
PUBLIC POLICY

POLICY 5.05 – Finance: Investment Policy

I. POLICY

- A. The mission of The Putnam County Community Foundation is to enrich the quality of life and strengthen community for this and future generations. The Payout Policy, Administrative Fee Policy, and Investment Policy of the Foundation shall complement each other and be directed toward this mission.
- B. The purpose of this Investment Policy Statement (IPS) is to:
 - i. Assist the Board of Directors (“Board”) and Finance Committee (“Committee”) of the Putnam County Community Foundation, Inc. to effectively supervise, monitor and evaluate the Foundation’s investment portfolio, and to comply with fiduciary, legal, prudence, and due diligence requirements.
 - ii. Set forth an investment structure.
 - iii. Provide guidelines for the investment portfolio that meet risk and return objectives and ensure the assets of the Foundation are managed in accordance with stated objectives.
 - iv. Communicate effectively with all investment-related parties.
- C. The scope of this Investment Policy Statement (IPS) applies to all assets that are included in the Foundation’s Portfolio for which the Committee has been given discretionary investment authority.
- D. Exceptions to this policy must be approved at a regularly scheduled or special meeting of the Board of Directors by a 2/3 majority vote.
- E. In seeking to attain the investment objectives set forth in this policy, the Investment Committee and its members will act with discretion, honesty and good faith to the Foundation. The adopted investment objectives and spending policies will be followed and held to a standard of ordinary business care and prudence under the facts and circumstances prevailing at the time of the Fiduciaries’ actions or decisions including those in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Fiduciaries will remain loyal, placing the interest of the Foundation first. Fiduciaries will provide full and fair disclosure to the Investment Committee of all material facts regarding potential “conflicts of interests”.

II. ROLES, RESPONSIBILITIES, AND STANDARDS OF CARE

- A. The Board
 - i. The Board is ultimately accountable for the Foundation’s investment portfolio. The Board establishes policies providing direction regarding its investment services, including but not limited to the following policies: the Investment Policy, the Committee Operations Policy, and the Board Delegation of Authority Policy.
 - ii. The Board has delegated authority to make decisions related to the investments of the Foundation to the Finance Committee, within the parameters provided by the Investment Policy, the Committee Operations Policy, and the Board

- Delegation of Authority Policy.
- iii. The Board relies on recommendations from the Finance Committee regarding investment policy, investment strategy, and selection of the Investment Consultant.
 - iv. The Board may -- at its sole discretion -- determine to hire an independent, fee-only investment consultant to assist with the investment of its assets, or may choose to manage its investments itself. *See Section II.C, Investment Consultant.*
- B. The Finance Committee ("The Committee")
- i. The Board of Directors has established a Finance Committee.
 - ii. The Committee is a fiduciary and will meet periodically to review this Policy, evaluate the performance of the Consultant and managers, and to monitor investment objective progress.
 - iii. The Committee is responsible for developing and recommending the Investment Policy, investment guidelines and strategies, overseeing the investment assets of the Community Foundation, monitoring the management of the Foundation's assets for compliance with investment policies and guidelines; and meeting performance objectives over time.
 - iv. The Committee may recommend hiring an Investment Consultant ("the Consultant"). *See Section II.C, Investment Consultant.*
 - v. The Committee may recommend delegation of investment and management authority in accordance with written agreements between professionals and the Community Foundation.
 - vi. The Committee is responsible for managing relationships with the Investment Consultant, managers, custodians, and other professionals engaged in the management of the Foundation's investment portfolios.
 - vii. At least annually, the Committee shall ensure the Board is provided a performance report and review of the Investment Policy.
 - viii. In investing and managing the portfolio, members of the Committee will consider both the purposes of the Foundation and the purpose of any specific fund.
 - ix. In managing the portfolio, the Committee will monitor fees and costs and incur only those fees and costs that are appropriate and reasonable.
 - x. The Committee is responsible to avoid prohibited transactions and disclose and manage conflicts of interest (if any) in accordance with the Foundation's Conflict of Interest Policy.
 - xi. Members of the Committee will act in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances in performance of their duties.
- C. Investment Consultant ("The Consultant")
- i. The Consultant serves as an objective, third party professional retained to assist the Committee in managing the overall investment process and fulfilling its fiduciary responsibilities.
 - ii. The Consultant is the primary source of investment education and manager information for the Foundation.
 - iii. The Consultant will provide information to the Committee about the long-term performance of various asset classes, focusing on balancing the risks and rewards of market behavior. The Consultant will assist the Committee to

