



## **Investment Philosophy**

### **Policies, Objectives and Guidelines**

Approved 4/18/2018

#### **Investment Philosophy for Endowed Funds**

Endowed funds established with The Community Foundation of West Chester/Liberty are held in perpetuity and are given constant stewardship by the Board of Directors, Finance and Investment Committee and professional staff to ensure that their intended purposes are carried out within a constantly changing community.

Because of the permanent nature of the Community Foundation's philanthropic assets, the investment Growth portfolio is structured to take advantage of long-term opportunities. The Community Foundation believes these long-term opportunities can best be achieved by an asset allocation that emphasizes equities over fixed income securities. A target 60% of the portfolio is invested in domestic and international equities, with the balance in domestic and international bonds. Some of these investments may be made via mutual funds. This goal of asset allocation allows the Community Foundation, over time, to increase the value of the portfolio corpus. While at the same time meeting administrative expenses and providing sufficient funding for charitable distributions.

For more risk averse donors, who are interested in capital preservation rather than long term growth of their fund, the Foundation will maintain an alternative investment portfolio with a target 70% of the portfolio invested in domestic and international Fixed Income issues and the balance in domestic and international Equities. Except for the equity/fixed ratio, this fund will be managed with the same guidelines as the Growth Fund. The Endowed funds in this portfolio will normally allow a lesser yearly grant than those in the Growth portfolio.

The Community Foundation's portfolios are under the direct oversight of the Finance and Investment Committee, whose members have been selected for their extensive background and expertise in endowment stewardship. The committee is responsible for establishing asset allocation parameters, recommending investment managers and monitoring their performance. The committee reports to the Board of Directors on a quarterly basis. The Community Foundation's portfolios are governed by a set of adopted investment policies and guidelines which are periodically reviewed by the Finance and Investment Committee. All of the investment managers are required to administer their accounts in strict accordance with these policies and guidelines.

#### **Investment Managers**

The Community Foundation of West Chester/Liberty has selected First Financial Bank, Park National Bank and Total Wealth Planning to serve as their current investment managers for funds at the Foundation.

However, donors with a new endowed gift of \$250,000 or more who wish to choose their own Investment Manager for their fund(s) with the Community Foundation may do so with the approval of the Board of Directors, provided that the Investment Manager agrees to adhere to the investment policies of the Foundation. The Community Foundation retains the right to change the Investment Manager if the return on the investments does not equal or exceed the return the Foundation is receiving on its other investments, or financial reporting requirements are not being met, or any other reason that concerns the Board of Directors. PNC Bank, 5<sup>th</sup>/3<sup>rd</sup> Bank and Gregory M. Stevens (UBS) have been approved by the Board of Directors for use by specific individual donors under this provision.

Exceptions to the Investment Policy would be considered on a case-by-case basis for endowed gifts of \$250,000 or more. Such exceptions must be recommended by the Investment Committee and approved by the Board.

### **Rules and Restrictions for Additional Managers**

- The Community Foundation of West Chester/Liberty will set up a separate account to manage a fund only after receiving a written recommendation to do so from the donor listed on the fund.
- Each separately managed fund account shall be owned and titled in the name of “The Community Foundation of West Chester/Liberty” with a reference to the fund/account name.
- The investment manager shall take instructions (both written and verbal) only from authorized employees of The Community Foundation of West Chester/Liberty (never from the donor who created the fund).
- All monies shall be invested in accordance with the investment options of the Foundation.
- The assets of an account may never be invested in the following: hedge funds, short positions, futures, private equity investments, or any investment where there is a risk of loss of more than the amount invested.
- Within 45 days of the end of the calendar year each investment manager must provide The Community Foundation of West Chester/Liberty with a statement showing (1) the investments comply with the Foundation’s guidelines; (2) the consolidated return of the account’s investments for the calendar year; and (3) all fees attributable to the investment of the account for the calendar year.

