



## **STATEMENT OF INVESTMENT POLICY**

### **Introduction**

This Statement of Investment Policy (“Policy”) establishes the investment objectives, philosophy and guidelines of the Greater Salina Community Foundation (“Foundation”).

The objective of the Foundation is to help donors achieve their charitable goals. To accomplish this objective, the Policy defines the objectives, constraints and standards to be adhered to in the investment of the liquid financial assets of the Greater Salina Community Foundation corporation, and its affiliates. These in turn have been formulated in consideration of the following:

- The anticipated financial needs of the Foundation;
- Consideration of risk tolerance;
- The need to document and communicate objectives, guidelines, and standards; and
- Compliance with all federal and state laws governing community foundations.

This Policy represents the formal document for the investment of Foundation assets and is to be communicated to any outside Investment Managers (“Manager/s”) for their use in developing an appropriate investment program, to the Finance Committee for their guidance in investing funds held for the benefit of the Foundation, and to the Board of Directors for their use in exercising fiduciary responsibility in overseeing the investment of the Foundation’s assets.

This document will also be used as the basis for future investment performance measurement and evaluation.

## **Investment Philosophy**

The Foundation believes the best long-term performance will be achieved through a balanced portfolio consisting of equities, fixed income and cash.

While speculative risks should be avoided, the Foundation adheres to the traditional capital market pricing theory which maintains that, over the long-term, the risk of owning equities should be rewarded with a greater return than that available from fixed income investments. As a result, the Foundation believes the total rate of return from a concentration in equity investments will adequately compensate for the increased volatility. This investment philosophy is consistent with the long-term time horizon of the Foundation.

## **Responsible Parties and Fiduciary Duties**

### **Board of Directors**

- The Board of Directors (“Board”) has ultimate fiduciary responsibility for the investment performance of all Foundation assets.
- The Policy expresses the Board’s direction for the management of its investments.
- The Board delegates the responsibility for implementation of the Policy to the Finance Committee (“Committee”).
- This Policy can only be amended with the Board’s approval and the Board reserves the authority to amend the Policy at its sole discretion.

### **Finance Committee**

The Committee has the responsibility to manage the investment of Foundation assets in accordance with the Policy. The Committee:

- Manages the Investment Pool by direct investment in index mutual funds in accordance with criteria set forth in the Policy.
- May engage the services of qualified investment professionals in accordance with the Policy.
- Evaluates the performance of the Investment Pool and any outside Managers in accordance with the criteria set forth in the Policy.
- Evaluates the performance of any other service providers on an annual basis.
- Reports Investment Pool performance and outside Manager performance to the Board on a quarterly basis.

- Reports to the Board any decisions it makes as it implements the Policy.
- Reviews the Policy on a biannual basis and reports to the Board any recommended changes for the Board's approval.

### **Staff**

Are employees of the Foundation with responsibility for the following duties:

- Administer the Foundation's investments consistent with the policies, objective procedures and guidelines approved by the Committee and Board and all applicable laws.
- Provide input to the Committee on Foundation related issues to facilitate their decision-making.
- Manage the Foundation's relationships with external service providers and the community at large.

### **Outside Investment Manager(s)**

Each outside Manager will discharge its investment duties solely in the interest of the Foundation, and in doing so, shall exercise ordinary business care and prudence under the facts and circumstances prevailing at the time of the Manager's action or decision with respect to the type of investments for which the Manager has authority and responsibility delegated to it by the Committee and/or Board.

- The appointed Managers will have discretion and authority for determining investment strategy and implementation of security selection and timing consistent with the Policy guidelines. In the event that a Manager needs to deviate from these policies or their approach to investing, the Manager shall notify the Committee in advance of all such actions.
- Comply with all legislation and regulations that involve the Foundation as it pertains to the Manager's duties, functions and responsibilities as a fiduciary.
- Vote the proxies on the securities in the Foundation's portfolio in accordance with the Manager's own guidelines and in the best interests of the Foundation. All Managers voting proxies on behalf of the Foundation may be asked to provide a copy of their voting policy and a record of their votes to the Committee.
- Report to the Foundation in a timely manner.

## **Notification of Significant Events**

Each outside Manager shall advise the Foundation promptly of any event that is likely to adversely impact, to a significant degree, the management, professionalism, integrity or financial position of the firm, including events such as:

- A loss of one or more key people.
- A decline in assets under management due to client terminations that exceeds twenty percent of total firm assets.
- Regulatory action against the firm, its principals or employees.
- A significant change in investment philosophy.
- The appointment of a new portfolio manager(s) to the Foundation's account.
- A change in ownership or control (whether through acquisition, disposition, spin-off, merger, consolidation, or otherwise) of the Managers.