- consider the Foundation's investment objectives, time horizons, risk tolerances, performance expectations, and asset class preferences.
- iv. The Consultant shall advise the Finance Committee and the Board of Directors on the Investment Policy, the Payout Policy, and the Administrative Fee Policy.
 - v. The Consultant shall provide the Committee with an annual review of this Policy, including an assessment of the Foundation's current asset allocation, spending policy, and investment objectives.
 - vi. The Consultant shall advise the Committee and the Board of Directors on asset allocation, investment managers, and custodian selection.
 - vii. The Consultant shall supervise the investment of the portfolios as specified in this Investment Policy.
 - a. The Consultant is responsible for assessing the appropriateness of asset allocation strategies but does not have discretion to change the strategy without the Committee's approval.
 - b. The Consultant is responsible to recommended investment manager additions or changes as required by this Policy. See Section IX: Investment Manager Due Diligence.
 - viii. On an ongoing basis the Consultant will:
 - a. Provide continuous monitoring and supervision of the investment managers and the investment pools;
 - b. Rebalance the portfolio to maintain target asset allocations determined by this Policy (See Appendix 1: MGP Asset Allocation Strategy), applying the methodology approved by the Committee. See Section VII: Approved Rebalancing Methodologies.
 - c. Report to the Committee quarterly, or as requested;
 - 1. Provide the Committee with quarterly performance reports measuring performance of the Investment Pools and each Manager within the Pools, with comparisons to benchmarks and reference points as described in the Due Diligence section of this Policy. See Section IX: Investment Manager Due Diligence.
 - 2. Provide the Committee with reports illustrating actual asset allocations as compared to the targets set by this Investment Policy;
 - 3. Provide the Committee with a report of rebalancing activities and needs no less than quarterly.
 - ix. The Consultant shall supply the Committee with other reports or information as reasonably requested.
- D. Custodians
- i. Custodians are responsible for the safekeeping of the Foundation's assets.
 - ii. The specific duties and responsibilities of the custodian are:
 - a. Value the holdings
 - b. Collect all income and dividends owed to the portfolio
 - c. Settle all transactions (buy-sell orders)
 - d. Provide monthly statements to the Foundation and the Consultant (if applicable) detailing the following information
 - 1. Transactions
 - 2. Cash flows
 - 3. Securities held and their current value

4. Change in the value of each security
 5. Overall portfolio since the previous report
- E. Executive Director
- i. The Executive Director authorizes and/or obtains necessary signatures for all contracts and accounts and provides other authorizations as needed by the Consultant to affect the terms of this policy.
 - ii. The Executive Director serves as the staff liaison for all matters related to investments, including but not limited to the Board, the Committee, the Consultant, investment managers, and Custodians.

III. INVESTMENT OBJECTIVES AND INVESTMENT TIME HORIZONS

- A. The Foundation's primary investment objective is to preserve the real value of its permanent endowments. This means that the Foundation seeks a total rate of return that supports the Foundation's grantmaking, expenses, investment fees, and inflation.
- B. The Foundation shall employ the following formula as its investment minimum return goal: $\text{Nominal Net-of-Fee Time-Weighted Return} - \text{CPI} \geq \text{Maximum Payout (Spending Rate (X\%) + Average Administrative Fees (X\%))}$.
- C. Management and investment decisions about an individual asset will not be made in isolation but rather in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Foundation.
- D. Except as a donor's gift instrument requires otherwise and consistent with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the following factors will be considered in managing and investing the investment portfolio:
 - i. General economic conditions;
 - ii. The possible effect of inflation or deflation;
 - iii. The expected tax consequences (if any) of investment decisions or strategies;
 - iv. The role that each investment or course of action plays within the Foundation's overall investment portfolio;
 - v. The expected total return from income and the appreciation of investments;
 - vi. Other resources of the Foundation;
 - vii. The needs of the Foundation and a given fund to make distributions and preserve capital;
 - viii. An asset's special value, if any, to the purpose of the Foundation.
- E. The mission of the Foundation is best served by employing a long-term investment time horizon and a diverse asset allocation mix.
- F. The Committee believes that the Fund's risk and liquidity posture are, in large part, a function of asset class mix. The Investment Consultant (Consultant) has presented, to the Committee, summary information about the long-term performance of various asset classes, focusing on balancing the risks and rewards of market behavior. Considering the Fund's investment objective, time horizon, risk tolerances, performance expectations, and asset class preferences, an appropriate portfolio allocation was identified, as shown in the "Asset Allocation Targets" chart, included in the Appendix section of this IPS. The targets shown in the chart will not be changed without Committee approval.

