## *Community Foundation of Southeastern Massachusetts*

# INVESTMENT POLICY STATEMENT

*As of*

## *January 2019*

Approved by Investment Committee - February 11, 2019
Approved by Board of Directors - February 12, 2019

## I. DESCRIPTION

This Investment Policy Statement (IPS) details the oversight and management of the investment portfolio of the Community Foundation of Southeastern Massachusetts assets (collectively, the "Fund").

The Fund's investment objective is to preserve its purchasing power while providing a continuing and stable funding source to support the current and future mission of the Community Foundation of Southeastern Massachusetts. To accomplish this objective, the Fund seeks to generate a total return that will exceed not only its operating expenses, but also all expenses associated with managing the Fund and the eroding effects of inflation. It is the intention that all total return (interest income, dividends, and realized gains) above and beyond the amount approved for expenditure or distribution will be reinvested in the Fund. The Fund will be managed on a total return basis, consistent with the applicable standard of conduct set forth in the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

## II. ROLES AND RESPONSIBILITIES

Various parties contribute to the successful management of the Fund's assets. The Investment Committee is responsible for setting strategic direction, with Board approval, and for overseeing the investment of the assets. The Investment Consultant provides advice to the Investment Committee regarding investment strategy and manager selection and assists in the performance evaluation process. The Board has ultimate responsibility for the Fund but delegates specific duties as described in the Investment Policy Statement. More specifically, the parties have the following responsibilities:

### a. Investment Committee

The Investment Committee's role is to advise the Board on all matters related to the investment policy and investment guidelines, select appropriate asset classes and investment managers and allocate funds to those asset classes and managers, set and change the weighting of asset classes, establish investment performance benchmarks, and appraise investment manager performance. The Investment Committee will review and evaluate investment results and take action that it deems prudent when an investment manager fails to meet performance standards or violates the investment guidelines.

### b. Investment Managers

Investment managers retained by the Fund are expected to manage assets in a style and manner consistent with the expectations set at time of hire and will notify the Investment Committee, Staff, and Investment Consultant in a timely fashion of any material changes to the firm, staff, or strategy. Managers will act in compliance with applicable local, state, and federal laws, rules, and regulations, including but not limited to, those pertaining to fiduciary duties and responsibilities.

### c. Investment Consultant

The Investment Consultant will be responsible for providing proactive advice and education to the Investment Committee on investment guidelines, asset allocation, and manager structure. The Investment Consultant will assist in the selection of new investment managers and will alert the Investment Committee to material developments at the current managers' firms. In addition, the Investment Consultant will provide performance evaluation reports to the Investment Committee on a monthly and quarterly basis. Reports will include the performance of each of the investment managers and the total Fund compared to appropriate market indices and peer groups. Quarterly reports will contain significant details of the portfolio's holdings, risk exposures, and performance.

**d. Staff**

The responsibility of the Staff is to coordinate the administration of the Fund with the Investment Consultant and Investment Committee. This includes maintaining proper accounting books and records, managing periodic disbursements, recording contributions, issuing reports, and attending to other similar administrative matters. The Staff will also provide support to the Board and the Investment Committee as may be requested on occasion.

**e. Custodian**

The Custodian's role is to receive, hold, manage, and invest, to the extent directed by the Investment Committee, the Fund assets. The Custodian will make payments from the Fund to such persons or organizations as designated by authorized Community Foundation of Southeastern Massachusetts personnel. It will keep accurate and detailed accounts of all investments, receipts, disbursements and other transactions and will provide the Investment Committee and the Investment Consultant with a written account of all holdings and transactions on a monthly basis.

## III. Investment Liquidity

The Fund has a long-term investment horizon with relatively low liquidity needs. For this reason, the Fund can tolerate short- and intermediate-term volatility provided that long-term returns meet or exceed its investment objective. Consequently, the Fund may take advantage of less liquid investments which may include private equity, hedge funds, and other partnership vehicles, which typically offer higher risk-adjusted return potential as compensation for forfeiture of liquidity. To ensure adequate liquidity for distributions and to facilitate rebalancing, the Investment Committee will conduct a periodic review of total Fund liquidity.

