

THE PUTNAM COUNTY COMMUNITY FOUNDATION

INVESTMENT POLICY – 2016

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I. POLICY:

The mission of The Putnam County Community Foundation is the enhancement of our community and the quality of life for future generations. The Payout Policy, Administrative Fee Policy, and Investment Policy of the Foundation shall complement each other and be directed toward these goals.

The purpose of this Investment Policy (IP) is to

- A. 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, prudence, and due diligence requirements.
- B. Set forth an investment structure.
- C. 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.
- D. Communicate effectively with all investment-related parties.

Exceptions to this policy must be approved by 2/3 of the Board of Directors at a regularly scheduled or special meeting of the Board of Directors.

II. RESPONSIBILITY AND STANDARDS OF CARE

- A. The Board of Directors is ultimately accountable for the portfolio but 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.
- B. 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 Investment Consultant, Section XII.
- C. The Committee is responsible for selecting and managing relationships with investment professionals, consultants, managers, custodians, and other professionals engaged in the management of the Foundation’s investment portfolio.
- D. The Committee is responsible to disclose and manage conflicts of interest (if any) in accordance with the Community Foundation’s Conflict of Interest Policy.
- E. 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 selecting, continuing or terminating investment professionals.
- F. 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.
- G. Except as a donor’s gift instrument requires otherwise and consistent with the Uniform Prudent Management of Institutional Funds Act, the following factors will be considered in managing and investing the investment portfolio:
 - a. General economic conditions;

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- b. The possible effect of inflation or deflation;
 - c. the expected tax consequences (if any) of investment decisions or strategies;
 - d. the role that each investment or course of action plays within the Foundation's overall investment portfolio;
 - e. the expected total return from income and the appreciation of investments;
 - f. other resources of the Foundation;
 - g. the needs of the Foundation and a given fund to make distributions and preserve capital;
 - h. an asset's special value, if any, to the purpose of the Foundation.
- H. 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.
- I. In managing the portfolio, the Committee will monitor fees and costs and incur only those costs that are appropriate and reasonable.

III. DEFINITIONS:

- **Fiscal Year:** The Community Foundation's fiscal year begins on January 1 and ends the following December 31.
- **Investment Consultant:** An individual or business that provides investors with long-term investment planning in exchange for a fee. An investment consultant makes recommendations to help clients achieve their long-term goals. An investment consultant advises the Community Foundation on its investment policy, asset allocation, investment managers and custodians and reports performance of the managers and the portfolio as a whole. Independence from investment managers and other elements of the management of the portfolio is important.
- **Investment Manager:** An investment manager is a person or organization that makes investments in portfolios of securities on behalf of clients, in accordance with the investment objectives and parameters defined by these clients or by a prospectus. An investment manager is responsible for all activities associated with the management of the portfolios, from buying and selling securities on a day-to-day basis to portfolio monitoring, settlement of transactions, performance measurement, and regulatory and client reporting.
- **Investment Custodian:** A custodian is a financial institution that holds customers' securities for safekeeping so as to minimize the risk of their theft or loss. A custodian holds securities and other assets in electronic or physical form. In addition to holding securities for safekeeping, most custodians also offer a variety of other services including account administration, transaction settlements, collection of dividends and interest payments, tax support and foreign exchange. The fees charged by custodians vary, depending on the services desired by the client.
- **Large Cap Core (Passive) Equity Manager:** Large Cap Core Passive Equity managers attempt to replicate the returns of the large cap US equity market using various methodologies to weight individual holdings. Often referred to as "indexing", these managers charge very low fees and offer consistent "market-like" performance.
- **Large Cap Value Equity Manager:** Large Cap Value Equity managers typically invest primarily in big US companies that are currently out of favor with the market and are trading below what the manager believes is the company's intrinsic value.

