PARK COUNTY
COMMUNITY
FOUNDATION

Investment Policy

A. Introduction

1. Purpose of this Policy Statement

This Investment Policy outlines the investment goals and objectives for the Park County Community Foundation. For the purposes of managing investment risk and to optimize investment returns within acceptable risk parameters, the following funds will be created and held as separate investment pools: the **Operational Fund**, the **Restricted Fund** and an **Endowment Fund**. This document is intended to provide guidelines for managing those funds, and it outlines certain specific investment policies that will govern how these goals and objectives are expected to be achieved.

The statement:

- Describes an appropriate risk posture for each fund;
- Establishes investment guidelines regarding permissible securities for all funds and the diversification and rebalancing policies for the Endowment Fund;
- Specifies the criteria for evaluating performance for the Endowment Fund;
- Defines the responsibilities of the Board of Directors, the Finance Committee and Investment Subcommittee, and other parties.

The Board believes that the investment policies described in this statement should be dynamic. These policies should reflect the Foundation's financial status and the Board's duties and philosophy regarding the investment of the funds. The policies will be reviewed and revised as appropriate to ensure they adequately reflect changes related to the Foundation, the funds, and the capital markets.

2. Responsibilities

Board
The Board bears ultimate responsibility for the Foundation and the appropriateness of its investment policy and its execution. This includes establishing clear and reasonable investment objectives, asset allocation parameters, guidelines for the investment managers, performance goals, and tolerance for risk. In fulfilling its responsibilities, the Board is responsible for the

appointment and oversight of the Finance Committee, which is delegated certain duties. The Board delegates to the Finance Committee full power and authority to make decisions related to investments of the Foundation, consistent with the investment policy approved and adopted by the board.

Finance Committee

In addition to the Finance Committee's other duties, members of the Committee will oversee an Investment Subcommittee. The Subcommittee will consist of no fewer than 4 members and not more than 6, as follows:

- At least two Subcommittee members will also be members of the Finance Committee;
- The Chair of the Board and Executive Director may be members of the Subcommittee; and
- Board members or friends of the Foundation who have or had a professional background involving investments or investment practices.

The Subcommittee is responsible for recommending and implementing an investment policy. Specifically, the responsibilities include:

- Recommending a strategic investment plan for each Fund. This includes evaluating and determining the risk tolerance of the Foundation and establishing, reviewing and maintaining asset allocation policies consistent with each Fund's investment objectives;
- Reviewing the selection or termination of investment managers or mutual funds held in the Endowment Fund; and
- Reviewing the Endowment Fund performance relative to appropriate benchmarks; and
- Reviewing the implementation of this Investment Policy at least annually, making recommendations to the Board as needed, and monitoring the achievement of the Policy's objectives.

Executive Director

The Executive Director is responsible for the day-to-day oversight of each Fund. The Executive Director will:

- Support communication between the Chair of the Finance Committee and the investment manager;
- Keep the Committee informed of significant events;
- Manage deposits and distributions from each Fund; and
- Ensure timely reporting.

B. Operational Funds

3. Purpose

The purpose of the Operational Fund is to house the operational banking needs of the Foundation. This will include operating expenses, payroll, a contingency reserve fund, and disbursements for fiscal sponsorships, donor advised funds, annual grantmaking, and foundation programs. The contingency reserve amount will be equal to the anticipated expenses of an average 3 month period. The Executive Director will recommend the dollar amount to be held as Operational Funds. The Finance Committee will have authority to approve this amount.

4. Risk Tolerance & Investment Objectives

The risk tolerance for this fund is very low. It is designed to maintain principal value even in volatile market conditions. The investment objectives of the Operational Fund are:

- Preservation of capital; and
- Liquidity.

5. Investment Guidelines

Allowable Investment

- Interest-bearing checking and/or savings account(s).

Reporting

The Executive Director or his/her designee shall report cash activity on a monthly basis to the Finance Committee. The Finance Committee will report to the Board of Directors.

C. Restricted Funds

6. **<u>Purpose</u>**

The purpose of this fund is to temporarily reserve funds and provide reassurance to donors that their contributions will be used for designated purposes. This will include expendable funds for **Fiscal Sponsorships, Donor Advised Funds**, and **Scholarship Funds**.