## IV. Asset Allocation

In an effort to achieve its investment objective, the Fund will allocate across asset classes consistent with its investment objective. Other asset classes may be added to the Fund in an effort to enhance returns, reduce volatility through diversification, and/or offer a broader investment opportunity set. The goal of each asset class is detailed below:

- Global public equity is intended to provide long-term growth and offer high expected real returns and liquidity. Non-U.S. equities are included in an effort to enhance return and control risk by reducing the Fund's reliance on domestic financial markets.
- Flexible capital strategies are employed due to their potential to offer market-comparable returns with lower expected volatility through the use of hedging, cash management, shorting of securities, or other portfolio management techniques.
- Fixed income may help provide stability and protection in deflationary environments.
- Real assets strategies are intended to provide a diversified hedge against inflation as well as a strong yield component.
- Cash provides short-term liquidity and serves as a funding source for distributions and rebalancing.

Please see **Appendix A** for specific asset allocation targets and ranges

## V. Rebalancing

The Investment Committee, Staff, and Investment Consultant (if retained) will review the Fund's asset allocation periodically. Any deviations from asset class policy targets outside of the allowable ranges will be addressed through rebalancing or acknowledgment of a valid reason for remaining outside of stated policy ranges (such as liquidity or short-term transitions between managers).

Cash receipts shall be invested as soon as practical according to the current asset allocation policy, unless otherwise approved.

## VI. Performance Evaluation Benchmarks

Benchmarks are useful to gauge the performance of the Fund, but they are best viewed over longer periods, generally three to five years. The Fund will be compared to its Policy Index, which represents the optimal "Policy Portfolio" selected by the Investment Committee. The Policy Index is defined as the sum total of all the policy target weights for each of the asset classes multiplied by the returns of their respective benchmarks. Significant performance deviations from the Policy Index will be explained and appropriate actions taken if necessary. Benchmarks for each of the broad asset classes are established and reviewed by the Investment Committee with the assistance of the Investment Consultant. In addition to the Fund and asset class benchmarking, all managers within each asset class will be compared to their own relevant style index benchmarks.

| Asset Class | Benchmark |
|---|---|
| Global Public Equity | MSCI AC World Index |
| Real Assets | Real Assets Composite Index |
| Fixed Income | Fixed Income Composite Index |
| Cash | Citigroup 3-Month T-Bill Index |

## VII. Use of Derivatives and Leverage

In general, the portfolio will not make direct use of derivatives or leverage. However, the portfolio may have exposure through certain investment managers. When prudently used, derivative instruments and strategies may be an important element of general portfolio management. Derivatives offer investment management firms effective alternatives to trading physical securities, provided firms have the technical knowledge of the market factors, the quantitative skills to analyze the securities over a range of scenarios, and the ability to determine reasonable valuation before purchasing them. Portfolio management agreements or manager guidelines must explicitly authorize the use of derivatives or clearly state when their use is permitted.

## VIII. Manager Selection and Monitoring

The Investment Committee will select and monitor external managers to invest the assets of the Fund. The Investment Committee may delegate certain selection and monitoring functions to the Investment Consultant. The Investment Committee will report on the status and performance results of the Fund to the Board no less than annually.

The Investment Committee seeks managers who demonstrate effective strategies, sustainable advantages, and high-quality organizational structures. Investment managers have full discretion to buy and sell securities and to vote proxies for the securities in which they invest. The Investment Committee seeks active managers that will generate superior relative risk-adjusted performance, net of all expenses. Passive mandates may be used in more efficient (occasionally, in less efficient) segments of the capital markets for the purpose of gaining market exposure. The Investment Committee shall determine the respective maximum allocations to single active managers.

Attractive firm characteristics include:

- Strong reputation in the marketplace and a meaningful, high-quality, institutional client base
- Aligned interests (e.g., significant amount of principal/employee dollars invested in the funds)
- Stable and experienced professional team and principals/employees own equity in the firm
- Controlled growth and a manageable level of assets under management
- Competitive long-term performance among peers
- Appropriate fees for the strategy employed

Staff and the Investment Consultant will conduct due diligence prior to recommending each external manager to the Investment Committee. Evaluations may include meetings with key personnel and typically include at least one on-site visit to the principal office. Research also includes reviews of audited financial statements, reference checks with other clients and business associates, and comparison to competitors. The Staff and Investment Consultant will use their respective networks of contacts in an effort to gain further confirmation of a manager's abilities and business practices. New firms may have additional business risk and therefore, may be subject to more rigorous due diligence and ongoing monitoring. Selection of investment managers is not geographically restricted.

The ongoing review and analysis, both quantitative and qualitative, of existing investment managers is just as important as the due diligence implemented during the manager selection process. In addition to performance measurement noted below, Staff and/or the Investment Consultant will monitor for consistent implementation of investment strategy and philosophy, appropriate risk controls, adherence to any stated guidelines, and any material changes in the manager's organization and/or personnel.