## **Conflict of Interest**

An outside Manager will fully disclose any investment of the Foundation's asset with any person or entity with which or in which it has an economic interest. This limitation will be construed so as to avoid any possibility of self-dealing or conflict of interest without the Foundation's knowledge. In addition, the Manager will disclose compensation received as a result of any investment for the Foundation as a broker, dealer, underwriter, or principal, whether directly or through a related or any affiliated entity. The Committee shall review disclosures of the Manager and shall determine whether the transaction or arrangement is in the best interest of the Foundation, and fair and reasonable under the circumstances present. Based on these determinations, the Committee shall make its decision on whether to continue the services of the Manager or make suggestions for change to the Manager. If the Committee has reason to believe an individual Manager has failed to disclose actual or potential conflicts of interest, it will inform the Manager and allow him/her to explain the alleged failure to disclose. The Committee will have the right to terminate the Manager at its will.

## **Other Service Provider(s)**

Other parties may be recommended by the Committee for approval by the Board to perform specialized functions required by the Foundation. Such service providers will perform their activities as directed by the Committee in the sole interest of the Foundation's beneficiaries.

## **Asset Allocation**

The asset allocation of the Foundation's Investment Pool shall be within the following guidelines:

	<u>Target % of equity portfolio</u>	<u>Target % of total portfolio</u>	<u>Allowable asset allocation range</u>
<u>Equity:</u>			
Large-Cap Stocks	40%	30%	0% - 80%
Mid-Cap Stocks	26.66%	20%	0% - 80%
Small-Cap Stocks	10%	7.5%	0% - 80%
Emerging Markets	6.67%	5.0%	
International Stocks	<u>16.67%</u>	<u>12.5%</u>	<u>0% - 40%</u>
Total Equities	100%	75.0%	20% - 80%
<u>Debt:</u>			
Fixed Income & Cash		25.0%	20% - 80%
 Total Portfolio		100.0%	

This target allocation may not be attained at any specific point in time since actual asset allocations will be dictated by current and anticipated market conditions, the independent actions of outside Managers, and the overall direction of the Committee. The Committee shall periodically review this policy to ascertain that the Investment Pool, and the outside Managers, conform to the allowable asset allocation ranges. Should deviation from the guidelines be determined, Managers will be notified accordingly.

### **Rebalancing**

Since asset allocation is a critical component of the Investment Pool's returns, it is desirable to rebalance the Investment Pool periodically to minimize deviations from the Policy asset allocation mix.

The staff may rebalance the Investment Pool to achieve the approved Policy asset allocation at any time. However, the Investment Pool shall be rebalanced in the event any individual traditional asset class differs from Policy asset allocation by more than 25% of the target weight, but with a minimum deviation threshold of 2% of the total Investment Pool value.

### **Review**

The Committee shall review this asset allocation mix on a periodic basis and will ascertain that the Foundation not only conforms to the desired target and ranges, but also that the target and ranges remain suitable and competitive, and represent an appropriate asset allocation mix for the Foundation going forward.

## **Investments Guidelines and Restrictions**

### **Permissible Investments**

I. Equity investments shall be defined as the following:

- A. Common or preferred shares of corporations listed and traded on nationally recognized exchanges or over-the-counter markets (including American Depository Receipts, or ADRs and real estate investment trusts).
- B. Convertible bonds, debentures or preferred shares which are convertible into corporate stock.
- C. Mutual funds, index funds, exchange-traded funds (ETFs), or commingled funds are permitted so long as the fund is comprised of investments that conform to the above mentioned permissible equity investments.

II. Fixed income investments shall be defined as the following:

- A. Cash or cash-equivalent securities, money market mutual funds and equivalent commingled funds; U.S. Treasury Bills; commercial paper; certificates of deposit; bankers' acceptances and repurchase agreements collateralized at a minimum of 102% (plus accrued interest) by U.S. Treasury or Agency securities.
- B. U.S. Treasury Notes, Bonds, and STRIPs.
- C. Government Agencies & Instrumentalities (Discount Notes, Debentures, Mortgage-Backed Securities\*).
- D. Corporate Bonds, Notes, Debentures and Asset-Backed Securities.
- E. Yankee and Eurodollar Bonds and Notes.
- F. U.S. Non-Agency Mortgage-Backed Securities\*.
- G. U.S. dollar denominated Sovereign or Supra-national Bonds.
- H. Mutual funds, index funds, exchange-traded funds (ETFs), or commingled funds are permitted so long as the fund is comprised of investments that conform to the above mentioned permissible fixed income investments.