IV. INVESTMENT POOLS

- A. In furtherance of its mission, the Foundation has developed two distinct and separate investment pools to accommodate donors and agencies with differing investment

objectives and time horizons. Each investment pool has a unique objective, asset allocation strategy, and benchmarks. The asset allocation strategies of these pools are described in Appendix 1 of this policy.

- B. Non-endowed funds are generally invested in the Income Pool to preserve the fund's principal. However, the Foundation will consider recommendations from authorized fund representatives to invest non-endowed funds in one or more of the investment options available for permanent endowments. *See Policy: Non-Endowed Funds Administered as Endowed Policy.*
 - i. Income Pool -- The Income Pool is utilized for operating cash reserves and non-endowed gifts/funds, which generally have a shorter investment time-horizon. The objective of the Income Pool is to generate income and preserve principal/capital. The Income Pool will be managed for enhanced yields consistent with a conservative cash management policy.
 - ii. Moderate Growth Pool (MGP) -- The Moderate Growth Pool is the initial pool recommended by the Board of Directors for permanent endowments. The primary investment objective of the Pool is to provide a relatively stable, inflation-adjusted, annual payout to support the Foundation's maximum spending rate. Historic data indicates there will be some volatility in the value in this pool, but that it offers the potential for a sustainable payout plus inflation protection over the long term. The MGP has a long investment time-horizon of greater than ten years.
- C. The Finance Committee will periodically review the allocation of assets in the MGP for investment and risk management purposes.

V. ASSET ALLOCATION FOR INVESTMENT POOLS

- A. The asset allocation strategies for the Foundation's investment pools are based upon long-term historical performance of various asset classes and focuses on balancing the risks and rewards of market behavior.
- B. In determining asset allocation strategies, the Committee will consider the portfolios' investment objectives, time horizons, risk tolerances, performance expectations, and asset class preferences. It is not expected that asset allocation strategies will change often.
- C. The Foundation's asset allocation strategies provide specific target percentages. Asset allocation targets are identified as the ratio of the fair market value of the asset class compared to the fair market value of the total investment pool.
- D. *See Appendix I: Asset Allocation Strategy for the Moderate Growth Pool.*

VI. SPENDING POLICY: *See Policy 5.08 - Payout Policy*

VII. APPROVED REBALANCING METHODS

- A. Historic investment data reveals that disciplined rebalancing to a portfolio's target asset allocation is of primary importance to the long-term performance of an investment portfolio.
- B. Approved rebalancing methodologies are determined by policy recommended by the Finance Committee.
- C. The percentage allocation to each asset class sub-category may vary as much as plus or minus 30% of the target percentage.
- D. The Consultant is authorized to rebalance the portfolio utilizing the following methodologies:

- i. Micro-rebalancing shall be conducted as donations are added to the investment pools, and fees are withdrawn.
- ii. Large donations and withdrawals shall be used to rebalance the portfolio, and the Executive Director will provide as much notice to the Consultant of such occurrences as possible.
- iii. If an asset sub-class varies as much as 30%, the Consultant will make timely and appropriate rebalancing recommendations to the Foundation.

