

# **FORT ATKINSON COMMUNITY FOUNDATION INVESTMENT POLICY**

## **PURPOSE:**

The purpose of this Investment Policy is to provide guidelines for the investment management of the portfolio. This Investment Policy was developed with the long term interests of the community in mind and adheres to accepted investment principles.

## **STATEMENT OF OBJECTIVES:**

Our primary investment objectives are:

1. To preserve and enhance the real purchasing power of income and principal. This means that the Foundation seeks a total rate of return that supports the Foundation's grantmaking, expenses, investment fees, and inflation. The Foundation will normally measure whether it has achieved that objective over a rolling five-year period.
2. Diversification of the portfolio by asset class, country, market capitalization, maturity, industry, and credit quality.

## **INVESTMENT GUIDELINES:**

### **Asset Allocation**

The investment manager shall have full discretion with respect to allocation of assets among equities, fixed income securities, and cash reserves within the following guidelines:

1. The equity portion of the portfolio will be managed within a band of 40% to 70%.
  - a. International equity will be managed within a band of 0% to 30%.
2. The fixed income portion will be managed within a band of 20% to 50%.
  - a. Below investment grade fixed income will be managed within a band of 0% to 20%.
  - b. International bond exposure will be managed within a band of 0% to 10%.
3. The cash reserve portion will be managed within a band of 1% to 10%.
4. The alternative investment portion will be managed within a band of 0% to 20%

If the manager deems it necessary to vary from these ranges, said variance shall be approved in advance by the Foundation's Board of Directors.

### **Investment Guidelines**

The investment manager should diversify the portfolio so that:

- Investments in individual equity security, individual fixed-income security, individual structured product, or non-leveraged closed-end mutual fund shall not exceed 5% of the total market value of the portfolio, with the exception of U.S. Government and Governmental Agency issue.
- No one sector shall represent more than a 10% overweight from the related benchmark.
- Investments in a diversified open-end mutual fund or exchange-traded (ETF) shall not exceed:
  - 35% of the portfolio for an investment-grade fixed-income fund.
  - 15% of the portfolio for a multi-sector fixed income fund.

- 10% of the portfolio for a non-investment grade or foreign fixed-income fund.
  - 20% of the portfolio for an equity fund.
  - 5% of the portfolio for an alternative investment fund.
1. Acceptable equity securities include the following:
    - a. Stocks traded on major U.S. exchanges, including the New York, American Stock Exchanges or the NASDAQ system.
    - b. American Depository Receipts
    - c. When the Foundation receives securities in-kind, the investment manager shall review each security and determine within 60 days whether to retain or sell each security.
    - d. Mutual Funds purchased will be constructed in accordance with the guidelines in this section. All Funds will be held to the same standards regarding portfolio diversification as it relates to the entire FAF equity portfolio.
    - e. Electronically Traded Funds (ETF's) will be held to the same standards as Mutual Funds.
    - f. Real Estate Investment Trust (REIT's) will be seen as "alternative investments." These assets will be funds that are traded daily, providing the organization with the liquidity that is required.
  2. Acceptable fixed income securities include the following:
    - a. Securities issued or backed by the U.S. Government and its Agencies, as well as taxable securities of domestic investment grade quality individual bonds issued by state and local government units.
    - b. Debt instruments issued by domestic corporations of investment-grade quality rated A or better by either Moody's or S&P.
      - i. If a debt instrument is received by the Foundation in kind and is not of investment quality, the Investment Manager shall eliminate said investment from the portfolio within 90 days of receipt unless the Investment Manager requests retention and the Foundation Board of Directors approves said request.
    - c. Insured Certificates of Deposit
    - d. Foreign and non-investment grade quality fixed-income held within a diversified non-leveraged closed-end mutual fund, open-end mutual fund, or exchange-traded fund (ETF).
    - e. Fixed Income Mutual Funds will be constructed using the same criteria regarding quality and style as individual securities.
    - f. Electronically Traded Funds (ETF's) in the Fixed Income space will be held to the same standards as Fixed Income Mutual Funds.
  3. Acceptable alternative investment securities include the following:
    - a. Open-end mutual funds, non-leveraged closed-end mutual funds, or exchange-traded funds (ETFs) engaging in alternative investment strategies including merger arbitrage, long-short equity, market-neutral equity, market-neutral income, currencies, covered-call and option collars, commodities, and event-driven.
    - b. FDIC insured structured deposits and structured notes issued by corporation with a Moody's or SP credit rating of A or better.