*All of the above can be either a fixed, variable, or floating rate.*

*\*Mortgage-Backed Securities are defined to include the following: Pass-Through Certificates either issued or guaranteed by GNMA, FNMA, or FHLMC; Pass-Through Certificates issued by non-agency or commercial mortgage issuers; and Collateralized Mortgage Obligations.*

III. Other:

Other investments may be received and held as per the Foundation's Gift Acceptance Policy, or by approval of the Committee and then the Board.

## **Prohibited Investments**

Except when included in a broad spectrum fund, the following securities are specifically prohibited from purchase:

- A. Stock in non-public corporations, private placement or any other non-marketable issues.
- B. Letter or restricted stock.
- C. Short sales of any type.
- D. Share purchases involving the use of margin.
- E. CMO residuals and support tranches.
- F. Stripped mortgage-related securities (Interest Only Strips- “IOs”, Principal Only Strips- “POs”) both generic and prepayment protected.
- G. Leveraged Floaters and Inverse Floaters, including Money Market obligations.
- H. Tiered-Index Bonds, Range Notes and all other forms of structured notes whose return characteristics are tied to changes in prepayments on mortgages or changes in a specified interest rate index or market rate or which contain caps or floors on the interest rate.
- I. Natural resources such as oil, gas or timber.
- J. Partnerships or limited partnerships.
- K. Precious metals.

## **Other Investment Guidelines**

- A. Concentration per issuer cannot exceed 5% of the portfolio market value at the time of purchase, with the exception of cash, cash-equivalent, U.S. Treasury or Agency securities. Furthermore, the Manager may not hold more than 5% of the outstanding shares of any single issuer with the exception of U.S. Treasuries or Agencies.
- B. No options, futures, or forwards will be purchased or sold, except within fixed income commingled accounts or as approved by the Board as part of managing and marketing production from an asset owned under Permissible Investments III (page 7).
- C. The fixed income portfolio should have an average quality rating of “A” or better (S&P), “A2” (Moody’s) or equivalent ratings from comparable rating agencies. However, up to 15 % of the portfolio, at the time of purchase, may be invested in securities rated below investment-grade (individual security quality ratings of “B” or better).

- D. Commercial Paper issues must be rated at least “A1” (S&P), “P1” (Moody’s) or equivalent ratings from comparable rating agencies at the time of purchase. In the case of only a single rating, that rating must be in the highest short-term rating category.
- E. The weighted average duration of the fixed income portfolio is expected to remain within a range of 70% to 130% of the representative benchmark.
- F. Permissible CMOs will be limited to no greater than 25% of the market value of the fixed income manager’s portfolio.
- G. The fixed income portfolio may invest up to 20% of its total assets in non-U.S. dollar denominated securities.
- H. Securities owned by the Foundation but held in custody by another party may not be lent unless approved by the Committee.

### **Outside Investment Managers**

Generally, the Foundation expects that the entire endowment will be managed as part of the Investment Pool. Occasionally, however, the Foundation may consider a donor’s recommendation to have the fund created by that donor managed by an outside (meaning outside the Investment Pool) Manager separately from the Investment Pool.

The Board may consider and may approve a recommendation to allow assets of the Endowment to be managed by an outside Manager separately from the Investment Pool only if all of the following conditions are met:

- The Foundation must enter into a written investment agreement with the outside Manager. The agreement will make clear that (i) the Foundation is the sole owner of all assets of the separately managed endowed fund, (ii) all such assets shall be and must remain under the sole control of the Foundation, (iii) the Manager will be subject to oversight by the Committee and the Board, and (iv) the investment approach and/or Manager can be changed by the Committee or Board at any time, in its sole discretion. The terms of the agreement must be approved by the Committee and must be acceptable in all respects, including fees.
- Outside Managers, at all times, must adhere to the allowable asset allocation ranges outlined in this policy.
- The total market value of the separately managed fund must equal or exceed \$25 thousand. If at any time the fund falls below \$25 thousand, the Committee shall have the option to terminate the separate management and add the fund to the Investment Pool.
- The recommended Manager must agree to abide by either (i) a separate written investment policy statement, approved by the Committee, or (ii) the Policy, as now or hereafter in effect.



- The Manager must meet all other minimum requirements for acting as a Manager, as set forth in the Policy.
- The Manager shall have the ability and must be willing to timely provide statements and reports on the value of the fund, investment performance and expenses related to the separate fund with the frequency and in the format required by the Foundation.
- The outside Manager will agree to timely pay to the Foundation such amounts as may be requested from time to time by the Foundation.

Funds managed separately may be managed with different benchmarks than the Investment Pool and will be reported separately in investment management reports. Nonetheless, the Board and Committee have a fiduciary responsibility regarding these assets of the Foundation and must exercise appropriate judgment regarding adequacy of returns received, fees charged, and asset allocation.

