

# SAMPLE STATEMENT OF INVESTMENT POLICY OBJECTIVES & GUIDELINES

## OVERVIEW

This Investment Policy is intended to be a summary of an investment philosophy that provides guidelines for the Trustees and President of SAMPLE INSTITUTION to effectively supervise, monitor, and evaluate the investments of the Portfolio.

This investment Policy is not intended to be an exclusive or comprehensive guide. This document does not include all rights, duties and liabilities of the Board of Trustees ("Board"), of the Investment Committee whose members also are the Trustees of the Foundation ("Committee") and President. This policy is intended to specifically define the investment objectives of the Foundation. In carrying out their duties to prudently manage and invest the Funds, the Board, the Committee and the President shall abide by the laws defined in Uniform Prudent Investor Act and the Uniform Prudent Management of Institutional Funds Act. No part of this Policy is intended to supersede California law regarding investment and management of the Funds, but rather to serve as an explanation of the various investment strategies recommended based upon the type of Fund.

## I. GUIDING POLICIES

This Investment Policy Statement (IPS) is established by the staff of the SAMPLE INSTITUTION to oversee the investment of the SAMPLE INSTITUTION assets. In setting investment policy, SAMPLE INSTITUTION has the following goals:

- to support SAMPLE INSTITUTION's mission;
- to keep financial promises made to SAMPLE INSTITUTION's donors;
- to invest in a manner that reflects SAMPLE INSTITUTION's values;
- to earn the highest possible rate of return without exposure to undue risk;
- to preserve and protect asset values

### A. The Board

The Board of Trustees (the "Board") is the primary decision-making body for the SAMPLE INSTITUTION. Likewise, the SAMPLE INSTITUTION's Governance Policy is the primary document determining investment goals and structure. This IPS is intended to articulate the means used to carry out the ends established by the Board.

The Board shall exercise an appropriate level of due diligence with respect to all aspects of investments for SAMPLE INSTITUTION: development of the asset allocation structure, selection of external investment managers, and the monitoring of investment performance.

Under SAMPLE INSTITUTION's governance policies, the Board has created an Investment Committee and delegated responsibilities to the committee. In addition, the President has the right to act on behalf of the Board in all investment matters.

The Board may enlist the help of SAMPLE INSTITUTION staff and outside professionals including an accounting firm, an investment consultant, a custodial bank, and money managers. The terms of the arrangements with each of these entities must be consistent with SAMPLE INSTITUTION's IPS. Each shall acknowledge they are fiduciaries to SAMPLE INSTITUTION in regard to the services they provide.

These include, but are not limited to:

1. **Investment Management Consultant.** The consultant may assist the Investment Committee in: establishing investment policy, objectives, and guidelines; selecting investment management providers; reviewing such investment management providers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
2. **Investment Management Provider(s) (Managers).** The investment management provider has discretion to purchase, sell, or hold the specific securities that will be used to meet the Fund's investment objectives. In placing portfolio transaction orders on behalf of the Plan, each manager shall obtain execution of orders through responsible broker/dealers at the most favorable prices and at competitive commission rates, taking into consideration the efficiency of execution of the transaction. Investment managers may not act upon written or oral instructions from any person other than the Board, the President, or a person acting on behalf of the Board or the President.
3. **Custodian.** The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt

and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts.

4. The Investment Committee will not reserve any control over investment decisions, with the exception of specific limitations described in these statements. Investment management providers will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment management providers, each investment management provider should request modifications that they deem appropriate.

## B. Fiduciary Standards

All investments are to be consistent with the standards of maintaining both the reality and the public perception that decisions are made solely to benefit SAMPLE INSTITUTION's donors and to support SAMPLE INSTITUTION's mission. To attain this objective, SAMPLE INSTITUTION shall be managed in a manner consistent with fiduciary standards, namely:

1. All investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in conduct of an enterprise of like character and with the same aims, and;
2. All entities dealing with SAMPLE INSTITUTION's investments are required to disclose conflicts of interest to SAMPLE INSTITUTION in writing as soon as they become apparent. Such disclosure should be communicated to the SAMPLE INSTITUTION's VP of Asset Management.