VIII. INVESTMENT RESTRICTIONS

- A. In general, only investment strategies specified in Appendix 1 of this policy are allowed.
- B. In general, only managers and share classes which do not assess 12b-1 fees and only specific management mandates (not broad-based fund-of-funds or target date funds) will be considered.
- C. Alternative “illiquid” investment strategies offer reduced exposure to traditional stock and bond markets and increased diversification and may be included in the portfolio on a limited basis. No “illiquid” investments, such as private placements, limited partnerships, and hedge fund vehicles (among others) may be purchased without the recommendation of the Committee and approval of the Board.
- D. The Consultant will use investment manager due diligence criteria prescribed in Section IX of this Investment Policy when recommending investment managers. Mutual funds and ETFs will be referred to as “Managers” unless specifically referenced.
- E. Income Pool Investment Restrictions -- To manage credit risk, instruments used for cash management will be limited to the following:
 - i. Money Market Mutual Funds or cash alternatives such as bank deposit accounts and “ultrashort” bond funds.”
 - ii. Government issues (known as “Treasuries”)
 - iii. Government-Sponsored Enterprise Securities (known as “Agencies”), such as Farm Credit System, Federal Home Loan Bank System, Federal National Mortgage Association, some of which are not explicitly backed by the full faith and credit of the U.S. Government.
 - iv. FDIC insured Certificates of Deposit, to be bought in increments up to the maximum insured limit per bank to assure insurance coverage.
 - v. Generally, and depending upon the specific liquidity needs of the Foundation, a ladder strategy may be employed to manage interest rate risk.

IX. RISK CONSIDERATIONS

While acknowledging the importance of preserving capital, the Investment Committee recognizes the necessity of accepting risk if the Portfolio is to be able to meet its long-term investment goals. It is the view of the Committee that choices made with respect to asset allocation will be the major determinants of investment performance. The Investment Committee shall seek to ensure that the risks taken are appropriate and commensurate with the Portfolio’s goals.

The Portfolio shall be diversified both by asset class and within asset classes. Within each asset class, investments shall be diversified further among economic sector, industry, quality and size. The purpose of this diversification is to provide a reasonable assurance that no single security or class of securities will have a disproportionate impact – positive or negative – on the overall performance of the Portfolio.

- A. For an asset allocation strategy to be effective, each asset class must be represented by using a manager (or managers) that will best represent the class objective.
- B. A qualifying manager must be a registered investment advisor under the Investment Advisors Act of 1940.
- C. The Consultant will decide which managers to recommend utilizing a rigorous research process composed of both qualitative and quantitative analysis.

X. INVESTMENT PERFORMANCE MONITORING – BENCHMARKS AND REFERENCE POINTS

The Consultant will assist the Committee to measure and evaluate both the success of the allocation strategy as well as the success of the individual managers used to implement the asset allocation strategy. In general, the MGP will be operated with the expectation that at least five years of historical data will be needed to effectively examine the long-term performance of the portfolio, and that multiple rolling five-year periods will typically be needed to draw actionable conclusions.

A. Evaluation of Asset Allocation Strategy

- i. Method 1: Global Stock/Bond Index Mix -- To measure the success of the asset allocation strategy, the Committee will compare the MGP returns net of investment fees to returns of Global Stock/Bond Index Mix with the same ratio of equity to fixed income as that of each pool. The performance of the equity/fixed income mix is presented net of the average annual ETF and index fund expense ratio, prorated monthly. Monthly rebalancing is assumed.
 - a. Evaluation index mix for the Moderate Growth Pool:
 - (1) 77/23 Global Stock Global Taxable Bond Mix
 - (2) 77% S&P Global Broad Market Index
 - (3) 23% Bloomberg Global Aggregate Total Return Index
 - b. Indices Utilized Above
 - (1) The S&P Global Broad Market Index (BMI) is a top-down, float capitalization-weighted index which measures the performance of the entire universe of institutionally investable equity securities.
 - (2) Bloomberg Global Aggregate Total Return Index provides a broad-based measure of the global investment-grade fixed income market, including government, credit and collateralized securities.
- ii. Method 2: Equity Biased Growth Reference Point. This reference point, produced by Morningstar, includes all funds contained within the Morningstar Allocation – 70%-85% Equity. Allocation – 70%-85% equity portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. These portfolios typically have 70% to 85% of assets in equities and the remainder in fixed income and cash.
- iii. Method 3: Comparison of portfolio performance to other peer groups, e.g. Council on Foundations, Indiana Community Foundations, auditor report, etc. Performance should be in top half of peer groups.