4. Short-term funds and cash will be invested at the manager's discretion.
5. The following categories of securities or security transactions are not permissible within the Foundation portfolio:
  - a. Short sales of individual securities. (Allowed in a diversified open-end mutual fund, non-leveraged closed-end mutual fund, or exchange traded fund (ETF) within the Alternative Investment portion of the portfolio).
  - b. Put and Call Options, except that covered call options may be sold against securities owned and protective put options bought for securities owned. (Put and call options are allowed in a diversified open-end mutual fund, non-leveraged closed-end mutual fund, or exchange traded fund (ETF) within the Alternative Investment portion of the portfolio).
  - c. Margin purchases or borrowing money.
  - d. Letter stock, private placement, or direct placements.
  - e. Equity securities of any company that has a record of less than three years continuous operation, including the operation of any predecessor.
  - f. Purchase for purposes of exercising control of management.
  - g. Securities of the trustee, its parent or subsidiaries without written Foundation Board of Directors approval.
  - h. Stock loans.
  - i. Initial Public Offerings
  - j. Commodity trading, including all futures contracts.
6. Investment transactions and commissions are to be governed by negotiation for execution on a "best realized price" basis. Portfolio managers are expected to negotiate competitive discounts.
7. If the investment manager deems it desirable to vary from the investment guidelines as described above, the manager shall obtain written approval from the Foundation Board of Directors prior to including a security in the portfolio that is not approved by items 1 through 3 and not precluded by item 4.
  - a. When real estate is included in assets received by the Foundation, the trustee of the account will make a full report at the next quarterly meeting. The report will include a description and valuation of real estate and any potential prospects for sale. The Trustee and the Foundation Board will then jointly agree on a plan to dispose of said real estate.

### **Communication and Responsibility**

#### **A. Investment Manager**

1. Initially and annually (or more frequently, if changes so warrant) thereafter:
  - a. An annual signature acknowledging the manager's fiduciary role and acceptance of the goals and guidelines set forth in this statement.

2. Monthly:
  - a. To Foundation Chairman and Foundation Program Administrator:
    - i. A written report of the portfolio's holdings showing individual security positions, including cost and market value, on a timely basis.
    - ii. A written report of all transactions, including purchases and sales, income received, disbursements made, etc. .
3. Quarterly:
  - a. To Foundation Board Members other than the Chairman:
    - i. A written report of the portfolio's holdings showing individual security positions, including cost and market value, on a timely basis.
    - ii. A written transaction report reflecting purchases and sales, income received and disbursements made.
  - b. A performance review of the portfolio, including a report of total return comparing Foundation portfolio performance to benchmark portfolio performance on a quarterly, year-to-date, and 5 year rolling basis.
  - c. A written report providing a detailed breakdown of the individual accounts making up the Foundation account, including contributions and disbursements.
  - d. A report at the quarterly Foundation Board of Directors meeting reviewing key investment decisions and the rationale for these decisions.
  - e. A discussion of the manager's outlook and what specific decisions this outlook may dictate.
  - f. Any major recommendation to changes in goals and guidelines in light of material and sustained changes in the capital markets.
  - g. A written report reflecting contributions made during the current quarter.
  - h. A summary report of grants made/committed.
4. Annually:
  - a. A written detailed report showing all contributions and disbursements from the various Foundation accounts for the past fiscal year.

## B. Program Administrator

1. Quarterly
  - a. A written report reflecting contributions made during the current quarter.
  - b. A summary report of distributions made.
  - c. A summary report of ongoing grant commitments.
2. Annually
  - a. A written detailed report showing all contributions and disbursements from the various Foundation accounts for the past fiscal year.
  - b. Prepare the Annual Report of the Foundation for the past fiscal year for publication in the *Daily Jefferson County Union*.

## **Distributions**

Distributions shall be made in accordance with the spending policy, as adopted by the Foundation's Board and explained in the following paragraph:

1. The Foundation Board of Directors shall use a percent of average market value, by fund, as a guideline for making annual distributions from the following fund categories:
  - a. 4.5% - 5%      Field of Interest Funds
  - b.     4%            Endowed Designated Funds
  - c. 3% - 5%      Endowed Scholarship Funds
2. The trustee shall receive written approval prior to any disbursement being made.

## **INVESTMENT GOALS:**

Successful investment performance will be determined using "total return" as the accepted measurement. Specifically:

1. The investment objective of the portfolio is Moderate Growth and Income. A benchmark portfolio invested with 35% S&P 1500 Index, 15% MSCI EAFE Index, 30% Barclays Capital Aggregate Bond Index, 5% Bank of America ML US High Yield Master II Index, 5% FTSE EPRA/NAREIT US Total Return Index, and 10% Citi Treasury Bill 3 Month Index provides appropriate risk / return / liquidity characteristics for Foundation investments. The portfolio should have an emphasis on higher quality US stocks and bonds and also have exposure to lower correlated asset classes such as foreign stocks and bonds, publicly-traded REIT's, non-investment grade fixed income, and alternative investments to provide greater diversification and favorable risk-adjusted returns for the long-term. The Investment returns should be sufficient to support the 4.5-5% distribution policy and meet other investment objectives.
2. Actual returns may vary from the benchmark return in a particular year and performance needs to be judged over a longer period of time (at least 3-5 years) with the expectation that returns will be close to or exceeding the benchmark return.

## **POLICY REVIEW**

This policy shall be reviewed annually by the Board of Directors.

[Last approved update - Oct. 13, 2016]