### **Objectives, Policies and Guidelines**

#### **I. Composition and Powers of the Finance and Investment Committee**

The Finance and Investment Committee shall be chaired by a qualified board member. The committee shall consist of the Treasurer, President and such other persons appointed by the Chairperson, with Board approval. The Finance Committee will be responsible for the development of policy and oversight of the financial assets of the Corporation and its affiliates, their investment and reinvestment, acquisition and disposition. It may, with Board approval, contract with banks, trust companies, or other professional fiduciaries for financial advice, custodianship, or asset management services. This committee shall assure that annually, or more often if requested by the Board, written financial reports including income and expense statements, and balance sheets be provided to the Board. The committee shall assist the Board of Directors in fulfilling its fiduciary responsibilities for prudent investment of the funds entrusted to the Corporation by recommending investment policy, objectives, and guidelines; recommending consultants and selecting investment managers; reviewing such over time; measuring and evaluating performance; and other tasks as deemed appropriate or determined by the Board. Bylaws as approved 8/26/2017.

## II. Limitations of Policies

The Community Foundation of West Chester/Liberty holds and administers three types of funds: 1) **Endowment Funds**, 2) **Non-endowed** and 3) **Pass-Through Funds**.

Endowment funds are those that are used to provide income that will be used for charitable purposes. These are funds in which principal is to be maintained in perpetuity and which are subject to the Community Foundation's spending policies. Non-endowed and Pass-Through funds are those that are to be used for charitable purposes with little or no principal remaining to the Community Foundation; however, the Finance and Investment Committee provides financial oversight of the monies.

All funds shall be managed in compliance with Ohio's Uniform Prudent Management of Institutional Funds Act, Ohio Revised Code sections 1715.51 through 1715.59 as may be amended from time to time.

## III. Investment Objective

The objective of the investment of Endowment Funds is to meet the ongoing income requirements of the Community Foundation while maintaining the real value of the portfolio. Changing environments, current and future inflation will require flexibility in meeting these guidelines.

The objective of the Growth Portfolio is an average annual return of 4% after inflation, investment manager fees and Community Foundation administrative fees over a rolling 5 year time frame.

The objective of the Capital Preservation Portfolio is short term limited volatility with a 2% average annual return after inflation, investment manager fees and Community Foundation administrative fees over a rolling 5 year time frame.

The objective of the Cash Portfolio is liquidity and preservation of principal without exposure to market fluctuations.

## IV. Policies

- A. Assets will be diversified to ensure that adverse or unexpected results from one security or security class will not have a detrimental impact on the entire portfolio. Diversification is interpreted to include asset type, risk characteristic, and number of investments.
- B. The investment managers are expected to actively allocate assets, within the Portfolio guidelines, of both portfolios among Stocks, Bonds, Bank Common Funds, certificates of deposit, and Cash or Cash Equivalents in order to take advantage of relative overvaluation or undervaluation within a specific asset class. Pass-Through Funds shall be invested in cash or cash equivalents. Pass-Through funds shall not be included in "total invested funds" used in the guidelines.
- C. Diversification

In terms of constraints, the Finance and Investment Committee of the Community Foundation directs the **Growth Portfolio and Capital Preservation Portfolio** investments within the following parameters.

**The Growth Portfolio parameters are:**

	Minimum	Target	Maximum
Cash or Cash Equivalents	2%	n.a.	10%
Fixed Income, including TIPS	25%	40%	55%
Total Equity	45%	60%	75%
US Mid/Small Cap			
Total Mid/Small Cap shall not exceed 40% of total US Equity.			
Total International	15%	n.a.	30%
Total International shall not exceed 50% of Total Equity			
Emerging Markets	0%	n.a.	7.5%
Total EM shall not exceed 25% of Total International			
Total Alternatives	0%	n.a.	10%
REITS	0%	n.a.	7.5%
Commodities including precious metals (ETFs or Mutual Funds)	0%	n.a.	7.5%

**The Capital Preservation Portfolio parameters are:**

	Minimum	Target	Maximum
Cash or Cash Equivalents	2%	n.a.	10%
Fixed Income, including TIPS	55%	70%	85%
Total Equity	15%	30%	45%
US Mid/Small Cap			
Total Mid/Small Cap shall not exceed 40% of total US Equity.			
Total International	5%	n.a.	18%
Total International shall not exceed 50% of Total Equity			
Emerging Markets	0%	n.a.	4.5%
Total EM shall not exceed 25% of Total International			

**The Cash Portfolio:**

- 100% cash or cash equivalents

1. The above shall be based on market value, not cost. The Portfolios must be rebalanced to within guidelines within 90 days of exceeding any guideline.

