

## **Investment Philosophy** **Policies, Objectives and Guidelines** *Revised July, 2007*

### **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 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. Approximately 60-70% 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 at a rate greater than inflation, while at the same time meeting administrative expenses and providing sufficient funding for charitable distributions.

The Community Foundation's portfolio is 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 portfolio is 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 and Huntington Bank to serve as their current investment managers for funds at the Foundation.

However, donors with a new gift of \$250,000 or more who wish to choose their own Investment Manager for their fund 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.

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

Donors may change their Investment Manager to another of the Foundations Investment Managers once a year. The change choice must be made by December and will be effective January 1.

## **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, options, 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 advisor 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**

- A. The composition of the Finance and Investment Committee of The Community Foundation of West Chester/Liberty shall be no less than five or more than eight members, at least three of whom also serve as members of the Community Foundation’s Board of Directors.
- B. The Finance and Investment Committee shall have the power to recommend investment managers to the Board of Directors of The Community Foundation of West Chester/Liberty but shall not have the power to employ or dismiss an investment manager. The Finance and Investment Committee will have the power to work with investment managers to direct the investments of the Community Foundation in a manner consistent with these approved Objectives and Guidelines.

### **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 a principal or main portion of 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.

### **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.

#### 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 of the Endowment Funds among Stocks, Bonds, Bank Common Funds, and Cash or Cash Equivalents in order to take advantage of relative overvaluation or undervaluation within a specific asset class. *If liquidity is the primary concern, non-endowed or pass-through funds shall be invested in money market funds or other cash equivalents, otherwise they will be invested using the same guidelines as endowed funds.*
- C. Diversification
1. In terms of constraints, the Finance and Investment Committee of the Community Foundation may direct the investments within a range of:
    - 60-70% of the total invested funds in Equities
    - 30-40% of the total invested funds in Fixed Income
    - Up to 10% in Cash or Cash Equivalents and the expected amount of current year disbursements.
    - Up to 20% of the total invested funds in international investments
    - Up to 20% of the total invested funds in small and mid cap investments
    - Up to 5% of the total invested funds in emerging market investments
    - Up to 5% of the total invested funds in REIT investments

The above shall be based on market value, not cost.

2. Bonds within the same industry class shall not exceed 10% of the Fund's total value at the time of purchase. For this purpose, banks, finance companies, gas utilities, electric utilities, and telephone utilities are considered to be different industries.
3. The investment manager shall ensure proper diversification and limit holdings in any one-industry classification to 20% of the value of all stocks held in the portfolio at the time of purchase.
4. Cash and Cash Equivalents will be a residual of the overall asset allocation policy.
5. Nothing above shall be considered to prohibit the investment manager's use of collective or mutual funds so long as all other policies herein stated are followed.

#### 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. Bonds that are downgraded below "A" need not be sold immediately, but the Finance and Investment Committee should be promptly notified of the downgrading.

**VII. Cash and Cash Equivalent Guidelines**

Investments may be made in commercial paper, repurchase agreements, United States Treasury bills, 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. Uninvested 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. Investment in long Options or futures contracts is also prohibited. Investments not specifically addressed by this statement are forbidden without written consent.

**IX. Total Fund Performance**

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

1. Total Fund performance shall be compared to a 40/40/20 mix of the S & P 500, the Shearson Lehman aggregate bond index and the MSCI World NDTR.
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 annually with the Community Foundation's Finance and Investment Committee.

**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.