The performance of the portfolio's investment managers will be actively monitored by Staff and/or the Investment Consultant, who will report any meaningful observations and performance deviations to the Investment Committee in a timely manner. Quarterly performance will be evaluated versus appropriate benchmarks and peer universes, but emphasis will be placed on relative performance over longer investment periods.

The Investment Committee has the discretion to take corrective action by replacing a manager if deemed appropriate at any time. Corrective action may occur as a result of meaningful organizational or process-related change, and in some cases, sustained relative underperformance. Significant short-term underperformance will also trigger a review. On a yearly basis, the Investment Committee will review each manager and evaluate organizational changes and performance as it relates to managers' stated investment goals and peer results.

Manager fees are expected to be reasonable. Incentive performance fees are common in the illiquid asset categories and, in some cases, more traditional asset classes.

## IX. Spending and Distribution Policy

Spending is guided by several factors; most important is the value of the portfolio. The primary objective of this policy is to allow the Foundation to consistently fund its mission and keep pace with inflation, without eroding the corpus of the portfolio. The foundation will therefore target an annual rate of 5% of the average market value of the trailing twenty (20) quarters for the fund to be used for spending.

Exceptions to this distribution formula can be made when a single gift or a number of gifts to a fund increases the value of the fund net of investment gains and losses by more than 25%. In such instances Management may propose an alternate distribution formula for the fund subject to Board review and approval.

Of the total availing of 5%, 4% shall be used to support charitable endeavors of the CFSEMA, and 1% shall be used to offset administrative expenses of the CFSEMA.

For agency endowments, the support fee will be .5% for Funds with a balance over $100,000. The annual distribution(s) from these funds shall be 4.5% unless stipulated otherwise in the fund agreement.

All investment management fees shall be deducted from the endowment and are not included in the 5% total availing.

Furthermore, in recognition of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), spending shall comply with the evolving "prudent spending" guidelines of UPMIFA as outlined in the state of Massachusetts and to consider the following factors:

- general economic conditions;
- the possible effect of inflation or deflation;
- the expected tax consequences, if any, of investment decisions or strategies;
- the role that each investment or course of action plays within the overall investment portfolio of the fund;
- the expected total return from income and the appreciation of investments;
- other resources of the institution;
- the needs of the institution and the fund to make distributions and to preserve capital; and
- an asset's special relationship or special value, if any, to the charitable purposes of the institution.

This policy will be reviewed annually as part of the budgeting process. Investment managers should be given ample notice of the required withdrawal schedule. Appropriate liquidity should be maintained to fund these withdrawals without impairing the investment process.

## X. Conflict of Interest

If any member of the Investment Committee, Staff, or the Investment Consultant has, or appears to have, a conflict of interest that impairs or appears to impair the respective member's ability to exercise independent and unbiased judgment in the good faith discharge of his or her duties, he or she shall disclose such conflicts prior to meaningful discussion. All parties must also comply with any other conflicts of interest policies adopted by the Community Foundation of Southeastern Massachusetts.

## XI. INVESTMENT POLICY STATEMENT REVIEW

The Investment Committee will review the Investment Policy Statement annually and submit any changes to the Board for ratification.

## Appendix A – Asset Allocation

The following asset allocation policy has been established. It is believed that this policy will provide the highest probability over time of meeting or exceeding the Fund's objectives, while avoiding excessive risk.

| Asset Class | Policy Target | Policy Range |
|---|---|---|
| Global Public Equity | 60.0% | 50.0-70.0% |
| Real Assets | 15.0% | 10.0-20.0% |
| Fixed Income | 25.0% | 20.0-30.0% |
| Cash | 0.0% | 0.0-5.0% |

## Appendix B – Donor-Specified Advisors

The Foundation will consider permitting a donor(s) to specify the use of a specific investment advisor (hereinafter "Advisor"), under the following terms and conditions:

1) The minimum initial gift shall be at least $1,000,000; subject to review and recommendation of the Investment Committee with Board approval

2) The Advisor must adhere to the Investment Policy of the Foundation as it is in effect from time-to-time.

3) The Advisor must be initially acceptable to the Investment Committee of the Foundation and may be removed by majority vote of said committee at any time during the engagement with 30 days written notice.

4) The donor shall be advised of and acknowledge receipt of this policy in their gift agreement with the Community Foundation.

5) Upon the death of the donor(s), the Foundation shall be under no further obligation to retain the services of the Advisor, but it may continue to do so with approval of the Investment Committee.