2. Individual bonds within the same sector shall not exceed 10% of the Fund's total value at the time of purchase.
3. The investment manager shall ensure proper diversification of equities and limit holdings in any one sector to 20% of the value of all stocks held in the portfolio at the time of purchase.
4. Nothing above shall be considered to prohibit the Investment Manager's use of Exchange Traded Funds or Mutual Funds so long as all other policies herein stated are followed. Exchange Traded Notes are not allowed as investment vehicles.

#### **V. Common Stock Guidelines**

Investments in the common stock of any one company may not exceed 5% of its common shares outstanding; no single common stock should exceed 5 % based on market value of the entire stock portfolio. Exceptions to this guideline may be authorized following discussion with and approval by the Finance and Investment Committee.

#### **VI. Fixed Income Guidelines**

- A. Obligations of the United States Government Agencies may be held in any amounts.
- B. All fixed income issues to be purchased shall be "A" rated or better by either Standard & Poor's or Moody's. "A" Bonds that are downgraded below "A" need not be sold immediately, but the Finance and Investment Committee should be promptly notified of the downgrading.
- C. Any FDIC insured CD, commercial paper, money market, or Treasury note with a maturity of 90 days or greater.

#### **VII. Cash and Cash Equivalent Guidelines**

Investments may be made in commercial paper, repurchase agreements, United States Treasury bills, FDIC insured certificates of deposit and money market funds to provide income, liquidity for expense payments, and preservation of the account's principal value. Investment in these issues should be short term, and limitations on maturities should not normally exceed one year without the prior approval of the Investment Committee. Commercial paper must be rated A-1 or P-1 by Standard & Poor's or Moody's. The investment manager may not purchase short-term financial instruments considered to contain speculative characteristics (uncertainty of principal and/or interest). The investment manager also may not invest more than 5% of the account's market value in the obligations of a single issuer, with the exception of the United States Government and its agencies. Non-invested cash reserves should be kept at minimum levels.

#### **VIII. Other Assets**

The investment manager will not purchase assets other than those mentioned above without written consent.

Derivatives, limited to put and call options on individual stocks or stock indexes, may be used for hedging and defensive purposes only. They may NOT be used for speculative purposes. Use of these instruments will be monitored closely by the Investment Committee, and their use is subject to suspension. Investments not specifically allowed within this policy are forbidden, unless written consent is provided prior to executing such investments. Investment in Long Options (contracts with expiration dates longer than one year) or futures contracts are also prohibited.

#### **IX. Total Fund Performance**

Investment manager performance shall be monitored by the Investment Committee and evaluated at least semi-annually based on the following:

1. Total Growth Portfolio performance shall be compared to a 40/40/20 mix of the S & P 500, the Barclay Capital Aggregate Bond index and the MSCI All-Country World Ex-USA index. Total Capital Preservation Portfolio shall be compared to a 70/30 mix of the Barclay Capital Aggregate Bond index and the S & P 500.
2. Funds will be invested within 30 days of receipt with considerations being given to the cash needs of the fund.

#### **X. Communication with the Community Foundation**

- A. Investment managers shall provide at least monthly statements of activity that include action taken with the portfolio and semi-annual reports that include the current economic outlook.
- B. Performance results should address the investment criteria established by the Community Foundation.
- C. Investment managers shall meet at least semi-annually with the Community Foundation's Finance and Investment Committee.
- D. If, because of extreme market conditions, an Investment Manager believes optimum portfolio performance can be achieved by a departure from the above guidelines, they may petition the Board of Directors, through the Finance and Investment Committee, for a variance.

#### **XI. Annual Review**

At least annually, the Finance and Investment Committee will review the Community Foundation's Investment Objectives, Policies, and Guidelines document and the pertinent Ohio law relative to the management of the Community Foundation's Endowment Funds, and said review shall be recorded in the minutes.