7. **<u>Risk Tolerance & Investment Objectives</u>**

The risk tolerance for this fund is very low. It is designed to maintain principal value even in volatile market conditions. The investment objectives of the Restricted Fund are:

- Preservation of capital; and
- Liquidity using liquid and short-term laddered investments.

8. **<u>Investment Guidelines</u>**

Allowable Investments

- Interest-bearing savings account;
- Short-term Certificates of Deposit at insured commercial banking organizations;
- Money market funds;
- Interest-bearing checking account; and
- Direct obligations of the US Government and its agencies.

Maturity

The maturities on short-term investments for Restricted Funds shall be 6-12 months. The Finance Subcommittee may recommend longer maturities based on the financial standing of the Foundation. Additionally, if the Foundation has access to a line of credit, the maturities allowed in this Fund may be extended.

Reporting

The Executive Director or his/her designee shall prepare the following reports for presentation on at least a quarterly basis to the Finance Committee. The Finance Committee will report to the Board of Directors.

- Accounting at the fund level, i.e. fund balance per Restricted Fund (each Donor Advised Fund, Fiscal Sponsorship, and Scholarship).
- Summary of fund opening balances, inflows, disbursements, ending balance;
- Schedule of Investments;
- Interest income year to date and estimated annual income; and
- Fees and commissions.

D. Endowment Fund

9. <u>Purpose</u>

The purpose of the Endowment Fund is to provide permanent funding to support the mission of the Park County Community Foundation.

Should the Board elect to partner with the Montana Community Foundation for endowment management, the Park County Community Foundation's investment policy will be revised to align with the MCF policy. When invested through an organization not under the MCF umbrella, the following policies will apply.

It is expected that the fund manager will provide counsel and recommendations regarding the policy, especially as it relates to asset allocation and diversification.

10. <u>Investment Objectives & Spending Policy</u>

The Fund shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals.

- The Fund is to be invested with the objective of preserving the long-term, real purchasing power of assets while providing a relatively predictable and growing stream of annual distributions in support of the Foundation.
- For the purpose of making distributions, the Foundation shall make use of a total-return-based spending policy, meaning that it will fund distributions from net investment income, net realized capital gains, and proceeds from the sale of investments.
- The distribution of Fund assets will be permitted to the extent that such distributions do not exceed a level that would erode the Fund's real assets over time. The Subcommittee will seek to reduce the variability of Fund distributions by factoring past spending and portfolio asset values into its current spending decisions. The Subcommittee will review its spending assumptions annually for the purpose of deciding whether any changes necessitate amending the Fund's spending policy, its target asset allocation, or both.
- Periodic cash flow, either into the Fund as a result of substantial gifts or out of the fund for use by the Foundation, will be used to better align the investment portfolio to the target asset allocation outlined below in the asset allocation policy.

11. <u>Portfolio Investment Policies</u>

<u>Asset Allocation Policy</u>

The Subcommittee recognizes that the strategic allocation of assets across broadly defined financial asset and sub-asset categories with varying degrees of risk, return, and return correlation will be the most significant determinant of long-term investment returns and for the Fund's asset value stability.

The Subcommittee expects that actual returns and return volatility will vary from expectations and return objectives across short periods of time. While the Subcommittee wishes to retain flexibility with respect to making periodic changes to the Portfolio's asset allocation, it is expected to do so only in the event of material changes to the Fund, to the assumptions underlying Fund spending policies, and/or to the capital markets and asset classes in which the Fund invests.

Fund assets will be managed as a balanced portfolio composed of two major components: an equity portion and a fixed income portion. The expected role of Fund equity investments will be to maximize the long-term real growth of Portfolio assets, while the role of fixed income investments will be to generate current income, provide for more stable periodic returns, and provide some protection against a prolonged decline in the market value of Portfolio equity investments.