The Committee will monitor and evaluate the Manager’s performance over time and if the performance does not meet or exceed that of the Investment Pool or other agreed upon benchmarks or fails to comply with the investment policy applicable to the fund, the Foundation may at any time terminate the Manager of the fund and select a different Manager or add the fund to its Investment Pool.

The Foundation will not pay any Manager or any other party a commission or fee for bringing a donor who creates a fund to the Foundation, and no existing assets of the Foundation may be transferred to a Manager or other party as “compensation.”

The separately managed fund will be required to bear all of its own investment expenses as well as any costs incurred by the Foundation that are directly related to the separate investment.

The Committee must approve the engagement of a Manager and the Board must approve exceptions to any of the conditions set forth in this Policy, in advance.

Notwithstanding any other provision of these policies, the Committee shall have the right to change the investment approach or the Manager of any fund of the Foundation at any time and for any reason, at the Committee’s sole discretion.

### **Manager Selection Criteria**

Managers must be approved by the Committee and then the Board, and shall be chosen using the following criteria:

- An outside Manager must have appropriate licensing to professionally manage financial assets, be affiliated with a registered broker dealer under SEC supervision, or affiliated with a Trust Co. or Bank, having Trust powers, which is subject to Federal or State bank supervision.
- Past performance, considered relative to other Managers having similar investment objectives. Consideration shall be given to both consistency of performance and the level of risk taken to achieve results.

- How well the Manager’s investment style or approach complements the management of other assets in the Foundation.
- Level of experience, amount of assets under management, personnel turnover, financial resources, and staffing levels of the investment management firm or fund.
- An assessment of the likelihood of future investment success, relative to other opportunities.

### **Monitoring Standards and Guidelines**

The performance of all investments shall be reviewed by the Committee at least on a quarterly basis. The committee shall meet with each outside Manager at least annually to receive reports and other materials necessary to evaluate the performance of the Manager against Foundation investment standards. The following are guidelines suggested for periodic information requests of each outside Manager.

#### **Quarterly:**

Each outside Manager shall provide reports within 30 days from the end of each quarter, including, for both the quarter and the year-to-date, at least the following information:

- Beginning market value, by security within asset class
- Ending market value, by security within asset class
- Securities purchased during the quarter
- Securities sold during the quarter
- Gains and losses on security sales for the quarter
- Any changes in the organizational structure of their organization, key personnel or personnel handling the Foundation account, or any other significant operational or organizational change of which the Committee should be aware.
- Any additional information requested by the Foundation.

#### **Annually:**

When reporting at each periodic appearance before the Committee, in addition to the quarterly information to be provided, each outside Manager shall also provide the following:

- Brief description of their fundamental investment philosophy
- Their market outlook
- A summary of the total fees assessed the prior year, separating out advisory fees from other fees
- Any changes in the organizational structure of their organization, key personnel or personnel handling the Foundation account, or any other significant operational or organizational change the Committee should be aware of.

## **Communications**

Each outside Manager shall be required (within 3 business days of a notification event) to notify the Executive Director of the Foundation by telephone, with a written follow-up within four days thereafter, as to any material changes affecting the Manager, and/or its parent or any affiliated organizations.

## **Administrative Contribution Fee & Spending Policy**

The Committee will make a recommendation annually to the Board regarding the assessment or non-assessment of an administrative contribution from each fund, within the parameters outlined in the Foundation Policies and Procedures. The Committee will also make an annual recommendation regarding a spending policy for grants from non-advised, endowed funds that limits the amount the Foundation may grant from these endowed assets.

## **Evaluation and Review**

The Committee intends to review the performance of the Foundation and of the outside Managers on a quarterly basis relative to the objectives and guidelines described herein. The investment performance review will include comparisons with the standards and guidelines contained in this policy. In addition, the Committee will also consider:

- The Foundation's asset allocation relative to its Policy and the capital market outlook.
- The extent to which each Manager has managed its portfolio consistent with that Manager's stated investment philosophy and style.
- Each Manager's adherence to the guidelines and investment policies contained in this Policy.
- The Investment Pool return and each Manager's returns to determine whether the Foundation's objectives are being met.

## **Review and Modification of Policy**

The Committee shall review this Policy bi-annually to determine if modifications are necessary or desirable. Any such modifications are referred to the Board for its approval. The Board reserves the authority to amend the Policy at its sole discretion. If modifications are made, they shall be promptly communicated to the outside Managers and other interested service providers.

## **Replacement of Service Providers**

The Committee retains the right to change or replace outside Managers or other service providers at any time it is deemed appropriate.