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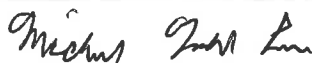
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- **Large Cap Growth Equity Manager:** Large Cap Growth Equity managers invest primarily in big US companies that are expected to have above average and accelerating growth in earnings. These managers often perform well in rising markets but may lag during market declines.
- **International Equity Manager:** International Equity managers invest in the stocks of companies domiciled outside the U.S. This asset class has the potential to reduce overall portfolio risk as a result of diversification due to historically low correlation with domestic stocks. These portfolios typically will have less than 20% of assets invested in US stocks.
- **Small Cap Value Equity Manager:** Small Cap Value Equity managers invest primarily in the stocks of small U.S. companies that are currently out of favor with the market. These managers tend to be less volatile than their small cap growth counterparts.
- **Small Cap Growth Equity Manager:** Small Cap Growth Equity managers invest primarily in the stocks of small U.S. companies that are expected to have above average and accelerating growth in earnings. These managers tend to be more aggressive and volatile than their small cap value counterparts.
- **Unconstrained Equity Manager:** Unconstrained Equity managers have the ability to invest in large, mid, or small cap stocks, both domestically and abroad, and may also use cash and fixed income instruments from time to time. They aim to achieve attractive risk-adjusted returns relative to other equity investments. These managers have a similar risk and return profile to other equity asset classes, but tend to have a relatively low correlation.
- **Fixed Income Manager:** Fixed Income managers typically invest in a portfolio of bonds diversified across maturities and sectors. Fixed income portfolios generally are utilized to dampen portfolio volatility and provide predictable income streams.
- **Alternative Investments:** Alternative Investments are defined as any investment that is not a traditional fixed income or equity strategy. Alternative investments permitted by this investment policy include the following:
 - **Hedge Funds:** Hedge funds are investment partnerships where investors (limited partners) are required to be accredited investors and/or qualified purchasers and meet certain net worth requirements. Hedge fund partnerships typically allow for wider investment latitude from the general partner (investment manager) where flexibility is limited by the investment mandate. Risk levels and hedging can vary widely by investment strategy and manager.
 - **Real Assets:** Real Assets managers may include both public and private investments in opportunities and companies dealing in natural resources, such as oil, gas, timber, private real estate, etc. It may also include investments in commodity futures. Historically, natural resource equities have been a hedge against general inflation.
 - **Real Estate Investment Trusts (REITs):** REIT Managers specialize in publicly traded real estate companies known as Real Estate Investment Trusts. These companies typically own and lease a portfolio of commercial real estate properties, such as offices, hotels, and retail stores. Historically, REITs have provided strong portfolio diversification benefits.

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- **Private Equity:** Private Equity involves investing in the equity or debt of private companies and is expected to provide superior long-term returns relative to traditional public equity investments.

IV. INVESTMENT RETURN OBJECTIVES:

The Community Foundation's long-term investment objective is to preserve the real value of its permanent funds. This means that the Foundation seeks a total rate of return that supports the Foundation's grantmaking, expenses, investment fees, and inflation. The investment return objectives are:

- A. To meet or exceed investment benchmarks over a rolling five-year period.
- B. To maintain an investment portfolio that is diversified among securities and industries, thus minimizing the risk of large fund losses;
- C. To maximize the total return of the Foundation within reasonable and prudent levels of risk;
- D. To support the economic health of the community with Foundation investment assets by investing locally when prudent and manageable. Local investment includes all investment and financial organizations with a physical office inside Putnam County.

V. ASSET ALLOCATION

- A. The mission of the Community Foundation is best served by its investment program having a long-term investment time horizon and a diverse asset allocation.
- B. Asset allocation guidelines 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.
- C. The Community Foundation's asset allocation guidelines provide specific target percentages as well as minimum and maximum ranges.
- D. Within the broad asset allocation guidelines established in Section VI (Investment Pools), the Foundation shall diversify holdings across a variety of sub-asset classes and investment strategies. These strategies may include but are not limited to domestic, developed markets, emerging markets, large cap equity core, large cap equity value, large cap equity growth, small cap equity value, small cap equity growth, and fixed income securities diversified across various maturities.
- E. Alternative investment strategies offer attractive potential returns and reduced exposure to traditional stock and bond markets and may include alternative styles such as hedge funds, real estate, and natural resources (for more detail, see Definitions).
- F. The Board maintains a flexible asset allocation approach that will allow the Foundation to participate in market opportunities as they may become available. Various asset classes, investment styles and individual investment opportunities will be carefully considered by the Board on an ongoing, case-by-case basis.

