



## **FREEPORT COMMUNITY FOUNDATION INVESTMENT AND SPENDING POLICY**

Adopted March 2008 Revised January 2011, March 2017, Revised 2021

### **INTRODUCTION**

This policy is adopted by the Board of Directors (Board) of the Freeport Community Foundation (FCF) to codify the principles to be followed by the Finance Committee (the Committee) in the execution of its responsibilities. Both the Committee and the Board are obliged to discharge their ongoing fiduciary responsibility to evaluate the investment performance of FCF's endowment (s) and its spending and, at least annually, to readopt this Policy with such changes as may be appropriate.

### **INVESTMENT OBJECTIVE**

The investment objective of the Freeport Community Foundation is to maximize total return (appreciation and income) while minimizing credit risk and avoiding excessive market risk. The Fund will consist of a high quality portfolio of individual securities, mutual funds, and return strategies selected and managed based upon "prudent investor" guidelines. The Fund will observe the portfolio composition limits and restrictions and seek the performance goals set forth in this document.

### **SPENDING OBJECTIVE**

The annual spending objective of FCF is a minimum of 3% and a maximum of 5% of the three year moving average of the market value of (a) the Unrestricted Endowment and (b) funds intended to be permanent and subject to this Policy (the Spending Objective). The Board determines the percentage to be used for the spending objective as part of FCF's annual budget process. For purposes of developing the annual budget, the three year average will be calculated using annual data for the last three years prior to the new fiscal year. Any restricted monies will be removed from the equation for calculation purposes.

### **OPERATING PROCEDURES**

The Board has fiduciary responsibility for FCF assets. At least annually, it receives an investment report submitted by the Finance Committee for the Board's review and approval.

The Finance Committee (which may include members of the community who are not members of the Board) is delegated responsibility to manage the assets of FCF. The Treasurer of FCF serves as a member of the Committee. The Committee meets at least four times each year. In discharging its responsibilities, the Committee is authorized, within the parameters of this Policy, to engage and discharge investment managers and make asset allocation decisions. The Committee may also recommend to the Board for

approval the establishment of reserves, special funding requirements, conditions upon which funds should be accepted and other related matters.

The Treasurer and such other persons as may be designated by the Committee or the Board are responsible for implementing decisions of the Committee and the Board with respect to custody and investment of the assets of FCF in accordance with this Policy. In discharging their responsibilities with respect to investment and application of assets of FCF, the Board and its committees, officers and employees will act as prudent investors in accordance with this Policy. They will display the skill and prudence which an ordinarily capable and careful person would use in the conduct of his or her own business of like character. With respect to investing funds, they will use the care and skill of a reasonably prudent investor while recognizing the inevitability of assumption of risk. In this Policy and its implementation, FCF seeks a prudent balance between investment risk and potential return.

Accounting for contributions and withdrawals and calculation of investment rates of return are in accordance with standards adopted by CFA Institute. Allocation of investment expenses is based upon actual results for each fiscal year using monthly data.

#### **INTERPRETATION OF RELEVANT LAW**

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

## **PERFORMANCE TARGETS**

FCF currently evaluates the performance of its investment portfolio against performance targets as follows:

1. Exceed the inflation rate as measured by the C.P.I. by 5%.
2. Emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index.
3. To achieve long-term growth of cash flow from dividend and interest income.

## **ASSET ALLOCATION**

FCF recognizes that asset allocation is the single largest determinant of a portfolio's long-term return. Accordingly, consistent with the prudent investor concept, FCF is deliberate in the formulation of its long-term strategic asset mix. It relies on (1) optimization modeling using the expected returns, standard deviations and correlations of and between various asset classes, (2) the experience and judgment of the members of the Committee and its advisors, and (3) review of the asset allocation strategies of other successful peer institutions. The underlying premise for this process is that equities continue as the dominant asset class, but that further diversification can reduce volatility (risk) and improve long-term returns.