## II. INVESTMENT STRUCTURE

SAMPLE INSTITUTION's assets shall be classified into funds based on the source and use of the assets. The funds shall be invested in portfolios. Each portfolio will be dedicated to a broad investment class such as equity or fixed income, and will serve as the primary unit of manager performance scrutiny.

### Portfolios

SAMPLE INSTITUTION will establish portfolios with dedicated investment purposes such that, by holding different percentages of the portfolios, each fund may create its own asset allocation. The portfolios are:

1. **Fixed Income Portfolio:** The Fixed Income Portfolio shall be comprised of fixed income securities.
2. **Equity Portfolio:** The Equity Portfolio shall be comprised of domestic and foreign equity securities.
3. **Annuities Reserve Portfolio:** The Annuities Reserve Portfolio shall be comprised of fixed income securities and is intended to satisfy the regulatory requirements of managing charitable gift annuities. The purpose of the Annuity Reserve Portfolio is to segregate the present value of the future payments to the beneficiaries of the Charitable Gift Annuity Program and is managed in compliance with relevant state and federal laws.
4. **Alternative Asset Portfolio:** Alternative assets shall be segregated into a separate portfolio which may include marketable hedge funds, private equity, timber, real estate, and other illiquid investments.

This investment policy statement applies only to investments established for SAMPLE INSTITUTION individually. If SAMPLE INSTITUTION chooses to employ commingled investment vehicles, SAMPLE INSTITUTION understands that the investment policies established for those vehicles will supersede this investment policy statement.

## III. INVESTMENT CHARACTERISTICS

The Investment Characteristics in this section apply only to the Endowment Fund.

The other three funds described above – Annuities Fund, Trust Fund and Refundable Fund – are created to satisfy the needs of different investors with varying investment goals.

### A. Endowment Fund Characteristics

The investment of assets in the Endowment Fund shall be based on appropriate consideration of the following factors.

1. **Liquidity:** SAMPLE INSTITUTION's investments should have sufficient liquidity in aggregate to meet its cash flow

needs.

2. **Diversification:** Assets should be diversified among asset categories, sectors and geographic areas where possible to minimize volatility.
3. **Time Horizon:** The time horizon of each Fund is assumed to be perpetual unless otherwise stated.
4. **Risk Tolerance:** SAMPLE INSTITUTION recognizes that risk is present in all investments. The assumption of risk is needed to achieve satisfactory long-term results. It is the responsibility of SAMPLE INSTITUTION to manage the tradeoff between risk and return, always attempting to minimize risk of the overall portfolio for any given level of return.
5. **Rebalancing:** Once policy targets for asset allocation are set, the Investment Consultant should rebalance in an effort to keep asset allocation as close to the policy target as possible while at the same time minimizing transactions costs. Under extraordinary circumstances SAMPLE INSTITUTION may choose to suspend rebalancing.
6. **Securities Lending:** SAMPLE INSTITUTION recognizes that the policy of securities lending can enhance the return of a portfolio, but that it also entails risk both to principal and liquidity.

## B. Endowment Fund Asset Allocation

SAMPLE INSTITUTION shall perform a strategic asset allocation study for the Endowment Fund at least once every three years, or more frequently if circumstances warrant. The asset allocation and the managers currently employed in each of the asset classes with their assigned benchmarks are attached in Addendum I.

## IV. MANAGER GUIDELINES – INVESTMENTS

The following guidelines shall be followed by managers in the Portfolios.

### A. Mission-Aligned Investing

SAMPLE INSTITUTION has a charitable orientation expressed in the governance policies as follows: *SAMPLE INSTITUTION joins with people everywhere to work for the dignity and wellbeing of all.* Recognizing this, as well as the broader mission of the Foundation to support SAMPLE INSTITUTION's work in ending hunger and poverty and caring for the Earth, SAMPLE INSTITUTION strives to examine all investments for both financial performance as well as social and environmental impact in alignment with the broader mission.