B. Evaluation of Individual Investment Managers

- i. Although short term underperformance will be tolerated and closely monitored by the Consultant, managers are expected to perform at or above their peer group averages over time.
- ii. The Investment Consultant will assist the Committee to measure the

performance of each manager utilizing several methodologies:

- a. Comparison of performance against an appropriate index.
 - b. Comparison of performance relative to an appropriate peer group.
Performance should be in top half of peer group over time.
 - c. Comparison of expense ratios/fees relative to peers. Fees should be in top half (least expensive).
 - d. Comparison of risk-adjusted performance relative to peers
- iii. Both qualitative and quantitative measures may be utilized to determine when a manager is put on the watch list and when termination might be appropriate.

5.05.1 - Investment Partner Program

POLICY

The Foundation recognizes that pooling invested assets reduces administrative and investment-related expenses, thereby allowing more money to go toward the charitable good. From time-to-time, the Board will consider entering into a contract or agreement with an individual investment manager or investment management firm (the "Investment Partner") for reasons that include, but are not limited to the following list of items in which the Board has established limitations and guidelines

- A. Better fulfillment of the mission of the Foundation
- B. Serving individual donors
- C. Supporting local economic development

II. GENERAL PROCEDURES

- A. The Board will consider establishing agreements with Investment Partners on a case-by-case basis.
- B. The Community Foundation may consider entering into a contract with an individual investment manager or an investment management firm ("Investment Partner") to manage assets donated to the Community Foundation subject to the following:
 - i. The Investment Partner must be a registered investment advisor under the Investment Advisors Act of 1940 and comply with any state requirements.
 - ii. The Investment Partner demonstrates good citizenship and commitment to the community in the form of volunteerism, donations, and/or types of support.
- C. The Board reserves the right to refuse any gift deemed to be against the mission of the Foundation.
- D. The Board follows Internal Revenue Service (IRS) regulations requiring that the Board retains the sole discretion to terminate the Foundation's relationship with an Investment Partner, and to transfer funds held by the Investment Partner to other investment managers under any facts or circumstances that the Board in good faith believes warrant such termination and transfer.
 - i. Such facts and circumstances will include but not be limited to a determination made at the sole discretion of the Board that the Investment Partner has demonstrated one or more of the following:
 - a. Has failed to meet benchmark requirements
 - b. Has failed to perform comparably to other managers
 - c. Has charged fees that are incommensurate with services provided
 - d. Has otherwise failed to perform as requested by the Foundation.
- E. The Board and Finance Committee will ensure conflicts of interest are managed in accordance with policy and the highest ethical standards when evaluating agreements with current or potential Investment Partners.
- F. The Committee will regularly evaluate agreements with Investment Partners for adherence to the mission of the Foundation.
- G. Specific guidelines for fixed income investments:
 - i. Investment Partners managing fixed income investments will maintain an overall weighted average credit rating of "A" or better by Moody's or Standard and Poor's and hold not more than 15% of the portfolio in investments rated below investment grade (unless designated as a high yield manager by the Committee). If such parameters are exceeded, the investment manager must provide timely notification to the Consultant and the Committee.
 - ii. The exposure of the portfolio to any one company, other than securities of the U.S.

- government or its agencies, shall not exceed 10% of the market value of the fixed income portfolio managed by any investment manager.
- iii. No industry group shall constitute more than 25% of the market value of the fixed income portfolio managed by any investment manager.
- iv. Individual security holdings shall be large enough for easy liquidation.

III. INVESTMENT AGREEMENT OPTIONS

A. Pooled Investment Option

- i. Assets contributed by clients of Investment Partners may remain in the custody of the Investment Partner, but will be transferred to a Foundation account and shall be invested in accordance with Foundation policy.
- ii. The donated assets will be managed in a separate account belonging to the Foundation, and donors will exercise no control over that account.
- iii. Investment Partners will adhere to the Investment Guidelines set forth in this Investment Policy Statement, including but not limited to, investing only in approved asset classes and adhering to investment restrictions.
- iv. The Investment Partner will invest assets as part of one of the Foundation's investment pools.
- v. Investment earnings and expenses on donated assets will be allocated to the endowments held by Investment Partners in the same manner that earnings are allocated to all of the Foundation's other endowed funds.
- vi. The Foundation and the Investment Partner will reach an agreement establishing fees and expenses based on the total market value of the funds held by the Investment Partner, including:
 - a. Investment Partner fees
 - b. Consultant fees
 - c. Foundation administrative fees
- vii. The Investment Partner will provide inquiry-only access to account data to the Foundation and to the Foundation's Consultant.
- viii. The Investment Partner will provide monthly investment performance reports to the Foundation and/or its Consultant and will communicate regularly with the Foundation and/or its Consultant.