The portfolio's broad target asset allocation is as follows:



Historical Risk & Return Data - Diversified 70			
Historical Return	9.1%	Historical Return Inflation-Adjusted	5.2%
Standard Deviation	10.2%	Frequency of Quarterly Decline	24.9%
Best 12 Month Return	42.9%	Worst 12 Month Return	-36.4%
Best 5 Year Return	26.3%	Worst 5 Year Return	-2.1%
Maximum Decline	-44.7%		

Source: Morningstar Direct. Data period: 1/1/1973-12/31/2019. The Diversified 70 is an index portfolio currently comprised of the following (subject to change). Bonds: 4.4% Short-Term, 8.3% Intermediate-Term, 2.2% TIPS, 1.7% Multisector, 5.5% International. Stocks: 11.4% U.S. Core, 14.6% U.S. Large Value, 1.9% U.S. Large Quality, 1.9% U.S. Large Momentum, 3.0% U.S. Small, 5.9% U.S. Small Value, 4.0% International Large Cap, 5.1% International Large Value, 4.5% International Small Cap, 4.5% International Small Value, 7.8% Emerging Markets, 3.4% Global REITs. Alternatives: 3.5% Trend Following, 3.5% Reinsurance, 3.0% Event Driven. Returns are presented after estimated fees of 1.35% to illustrate the advisory, fund and custody expenses associated with model portfolios. Please refer to the fee schedule in your IAA for your actual fee schedule. Best and worst five-year returns are annualized. Maximum decline is the worst cumulative decline during the full period. The index returns are calculated in U.S. dollars and reflect the reinvestment of all distributions. An investment cannot be made directly in an index. Past performance is no guarantee of future results. Results reflect model results, not actual, and are used for illustrative purposes only. While we believe that the illustration is useful in terms of presenting the objectives and character of the strategy, no representation is made that any actual account would have achieved results comparable to those which have been modeled.

The percentage allocation to each asset class may vary as much as +/-5%.

## RESTRICTIONS

The following restrictions shall apply to the fund's purchased portfolio of investments:

A. Investments will be adequately diversified to reduce risk and comply with current law. The following additional parameters will apply to both FCF and investment managers:

1. Total fixed and equity holdings of one issuer (except U.S. government securities) may not exceed 5% of the market value of the portion of the portfolio under management.
2. No single industry shall represent more than 20% of the equity portfolio.
3. No more than 5% of the total outstanding shares of any one corporation may be purchased.

B. No private placement or lettered stock shall be purchased.

C. There shall be no short sales or margin transactions and there shall be no sales or purchases of puts, calls, and straddles. There shall be no option type investments or sales of any kind.

D. There shall be no trading in commodities.

E. There shall be no direct investment in real estate.

F. No more than 10% of the bond portfolio at cost value can consist of bonds below the quality level of Baa/BBB as designated by Moody's or Standard and Poor's.

G. The maximum average maturity of debt securities shall not exceed 10 years.

#### **MANAGER SELECTION AND REVIEW CRITERIA**

The Finance Committee recognizes the inherent benefits of working with local financial institutions and intermediaries in the investment and oversight of the funds of its assets. However, the specification required to meet investment criteria for certain asset classes may not be locally available. In addition, the investment performance of the local managers must meet the manager targets included in this policy. On a periodic basis, the Committee will review the investment performance and restriction compliance of each manager. Certain performance-related, organizational, or portfolio characteristic circumstances or events (e.g. professional staff turnover or changes in process) will trigger automatic formal reviews and where appropriate, reconsideration by the Finance Committee of the appropriateness of continuing to use the affected manager in the investment structure. Performance, over a market cycle, which is significantly below the performance of other comparable fund managers for the target class would indicate that the manager should be considered for termination.

New managers will then be selected by CFC, based on recommendation by the Finance Committee, to replace or augment existing managers for specific asset classes. The selection process will include review of the manager's past performance in comparison to comparable fund managers' performance, meetings and interviews with the prospective manager, and anticipated compliance with this policy.