant will assist in the development, implementation and periodic review of the Investment Policy.
4. The Investment Consultant will conduct Investment Manager Searches when requested by or approved by the Committee. The Consultant may also recommend a change.
5. The Investment Consultant will monitor the performance of the Investment Managers/Funds and will report these findings to the Committee. This may include, but not be limited to the following:
  - a) Statements showing compliance with asset allocation guidelines.
  - b) Comparison of returns to benchmarks.
  - c) Comparison of returns to the performance of a universe of comparable investment managers.
  - d) A detailed statement of fees and expenses paid by the Foundation.

Approved: March 28, 2018