VI. INVESTMENT POOLS

- A. In furtherance of its mission, the Community Foundation has developed several investment vehicles ("pools") that offer varying levels of return and volatility. All investment pools will be

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administered according to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and a total return policy.

- B. Non-endowed gifts are generally invested in the Income Pool to preserve principal; however, the Foundation will consider recommendations from authorized fund stewards to invest the fund in other investment pools (see Non-Endowed Funds Administered as Endowed Policy).
- C. Permanent endowments will be invested in one or more of the Foundation’s investment pools. These pools are described below.
- D. Endowed gifts of less than \$150,000 will generally be invested in the Moderate Growth Pool.
- E. The Community Foundation will consider recommendations from donors of at least \$150,000 who wish to choose other investment pools.
- F. At fund initiation, qualified donors may choose from the various investment strategies offered by the Community Foundation.
- G. Donors may choose only one investment vehicle per restricted endowment or fund.
- H. The Board of Directors will consider requests from donors to change investment vehicles no more often than once every three years.
- I. Investment vehicles (“pools”) are as follows:

1. **Income Pool** – The objective of the Income Pool is to generate income and preserve capital. The Income Pool invests primarily in short-term instruments. The investments in this pool are guided by the staff and the Finance Committee.

Income Pool Asset Allocation

<u>Asset Class</u>	<u>Target/Strategic</u>
Certificates of deposit, money market, cash equivalents	100%

2. **Moderate Growth Pool (MGP)** – This is the pool recommended by the Board of Directors for both long-term appreciation as well as reduced risk and volatility. The investments in the MGP are guided by an investment consultant, the Finance Committee, and the Board of Directors.

Moderate Growth Pool Asset Allocation

<u>Asset Class</u>	<u>Target/Strategic</u>	<u>Minimum</u>	<u>Maximum</u>
Equities	60%	50%	70%
Fixed Income	30%	25%	40%
Alternatives	10%	0%	15%

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3. **Aggressive Growth Pool (AGP)** – The objective of the Aggressive Growth Pool is long term appreciation of capital. The investments in the AGP are guided by an investment consultant, the Finance Committee, and the Board of Directors.

Aggressive Growth Pool Asset Allocation			
<u>Asset Class</u>	<u>Target/Strategic</u>	<u>Minimum</u>	<u>Maximum</u>
Equities	85%	75%	95%
Fixed Income	7%	2%	12%
Alternatives	8%	0%	15%

- J. The Board reserves the right to modify these asset allocation guidelines at any time.

VII. REBALANCING THE PORTFOLIO

- A. No less than quarterly, the Foundation's current asset mix will be determined. Market values of assets at quarter end will be used for this calculation.
- B. If the total market value of the Foundation's asset components (when stated as a percentage of total assets) lies outside the ranges established within this IP, the Board *may* request the appropriate investment manager(s) to adjust their portfolio(s) to rebalance the Foundation's total investment pool into a position of policy compliance.
- C. The Board may also rebalance the portfolio at any time prior to exceeding the ranges established by the IP.

VIII. LIQUIDITY GUIDELINES

- A. The Board is responsible for meeting the liquidity requirements of the Foundation.
- B. At least 75% of the MGP investment portfolio's net assets will be held in vehicles that can become accessible in five (5) day(s) or less.
- C. At least 60% of the AGP investment portfolio's net assets will be held in vehicles that can become accessible in five (5) day(s) or less.
- D. 100% of the Income Pool will be held in vehicles that can become accessible in five (5) days or less.