We believe that all investing creates an impact. Through our investment program, we seek to generate positive environmental and social impact in alignment with the mission of SAMPLE INSTITUTION. Where practicable, SAMPLE INSTITUTION will seek investments in both the public and private markets that optimize both financial performance and generate positive environmental and social impact. Investment managers should consider the following criteria when considering a company for inclusion or exclusion from the SAMPLE INSTITUTION portfolio:

1. No direct investment in corporations that derive a majority of their revenue (50% or greater) from the following: gambling; the production and/or distribution of tobacco products; alcoholic beverages; or armaments.
2. Seek to invest in companies that exhibit high environmental social and governance (ESG) performance relative to sector peers. SAMPLE INSTITUTION recognizes no company or investment is perfect and that they may excel in one environmental, social or governance criteria and lag behind in others – we look for managers who are evaluating these criteria as part of their investment selection process and investing in companies that continue to improve across E, S and G.
3. Look for companies with diversity across the board, management and workforce as well as seek to avoid investing in companies with unfair labor practices and poor human rights performance.

SAMPLE INSTITUTION believes proxy voting and shareholder engagement are important components of its approach to mission-aligned investing.

Investment managers should seek to influence corporate management through the use of shareholder advocacy to improve the economic, social and environmental position of the company as appropriate.

With consideration of the mission-aligned investing principles outlined above, investment managers are given full discretion to act in accordance with the Investment Policy Statement.

## B. Fixed Income Portfolio: Fixed Income Guidelines

The Income Portfolio shall be comprised solely of fixed income securities.

1. **Investment objective:** The primary objective of the portfolio is capital preservation; the secondary objective is return and income generation. Active fixed income managers are expected to beat a benchmark appropriate to their style net of fees, and to perform in the top half of a universe of similar portfolios over a full market cycle. The benchmark used for comparison should be assigned to the manager(s) as part of the selection process.
2. **Ratings methodology:** At the time of purchase, all securities must have a minimum credit rating of BBB-/Baa3. Should a securities credit rating fall below investment grade, the portfolio manager will sell the security within 30-days or inform the client why the security should not be sold. A security's credit rating will be governed by the Barclays Capital methodology. In aggregate the fixed income portfolio should remain investment credit quality. The manager will maintain a duration of +/- 50% of the benchmark duration.
3. **Securities:**

Permissible Securities	Prohibited Securities* (but not limited to)
<ul style="list-style-type: none"> <li>▪ U.S. Government and agency bonds</li> <li>▪ International Government and agency bonds</li> <li>▪ U.S. domestic corporate bonds</li> <li>▪ International corporate bonds</li> <li>▪ Convertible bonds</li> <li>▪ Municipal bonds</li> <li>▪ 144(a) bonds of same quality and registration rights</li> <li>▪ Preferred stock</li> <li>▪ Fixed Income Mutual Funds</li> </ul>	<ul style="list-style-type: none"> <li>▪ Equity securities (except for term trusts)</li> <li>▪ Securities rated below #2 Ratings Methodology</li> <li>▪ Commodities</li> <li>▪ Unregistered letter stock</li> <li>▪ Non-U.S. Dollar securities</li> <li>▪ Warrants</li> <li>▪ Loans of portfolio securities</li> <li>▪ Venture capital issues</li> <li>▪ Private placements</li> <li>▪ Securities of a contributing employer</li> <li>▪ Currency swaps</li> <li>▪ Other specialized investment activities</li> <li>▪ Interest-only and principal-only strips other than those derived from Treasuries</li> <li>▪ Derivatives (including collateralized mortgage obligations and other sequential pay preferred issues)</li> </ul>

\*Unless expressly waived

4. **Prohibited transactions:** Fixed income managers are prohibited from purchasing securities on margin or selling short.
5. **Cash balances:** Managers are expected to remain fully invested. However, the decision to maintain cash balances is left to the manager's discretion. Managers should inform the Investment Consultant or VP of Asset Management within 10 business days if cash balances exceed 10%.
6. **Diversification:** Fixed income obligations of any one issuer, other than securities subject to the guarantee of the United States government or any of its agencies, should represent no more than 5% of the aggregate fair market value of a manager's portfolio.

## C. Equity Portfolio: Global Equity Guidelines

1. **Investment Objective:** Active equity managers are expected to outperform a benchmark appropriate to their style (value, core or growth) and market capitalization (large, mid and small) net of fees. In addition, active equity managers should be ranked in the upper half of a universe of similar portfolios over a full market cycle. Passive equity managers are expected to closely track their appropriate benchmark gross of fees. **International equity** is designed to add diversification to the Equity Portfolio. This segment of the portfolio will be committed exclusively to foreign securities. There are different risks associated with this segment due to factors such as political and currency risk.