Outlined below are the long-term strategic asset allocation guidelines, determined by the Subcommittee to be the most appropriate, given the Fund's long-term objectives and short-term constraints. Portfolio assets will, under normal circumstances, be allocated across broad asset and sub-asset classes in accordance with the following guidelines:

Asset Class	**Sub-asset Class**	**Min.**	**Target**	**Max.**
Equity		50%	60%	70%
Fixed Income		30%	37%	45%
Cash Equivalents		0%	3%	5%

To the limited extent the Portfolio holds investments in nontraditional, illiquid, and/or nonmarketable securities including (but not limited to) venture capital, hedge funds, and real estate investments, these assets will be treated collectively as alternative investments for purposes of measuring the Portfolio's asset allocation. While not specifically considered within this policy, alternative investments may comprise no more than 10% of total Portfolio assets and, to the extent they are owned, will proportionately reduce target allocations to the three primary asset classes itemized above.

Unless expressly authorized by the Subcommittee, the Portfolio and its investment managers are prohibited from:

- Purchasing securities on margin or executing short sales;
- Purchasing or selling derivative securities for speculation or leverage;

- Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected, given the objectives of the Portfolio.

Diversification Policy

Diversification across and within asset classes is the primary means by which the Subcommittee expects the Portfolio to avoid undue risk of large losses over long time periods. To protect the Portfolio against unfavorable outcomes within an asset class due to the assumption of large risks, the Subcommittee will take reasonable precautions to avoid excessive investment concentrations. Specifically, the following guidelines will be in place:

- With the exception of fixed income investments explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of total Portfolio assets.
- With the exception of passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single investment pool or mutual fund shall comprise more than 20% of total Portfolio assets.
- 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).

Rebalancing Policy

It is expected that the Portfolio's actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset classes and sub-classes. The Portfolio will be rebalanced to its target asset allocation under the following procedures:

1) The investment manager will use incoming cash flow from contributions or outgoing disbursements to realign the current weightings closer to the target weightings for the Portfolio.
2) The investment manager will review the Portfolio quarterly (March 31, June 30, September 30, December 31) to determine the deviation from the target weightings. During each review, the following parameters will be applied:
    a. If any asset class within the Portfolio is outside the bounds of the minimum or maximum points of its target weighting, the Portfolio will be rebalanced.
    b. If any fund within the Portfolio has increased or decreased by greater than 20% of its target weighting, the fund will be rebalanced.
3) The investment manager may provide a rebalancing recommendation at any time.
4) The investment manager shall act within a reasonable period of time (usually within 2 weeks) to address deviations from these ranges.

12. Monitoring portfolio investments and performance

The Subcommittee will monitor the Portfolio's investment performance against the Portfolio's stated investment objectives. At a frequency to be decided by the Subcommittee, it will formally assess the Portfolio and the performance of its underlying investments as follows:

A. The Portfolio's composite investment performance (net of fees) will be judged against the following standards:
    a. The Portfolio's absolute long-term real objective;
    b. A composite benchmark recommended by the advisor oconsisting of the following unmanaged market indexes weighted according to the expected target asset allocations stipulated by the Portfolio's investment guidelines:
        i. U.S. Equity: Wilshire 5000 Total Market Index
        ii. Non-U.S. Equity: MSCI AEFE +EM Index
        iii. Investment Grade Fixed Income: Barclays Capital U.S. Aggregate Bond Index
        iv. Non-Investment Grade Fixed Income: Barclays Capital U.S. Corporate High Yield Bond Index
        v. Cash: Citigroup 3-Month T-Bill Index
B. The performance of professional investment managers hired on behalf of the Portfolio may be judged against the following standards:
    a. A market-based index appropriately selected or tailored to the manager's agreed-upon investment objective and the normal investment characteristics of the manager's portfolio.
    b. The performance of other investment managers having similar investment objectives.
C. In keeping with the Portfolio's overall long-term financial objective, the Subcommittee will evaluate Portfolio and manager performance over a suitably long-term investment horizon; at a minimum, this will be a rolling five-year basis.
D. Investment reports shall be provided by the investment manager(s) on a calendar quarterly basis or as more frequently requested by the Subcommittee. Each investment manager is expected to be available to meet with the Investment Subcommittee once per year to review portfolio structure, strategy, and investment performance.
E. Online account access will be available to the members of the Subcommittee.

Adopted by Board of Directors: **September 25, 2017**