IX. CRITERIA FOR SELECTION OF INVESTMENT MANAGERS

- A. The Board will select appropriate investment managers to manage Foundation assets.
- B. Managers are required to meet the following criteria:
 1. The investment manager must be a bank, insurance company (or its affiliates), mutual fund or investment advisor as defined by the Registered Investment Advisors Act of 1940.
 2. The investment manager must provide detailed information to the Foundation and to the investment consultant (if applicable) on the history of the firm, key personnel, key clients, fee schedule, and support personnel.
 3. The investment manager must clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.

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4. The investment manager must provide to the Foundation and to the investment consultant (if applicable) historical monthly performance information calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.
- E. Assets contributed by clients of local investment professionals and banking institutions who meet the above criteria will be transferred to the Putnam County Community Foundation, may remain in the custody of the local investment manager, and shall be invested in accordance with the Foundation's investment policy.
- F. Annually, or upon request of the Finance Committee, the Foundation will review the percentage of total assets in the custody of local investment professionals (including operating checking, money market, CDs etc.), the cumulative value of donations received from each local investment professional, and the history of donations and other support received from local investment professionals.

X. DUTIES AND RESPONSIBILITIES OF SEPARATE ACCOUNT INVESTMENT MANAGERS

The duties and responsibilities of each separate account investment manager (excludes mutual funds) retained by the Board shall include but not be limited to the following:

- A. Utilizing the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals, acting in a like capacity and fully familiar with such matters, would use in like activities.
- B. Managing the Foundation assets under its care, custody and/or control in accordance with the IP objectives and guidelines set forth herein, and also expressed in separate written agreements, if applicable.
- C. Exercising investment discretion (including holding cash equivalents as an alternative) within the IP objectives and guidelines set forth herein.
- D. Promptly voting all proxies and related actions in a manner consistent with the long-term interests and objectives of the Foundation set forth herein. Each manager shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto.
- E. Promptly informing the Board and consultant in writing regarding all significant and/or material matters and changes pertaining to the investment of assets, including, but not limited to:
 1. Changes in investment strategy, portfolio structure, tactical approaches and significant market value of managed assets;
 2. Changes in the ownership, organizational structure, financial condition, and/or professional staff of the firm; and
 3. All material legal, SEC and other regulatory agency proceedings affecting the firm.
- F. Unless directed otherwise by the Board, investment managers are not required to maintain a specific amount of cash reserves for Foundation expenses or grants.

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XI. EVALUATION OF INVESTMENT MANAGERS

- A. When monitoring investment managers, the Community Foundation will consider a variety of factors, including but not limited to the following:
1. The economic environment during the various periods being evaluated;
 2. Each manager's adherence to the IP guidelines;
 3. Material changes in each manager's organization, investment philosophy and/or personnel;
 4. Performance of each investment manager;
 5. Comparison of each manager's results to the appropriate indices and standards.
- B. The Community Foundation will monitor managers and investment performance at least quarterly without the presence of the investment managers.
- C. The Board reserves the right to terminate its relationship with any retained investment manager at any time it deems appropriate or by terms of contract.
- D. The time periods for performance evaluation will generally be rolling five year periods. Interim or shorter term fluctuations in results will be viewed with appropriate perspective.
- E. The following standards will be used to evaluate the performance of investment managers for the Foundation.
1. **STANDARD NO. 1 - MARKET INDICES**
 - a. Each individual investment manager's performance will be measured relative to the performance of a market index reflective of the manager's asset class and investment strategy. The Board understands that consistency in use of performance indicators is important when evaluating investment manager performance.
 - b. The performance target for *active* managers shall be to equal or exceed, net of fees, the total return of the index benchmark.
 - c. The performance target for *passive* (index) managers shall be to replicate the results of the benchmark index *before* the deduction of investment management fees.
 2. **STANDARD NO. 2 – RISK**
 - a. For each investment strategy, the standard deviation of returns (risk) shall be no more than 120% of the index benchmark noted in Standard No. 1 over a period of at least five years.
 - b. Managers exceeding the 120% standard will be reviewed and held to a proportionately greater return expectation.
 3. **STANDARD NO. 3 - INVESTMENT MANAGER UNIVERSE COMPARISON**
 - a. A widely recognized national database and its peer group universes shall be utilized. Examples include but are not limited to the following: Morningstar, Investorforce Universe, and Wilshire Tucs Universe.
 - b. Individual managers shall perform in the top one-half of their peer universe over a full market cycle, generally defined as a period of at least five years.
- F. The Board understands that at varying points in time, individual investment managers may not generate a performance that achieves all three standards concurrently.
- G. No individual standard will be more important than another. Instead, all standards will be considered in aggregate.

