

# College Heights Foundation

## Investment Policy

May 2017

### **PURPOSE**

The purpose of this document is to define the investment policy for the Endowment Funds of the College Heights Foundation (Foundation). As such, this will serve as the baseline policy for most (but not all of) the Foundation's various types of Endowment assets. It will identify a set of investment objectives, guidelines and performance standards. The objectives have been created in response to:

- the anticipated financial needs of the organization
- the organization's risk tolerance; and
- the need to document and communicate objectives, guidelines, and performance standards to the investment managers

This policy is to be communicated to any investment consultant or managers for their use in developing an appropriate program and to the Board of Directors for their use in exercising fiduciary responsibility. This document will also be used as the basis for investment performance measurement and evaluation. This policy will be reviewed by the Executive Committee on an annual basis.

### **TIME HORIZON**

The Foundation recognizes that as a perpetual entity, the framework of its investment decisions should be centered upon long term (5-10 year plus) market cycles as well as long term manager and asset class returns. While the context of the current economic climate will no doubt be reflected in the Board's willingness to take on varying levels of investment risk, the overriding principles of the investment policy, along with the asset class guidelines herein established should not be altered due to short term market fluctuations or economic disruptions.

### **PHILOSOPHY**

The Foundation understands that prudent risk taking is necessary in order to achieve its overall objectives. Acknowledging that there is a direct correlation between the relationships of risk/return under Modern Portfolio Theory, the Foundation does not seek to eliminate risk but to effectively manage it. The level of risk taken should be in proportion to the Foundation's overall investment objectives and will principally be governed by the overall asset class allocations and parameters established.

The Board of Directors believes that the long term nature of the Foundation necessitates investing a majority of the Foundation's assets in equity or real assets, or those assets with "equity like" characteristics which over time have shown a greater propensity to achieve returns in excess of inflation. The Board of Directors believes that the trade-off of higher anticipated returns in these asset classes outweighs their shorter-term volatility risk.

## **INVESTMENT OBJECTIVE**

The overall objective of the Foundation is to maintain the purchasing power of the current and future income demands upon the endowment payout. The Board of Directors recognizes that the only way this can occur over future years is through 1) increased contributions, 2) reduced demands or 3) growth of the underlying principal. As the first two causes are beyond the control of this Policy Statement, the secondary goal shall be to grow the portfolio consistent with a prudent level of risk.

The primary investment objective, as established by the Executive Committee and approved by the Board of Directors, is to earn an average annual return of 4.5% above CPI (Consumer Price Index) over full market cycles and long term time horizons.

The Foundation believes that a “total return” portfolio structure will afford them the ability to maintain a competitive rate of return, thereby allowing for spending policy requirements, while providing the potential for principal growth and necessary inflation offsets. The anticipated composition of a portfolio with these stated objectives will include a wide range of globally diversified assets.

## **ASSET ALLOCATION**

The asset allocation should reflect a balance of the Organization’s need for liquidity, preservation of purchasing power and risk tolerances of the Foundation. The strategic target consistent with the achievement of the long-term objective of the Foundation is as follows:

<b><u>Asset Class</u></b>	<b><u>% of Total Foundation Assets</u></b>	
	<b>Strategic Target</b>	<b>Tactical Range</b>
<b>Total Equity</b>	<b>60%</b>	<b>45-70%</b>
US Large Cap Equity	35%	30-55%
US Small/Mid Cap Equity	15%	5-25%
International Equity	10%	5-25%
<b>Total Alternative Investments</b>	<b>5%</b>	<b>0-15%</b>
<b>Total Fixed Income/Cash Equivalent</b>	<b>35%</b>	<b>30-50%</b>

The strategic allocation provides reasonable assurance that the Foundation’s investment objectives can be achieved based on historic relationships of asset class performance. Liquidity is required only to meet defined pay-out needs, unless the consultant or managers are otherwise advised by the Executive Committee.

It is the Executive Committee’s responsibility to monitor the overall allocation. It is understood that the tactical ranges are targets and that deviations may occur as a result of market impact or from short-term timing decisions implemented by either the Committee or, with prior approval,

by the investment managers. Any permanent changes to these guidelines must be approved by the Board of Directors.

## **IMPLEMENTATION**

The Board of Directors of the Foundation is a fiduciary and is responsible for directing and monitoring the investment management of Fund assets. As such, the Board of Directors, and/or its approved agent, is authorized to delegate certain responsibilities to professionals in various fields. These include, but are not limited to:

1. Investment Management Consultant. The consultant may be employed to assist the Executive Committee in: establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
2. Investment Manager. The investment manager may be employed with discretion to purchase, sell, or hold the specific securities that will be used to meet said manager's investment objectives.
3. Additional specialists such as attorneys, auditors, and others may be employed by the Board of Directors to assist in meeting its responsibilities and obligations to administer foundation assets prudently.

No strict formula will be utilized in hiring, maintaining, or terminating any particular investment manager, as the Board believes that this is a largely subjective decision on the part of both the Board as well as the Investment Management Consultant. However, key criteria which shall be evaluated in making these determinations may include but are not limited to: Stability of the organization and management team, regulatory compliance, assets under management, risk adjusted returns, relative peer group performance, and portfolio composition.