## 2. Securities:

### Permissible Securities

- Domestic common stock
- Convertible securities
- Foreign common stocks in ADR form, or foreign securities listed on a major domestic exchange (see notification requirement in #8 below)
- Listed securities on major domestic exchanges are those traded on the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX) and the National Association of Securities Dealers (NASDAQ) exchanges. Any investment in convertible debentures must carry an investment grade rating of A or better.
- Non-U.S. common stock traded on any major stock exchange
- ADR's traded in the United States
- Global Depository Receipts (GDR's)
- Preferred stocks traded on any major exchange

### Prohibited Securities\* (but not limited to)

- Fixed income securities
- Commodities
- Unregistered letter stock
- Warrants
- Options, Futures, Forwards, and Swaps
- Real or Personal Property
- Oil and Gas property
- Loans of portfolio securities
- Venture capital issues
- Private placements
- Securities of contributing employer
- Real estate mortgages

\*Unless expressly waived

3. **Prohibited transactions:** Except with the written consent of the Board, equity managers may not purchase securities on margin or sell short.
4. **Cash balances:** Managers are expected to remain fully invested. However, the decision to maintain cash balances is left to the manager's discretion, keeping in mind that the benchmark will be applied to the manager's total portfolio and not just to the non-cash portion. Managers should inform the Investment Consultant or VP of Asset Management within 10 business days if cash balances exceed 10%.
5. **Diversification:** Equity investments by a Manager in any single corporation shall be limited to no more than 5% of the Manager's total portfolio based on the fair market value of the portfolio at the time of purchase, and no more than 10% of the Manager's total portfolio at any quarterly valuation. The portfolio should also be appropriately diversified by industry sector. The manager should inform the Investment Consultant or VP of Asset Management in writing of any violation within 10 business days of its occurrence.
6. **Income:** There are no minimum yield or dividend requirements.
7. **Foreign securities notification (Domestic Equity Manager):** If the manager chooses to hold foreign securities, the dollar value of those securities must be reported to the VP of Asset Management within 10 business days following the end of a calendar quarter. Unless expressly allowed by the manager agreement.

### D. Annuities Reserve Portfolio: Fixed Income Guidelines

The Annuities Reserve Portfolio is a fixed income portfolio managed under the same guidelines as those that apply to the Fixed Income Portfolio listed in section IV A. The Annuities Reserve Portfolio shall be managed by a separate investment firm with expertise in the regulations relevant to Charitable Gift Annuities. Please refer to addendum 2.

### E. Alternative Portfolio

The Board may consider investments in alternative investment strategies within the context of an overall investment plan. The objective of such strategies will be to diversify the portfolio, complementing traditional equity and fixed-income investments and reduce the overall volatility of the Fund. There is no guarantee that this objective will be realized.

### Absolute Return Strategies

The purpose of investing in absolute return strategies is to produce a reasonably stable positive return regardless of market direction and, due to their low correlation with returns of conventional marketable securities, to reduce systematic risk in the portfolio. Absolute return strategies include merger arbitrage, restructuring plays, fixed income and convertible arbitrage, distressed securities investing, U.S. and global long/short investing, and other hedged strategies. When stock market conditions are poor, absolute return managers are expected to be better positioned to protect assets and generate positive

returns. When market conditions are strong, absolute return managers can be expected to generate reasonable returns, although perhaps below those of traditional marketable securities.

The level of risk, defined as volatility and market correlation, varies significantly among and between absolute return investment programs depending on the investment strategies employed.

The Board may build a program of both marketable and non-marketable alternative investments such as venture capital, leveraged buy-outs and other private equity. These investments diversify the overall portfolio and offer the potential for high and at times uncorrelated returns compared to marketable equities. Investment opportunities will most often be in the form of limited partnerships lasting ten years or more.