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- H. Evaluation of investment managers will not be limited to the standards above. Organizational stability and adherence to investment process will also be key points of consideration. These standards are further outlined in the control procedures of this IP.
- I. In addition to the performance standards established above, certain non-performance related changes may also warrant immediate **review** of the manager, including:
 - a. Change in key professionals.
 - b. Significant account losses / asset outflows.
 - c. Rapid growth of new business and/or product offerings.
 - d. Change in ownership.
 - e. Change in investment process.
 - f. Change in fee arrangements or other terms.
- J. Periodically, the Community Foundation will review individual manager fees to insure that these fees remain competitive with similar managers pursuing similar strategies.

XII. SECURITIES GUIDELINES

A. POOLED INVESTMENT VEHICLES

- 1. Security guidelines for mutual funds, limited partnerships, and other pooled investment vehicles are determined by the constraints outlined within each fund's offering documents.
- 2. Each pooled investment vehicle is expected to adhere to its respective offering documents.

B. FIXED INCOME (SEPARATE ACCOUNTS)

- 1. 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 Finance Committee). If such parameters are exceeded, the investment manager must provide timely notification to the Finance Committee or its designee.
- 2. 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.
- 3. No industry group shall constitute more than 25% of the market value of the fixed income portfolio managed by any investment manager.
- 4. Individual security holdings shall be large enough for easy liquidation.

C. MONEY MARKET FUNDS AND CASH EQUIVALENTS

- 1. Cash equivalent reserves shall consist of cash instruments having a minimum quality rating of A-1, P-1, or F-1 as defined by Moody's, Standard & Poor's or Fitch's. Time deposits and repurchase agreements are also acceptable investment vehicles.
- 2. Any idle cash not invested by the investment managers shall be invested daily through an automatic sweep managed by the custodian.
- 3. Fixed income instruments with maturities greater than one year are prohibited.

D. RESTRICTIONS

- 1. The following securities and transactions are not authorized by this policy:
 - a. Letter stock and other unregistered securities;

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- b. Securities lending is restricted to daily market to market transactions with excess collateral coverage;
- c. Option writing (such as covered calls) and futures trading activities are restricted to bona fide hedge purposes only...not for speculative transactions;
- d. Use of derivatives for speculative purposes; and
- e. Other securities, not mentioned in the Investment Policy, except by Board approval.

E. REAL ESTATE INVESTMENT TRUSTS (SEPARATE ACCOUNTS)

1. REIT positions in *any one company* should not exceed more than 10% of the cost basis of the portfolio managed by any particular investment manager.
2. Not more than 40% of the market value of the portfolio managed by any specific investment manager should be invested in any one property sector.
3. Holdings shall be restricted to readily marketable securities of corporations that are actively traded on the major U.S. exchanges, including NASDAQ.
4. The investment managers shall have the discretion to invest a portion of the assets in cash reserves when the manager deems appropriate. However, the manager(s) will be evaluated against a universe of other managers based upon the performance of the total funds under the manager's direct control.