## **PORTFOLIO GUIDELINES**

The guidelines below apply to investments in non-mutual or non-pooled funds, where the investment manager is able to utilize a separate account on a discretionary basis specifically for the Foundation. The Foundation recognizes, however, that certain desired managers or strategies may only be available through a mutual-fund, pooled-fund or "fund of funds" arrangement. In these instances, the Foundation recognizes that it cannot dictate policy to these particular arrangements. As such, the Foundation shall instead strive to seek managers whose composite strategy, taken both as a whole and within the aggregate portfolio, fit within the overall guidelines of this policy statement.

### *Equity Guidelines*

**Types of Securities** Common and preferred stocks, issues convertible into common stocks, equity mutual funds, index funds and exchange traded funds of both domestic and international corporations.

**Diversification** The securities of any one equity issuer are limited to 10% at market value of total foundation equity assets.

**Quality** All securities held in the portfolio should be publicly traded and have sufficient marketability to permit prompt, orderly liquidation under normal circumstances.

Additionally, each equity manager shall:

- 1) Maintain adequate diversification by holding at least 20 different individual securities
- 2) Vote all proxies on behalf of the Foundation consistent with the best interest of the Foundation and its policies
- 3) Maintain appropriate diversification by investing no more than 50% of the portfolio within one particular economic sector
- 4) Make a reasonable effort as determined by the Board of Directors to stay within the boundaries of the stated portfolio composition (e.g. avoid significant style drift).

#### *Fixed Income Guidelines*

**Types of Securities** U.S. Government and agency securities, U.S. corporate notes and bonds, mortgage backed bonds, fixed income securities of foreign governments and corporations, certificates of deposit, money markets, stable value accounts, and commercial paper.

**Diversification** No limitations are placed on investments in U.S. Government or agency obligations. Investments in any one issuer, excluding obligations of the U.S. Government either direct or implied, shall not exceed five percent (5%) of total portfolio assets based on market value at the time of purchase. International fixed income should not exceed 10% of total portfolio assets.

**Quality** With respect to fixed income investments, for individual bonds, the minimum average credit quality of these investments shall be investment grade (Standard & Poor's BBB or Moody's Baa or higher). High Yield investments should not exceed 5% of the Foundation's total portfolio assets. Instruments purchased by a fixed income manager that decline to below investment grade status may be maintained at the discretion of the manager. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poors, and/or Moody's.

**Duration** The duration of the portfolio should not be more than +/- two years of the duration of the Barclays Aggregate Bond Index.

#### *Alternative Investments Guidelines*

Alternative investments are generally used to define investments beyond traditional equity or fixed income. Alternative Investments involve investing in non-traditional asset classes and in traditional asset classes structured in a non-traditional manner. The asset class may include hedge funds (including fund of funds), managed futures, commodities, private equity, and real estate. These positions may be utilized to provide additional diversification among the portfolio, as they have a historically exhibited a low correlation to traditional investments.

Careful attention to the historical risk profiles, available liquidity provisions, organizational stability and overall performance record shall be among the criteria considered for inclusion in the foundation's portfolio.

## **PERFORMANCE MEASURING AND MONITORING**

Standards used to measure investment performance will be set forth in context with the established objectives. Each standard shall apply independently to the portfolio of each investment manager and are expected to be achieved ***net*** of investment management fees and expenses.

### ***Equity Managers***

1. Over rolling one, three, five-year periods (and longer where applicable), with emphasis given to longer term results, the performance of the composite equity portion of the Foundation's assets shall be measured against the return of an appropriate benchmark. This benchmark shall consist by the Board of Directors, this benchmark shall consist of: 80% Russell 3000 and 20% MSCI EAFE.
2. Additionally, over rolling one, three and five-year periods (and longer where applicable), the performance of each individual equity manager shall be measured against the return of their appropriate target market index, based upon the manager's asset class and style.

### ***Fixed Income Managers***

1. Over rolling one, three and five-year periods, the performance of the fixed income portfolio shall be measured against an appropriate benchmark. Initially, this shall consist of the Barclays Aggregate Bond Index.
2. Additionally, over rolling one, three and five-year periods, the performance of each individual fixed income manager shall be measured against the return of their appropriate market index, based upon the manager's asset class and style.

### ***Comprehensive Portfolio***

The Comprehensive Investment Portfolio of the Foundation's Endowed Assets (defined as the various investment accounts of the Foundation excluding locally held certificates of deposit and non-publicly traded real estate holdings) will be benchmarked against a broad benchmark designed to approximate the strategic targets of the Foundation's asset allocation.

As of the current targets, the following benchmark will be applied:

45% Russell 3000  
15% MSCI EAFE  
35% Barclay's Aggregate Bond Index  
5% US-Tbill

Performance (net of fees) of all equity managers shall be provided to the Foundation on a quarterly basis by the investment consultant or the respective managers. These reports shall contain quarterly, yearly and rolling period comparisons of each manager against their relevant market benchmark(s).

**Accepted By:** \_\_\_\_\_

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