B. Stand-Alone Investment Option

The Community Foundation may consider entering into a contract with an individual investment manager or an investment management firm ("Investment Partner") to manage assets in a stand-alone investment account consisting of donations given by specific donors to the Community Foundation subject to the following:

- i. The donor or donors intend to make a gift to the Foundation totaling at least \$250,000 for the purpose of establishing a new permanent endowment or endowments.
- ii. The donor or donors request in writing, that the gifted assets be held by the Investment Partner and not pooled with the Foundation's other assets;
- iii. In the case of a nonprofit agency donor, the board of the agency must pass a resolution requesting that the Foundation enter into a contract with a specifically named investment manager. The agency donor must supply that resolution to the Foundation at the time of making its request.
- iv. The donor certifies that they will not personally benefit from the Foundation's

- relationship with the Investment Partner.
- v. The donor does not have a family relationship with the Investment Partner or with the employees or owners of the Investment Partner's firm.
 - vi. The donor acknowledges that fees and expenses charged by the Investment Partner, the Consultant and the Foundation will be based on the market value of the assets and deducted from the market value of the assets held by the Investment Partner.
 - vii. The donor will confirm understanding that accounts managed on a stand-alone basis will increase or decrease as a result of its stand-alone investment performance and are not a part of the pooled invested assets of the Foundation.
 - viii. The Foundation and the Investment Partner will reach an agreement establishing fees and expenses based on the total market value of the funds held by the Investment Partner, including
 - a. Investment Partner fees
 - b. Consultant Fees
 - c. Foundation administrative fees
 - ix. The Investment Partner will provide inquiry-only access to account data to the Foundation and to the Foundation's Consultant.
 - x. The Investment Partner will provide monthly investment performance reports to the Foundation and/or its Consultant and will communicate regularly with the Foundation and/or its Consultant.
 - xi. The Investment Partner agrees to mirror the approved asset allocation prescribed in Investment Policy Appendix I as closely as possible, and at a minimum, must adhere to the overall stock/ bond allocation. The portfolio should be a diversified allocation of stocks and bonds consisting of a minimum of two stock asset classes and two bond asset classes.
 - xii. The Investment Partner will play a primary role in applying due diligence standards to the managers held in their respective accounts.
 - xiii. The donor and the Investment Partner will acknowledge that the Board of the Foundation may, at any time, revoke the privilege of the donor recommendation and terminate any contract or agreement with an Investment Partner.

5.05.2 - Approved Asset Allocation Strategies

Mason Investment Management Services (MIMS) Asset Allocation Strategy

Recommended Asset Allocation Model-D

Safety

Cash	1.00%
Total Safety	1.00%

Income Assets

Short Term Bond	4.00%
Intermediate Term Bond	8.50%
Inflation Protected Bond	4.00%
International Bond	5.50%
Total Income Assets	22.00%

Growth Assets

Large-Cap Value	17.00%
Large-Cap Growth	11.00%
International Large Cap Value	7.00%
International Large Cap Growth	5.00%
Real Estate	7.00%
Total Growth Assets	47.00%

Aggressive Assets

Small-Cap Value	11.00%
Small-Cap Growth	1.00%
Small Blend	2.50%
Global Small-Cap Growth	3.00%
International Small Cap	4.50%
Energy/Natural Resources	8.00%
Total Aggressive Assets	30.00%
Total Portfolio	100.00%

Mason has the authority to make allocation adjustments to the above targets. Overall aggregate equity and bond targets will be similar to those above.

Authorized Signer

Note: it is normal for the portfolios to deviate to some degree from target percentages.