## V. MANAGER GUIDELINES – POLICY AND COMMUNICATIONS

### A. Reporting

1. Within 10 days a Manager must inform the Investment Consultant and the VP of Asset Management of changes in organizational structure, ownership or key personnel. Also a Manager must inform the Investment Consultant and VP of Asset Management of material litigation brought by a client or former client relating to investment advisory services, or any enforcement proceeding by a regulatory agency that would have a material effect on the Manager, within 14 days after the Manager has been notified of the litigation or the enforcement proceeding.
2. On an annual basis each Manager is to submit to the VP of Asset Management an annual proxy voting report and a copy of Form ADV as filed with the Securities and Exchange Commission. Also on an annual basis, each Manager is expected to meet with SAMPLE INSTITUTION staff or the Board to discuss management of the portfolio. Managers may be asked to meet with the Board or SAMPLE INSTITUTION staff more frequently if special circumstances require it.

### B. Proxy Voting

SAMPLE INSTITUTION requires that Investment Managers exercise authority with regard to proxy voting, acting solely in the interest of the SAMPLE INSTITUTION. With regard to corporate governance, proxy votes should be against proposals to limit or eliminate liability for violation of duty of care and to indemnify directors in instances of gross negligence. The annual report on proxy voting covered under the previous section shall include:

- Summation of all votes cast;
- Affirmation that all stock holdings with votes due were voted;
- Description of proposed changes in proxy voting policies;
- Confirmation that all votes cast were consistent with policy;
- Explanation of any violation of the previous requirements.

Broker Relations - Investment managers are free to execute trades whenever it is in the best interests of SAMPLE INSTITUTION, and will have the discretion to execute transactions with brokerage firms of their choosing.

- Commission dollars are a SAMPLE INSTITUTION asset and should not be used for purposes other than those that directly benefit SAMPLE INSTITUTION.

## VI. EXECUTION OF INVESTMENT POLICY

IN WITNESS WHEREOF, this document has been approved and executed by the President of SAMPLE INSTITUTION on this:

\_\_\_\_\_ Day of \_\_\_\_\_ 2016

By: \_\_\_\_\_

Date: \_\_\_\_\_

John Doe, President

## **ADDENDUM 1: FUNDS**

### **Asset Allocation**

The purpose of this Addendum is to formally state the asset allocation for the fund(s). The asset allocation is the outcome of a careful weighing of risk, return and liquidity for each of the funds.

#### **A. SAMPLE Moderate Fund**

The asset allocation of the Moderate Fund is set by the Board. The current asset allocation ranges are:

<b><u>Asset Class</u></b>	<b><u>Benchmark</u></b>	<b><u>Allocation Range</u></b>
Global Equities	MSCI ACWI Index	40% - 80%
Global Fixed Income	Barclays Aggregate Index	10% - 40%
Global Alternatives	HFRX Equity Hedge Index	0% - 25%
Cash & Equivalents	90 Day Tbills	0% - 10%

## **ADDENDUM 2: PORTFOLIOS**

### **Managers, Performance Standards and Rebalancing Policy**

The primary unit of scrutiny for asset allocation will be the Funds. Each Fund has a separate asset allocation intended to balance the risk/return tradeoff unique to that fund.

This addendum has two purposes:

- to summarize performance standards relative to the managers;
- to formally state a rebalancing policy that will be used to maintain the selected allocation.

#### **A. Performance Measurement**

Managers chosen to invest money on behalf of SAMPLE INSTITUTION are expected to:

1. Adhere to this investment policy statement;
2. Surpass a benchmark return net of fees; and
3. Perform in the upper half of a peer universe.

These goals shall be attained over a market cycle assumed to be five years. Managers may be considered for dismissal in less than five years should SAMPLE INSTITUTION judge that attainment of the goals is unlikely before the end of the five-year period.

#### **B. Rebalancing**

The Investment Consultant shall handle cash flows to maintain the target allocations listed above and may initiate rebalancing at any time, but should inform SAMPLE INSTITUTION of that decision at the next regularly scheduled meeting. Rebalancing becomes mandatory if an allocation violates the target ranges outlined above.

Mandatory rebalancing should be completed within one quarter of the time that the full Board is informed of the violation. The Investment Consultant is given discretion as to where, within the range, to target any rebalancing. Under extraordinary circumstances SAMPLE INSTITUTION may choose to suspend rebalancing.