XIII. THE INVESTMENT CONSULTANT

- A. The Board may choose to hire an investment consultant to assist with the performance of investment management duties, or the Board may perform the duties itself.
- B. The Board may seek to hire a consultant that is independent from investment management and custodial firms and that receives compensation from consultation fees only.
- C. The Board may hire an investment consultant to perform investment portfolio management duties that include but are not limited to the following:
 1. Advise and educate the Foundation on
 - a. Investment policy;
 - b. Optimum asset allocation and tactical allocation;
 - c. Custodian and manager selection;
 - d. General economic conditions;
 - e. Possible effect of inflation or deflation;
 - f. Projected tax consequences (if any) of investment decisions or strategies;
 - g. The role that each investment or course of action plays within the Foundation's overall investment portfolio;
 - h. The expected total return from income and the appreciation of investments.
 2. Recommend new opportunities to increase long-term investment return relative to acceptable levels of risk.
 3. Monitor and report compliance with this Investment Policy.
 4. Evaluate and report the performance of all the investment managers in the MGP and AGP and report that performance to the Community Foundation.

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5. Provide performance evaluation reports that illustrate the risk/return profile of investment managers relative to other managers of like investment style.
 6. Report any findings that may prevent the Foundation from meeting the objectives of this Investment Policy.
 7. Monitor and report asset class exposures.
 8. Inform the Foundation if a change in performance indices is recommended.
 9. Implement approved manager changes
 10. Implement liquidity requests
 11. Implement approved rebalancing adjustments.
- D. The Community Foundation will monitor the performance of the Investment Consultant in the following areas:
1. Investment returns of the investment pools as a whole (net of fees) compared to an appropriate peer group. Examples of appropriate peer groups include, but are not limited to: Council on Foundations, Colonial Consulting and FAOG Community Foundation Survey, Indiana Community Foundations, NACUBO, etc.
 2. Investment returns of the investment pools as a whole (net of fees) in comparison with the performance of the Total Portfolio Policy Index (TPPI) as follows:
 - a. **Aggressive Growth Pool Total Portfolio Policy Index (AGP-TPPI)** -- The performance target for these assets shall be to equal or exceed, net of fund and investment manager fees, the total return of the composite index made up of 55.3% Russell 3000 Index, 19.3% MSCI EAFE Index, 10.4% MSCI Emerging Markets, 5% HFRX Global Hedge Fund, 0.6% Alerian MLP, 0.6% Barclays US 1-5 Yr TIPS, 0.6% Bloomberg Commodity, 0.6% FTSE EPRA/NAREIT Developed, 0.6% S&P Global Natural Resources and 7% Barclays US Aggregate Bond Index.
 - b. **Moderate Growth Pool Total Portfolio Policy Index (MGP-TPPI)** -- The performance target for these assets shall be to equal or exceed, net of fund and investment manager fees, the total return of the composite index made up of 39% Russell 3000 Index, 13.7% MSCI EAFE Index, 7.3% MSCI Emerging Markets, 4% HFRX Global Hedge Fund, 1.2% Alerian MLP, 1.2%, Barclays US 1-5 Yr TIPS, 1.2% Bloomberg Commodity, 1.2% FTSE EPRA/NAREIT Developed, 1.2% S&P Global Natural Resources and 30% Barclays US Aggregate Bond Index.
 3. Assistance with the selection of investment managers;
 4. Quality and timeliness of reporting on investment manager performance. "Score cards"
 5. Assistance with the development of investment policy;
 6. Quality of and timeliness of reporting – no less than quarterly;
 7. Timeliness and appropriateness of recommendations;
 8. Responsiveness to administrative requests;
 9. Proxy voting;
 10. Rebalancing of portfolio within policy guidelines;
 11. Investment management and consultation fees.

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XIV. REVIEW OF INVESTMENT POLICY

- A. All investment policies and investment management guidelines will be reviewed periodically to determine whether existing policy remains effective and appropriate.
- B. It is not expected that this IP will change frequently. In particular, short term changes in the financial markets should not require adjustments to the IP.

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