

# LICKING COUNTY FOUNDATION

## RESTATED INVESTMENT POLICY Approved by the Governing Committee on May 23, 2019

### BACKGROUND

The Licking County Foundation (hereinafter Foundation) is a public charitable organization created to improve the quality of life for all citizens of Licking County through maintaining and enhancing the educational, social, cultural, health and civic resources of the community through support of qualified charitable organizations. The Foundation provides flexibility in responding to charitable requests and identifies changing needs within the community.

The Governing Committee (hereinafter Board) consists of up to fifteen members selected for their experience in understanding the Licking County community and awareness of a community foundation's role in addressing these concerns. The Board also provides philanthropic leadership that creates and promotes the efforts of citizens to improve the quality of life in the community.

The Board has charged the Investment Committee (hereinafter Committee) with the responsibility of safeguarding the Foundation's assets (hereinafter Assets) and providing financial stability.

The funding of the Foundation is vital to our community. The growth and enhancement of the Assets entrusted to the Foundation's stewardship (measured in constant dollars adjusted for inflation) is necessary to provide funds to enable the Foundation to meet changing conditions and to address community needs and opportunities.

### PURPOSE

The critical determinant of the Foundation's ability to achieve its goals will be the growth of the asset pool supporting the Foundation. The Foundation recognizes the need to develop and execute a comprehensive program of prudently investing the Assets under its control with the goals of maximizing long-term total return of the Assets and meeting the cash flow needs of the Foundation within the guidelines set forth in this document. The Foundation recognizes that even prudently-managed Assets may decline in value although the Foundation's investment goal will be the preservation and growth of Assets. The purpose of this Restated Investment Policy (hereinafter Investment Policy) is to assist the Foundation in more effectively supervising and monitoring the investment activities by:

- Defining the responsibilities of the Foundation and its investment managers (hereinafter Investment Managers).
- Stating in writing the Foundation's attitudes, expectations, and goals for the investment of the Assets.
- Providing a basis for reviewing investment management organizations in the selection process.
- Encouraging effective communication between the Investment Managers and the Foundation.

- Setting objectives, against which the performance results of the Investment Managers, operating within the constraints imposed by the Investment Policy can be measured.

This Investment Policy will be reviewed at least annually by the Committee. All changes to the Investment Policy shall be approved by the Committee and submitted to the Board for final approval.

## **SPENDING POLICY**

Please refer to the Foundation's Spending Policy.

## **INVESTMENT OPTION SELECTION**

In order to allow flexibility in the investment approach, the Foundation offers three investment pool options. All investments at the Foundation are managed by its selected investment professionals (hereinafter Investment Managers), and the Committee monitors the performance of its Investment Managers.

Donors may elect any of the Foundation's investment pools or select any of the Foundation's Investment Managers to govern the investment of their donated funds in a record under which such funds are granted or transferred to the Foundation. In addition, donors may recommend any of the Foundation's investment pools or Investment Managers to govern the investment of previously donated funds. The Foundation will give careful and thoughtful attention to such recommendations, but such recommendations will be advisory only and not binding on the Foundation.

Transfers between investment pools may be made back and forth from one pool to the other; however, assets transferred must remain in each pool for a minimum of two years after the time of transfer. When donor funds are transferred, the entire appreciated value of the donor's account will be transferred to the new investment pool as principal. Although a transfer from one pool to another does not impact the Foundation's administrative fee, the investment fee may change based on the new investment pool selected.

In the absence of donor guidance, as described above, unless there is a compelling reason otherwise, Assets will be placed with the Investment Manager possessing a majority of the Foundation's Assets. Any exceptions will be handled on a case by case basis by the Committee.

## **INVESTMENT RESPONSIBILITIES**

**Investment Committee:** Accountable to the Board, the Committee is responsible for the review and implementation of investment policies of the Foundation including, but not limited to, drafting and establishing investment policies, selecting and terminating Investment Managers, reviewing the investment strategies of Investment Managers, selecting master record keepers and custodians, determining asset allocations, prudently diversifying investments by asset classes and Investment Managers, monitoring investment performance, and setting standards for portfolio rebalancing. Upon the receipt of any non-standard contribution (i.e., a gift of art, real estate or other item of tangible property), the Committee will, as soon as practicable, determine whether the asset is to be retained in the form in which it was received or is to be sold in accordance with the Foundation's Gift Acceptance Policy. Any such sale shall be made expeditiously, unless the Committee determines that market conditions warrant a delay in sale.

**Governing Committee:** The Board shall have full authority and discretion as to the asset management of the Foundation, and can replace any participating trustee, custodian, or agent for breach of fiduciary duty

under State law; and can replace any participating trustee, custodian, or agent for failure to produce a reasonable (as determined by the governing body) return of net income over a reasonable period of time (as determined by the governing body).

**Investment Managers:** The Foundation may authorize the delegation of discretionary investment responsibility to trustees, banking institutions and/or independent professional investment management firms to purchase, sell or hold specific securities that will be used to meet the Foundation's investment objectives. Investment Managers will physically (or through agreement with sub-custodian) maintain possession of securities owned by the Foundation, collect dividend and interest payments, redeem maturing securities, and affect receipt and delivery following purchases and sales. Subject to broad investment policies as outlined in this document and standards of fiduciary prudence, this discretionary responsibility includes the execution of day-to-day investment functions by responding to the Committee's guidelines as to asset mix, portfolio diversification and rebalancing, liquidity, market volatility, and management style. In addition, the Investment Managers are responsible for specific investment decisions with regard to security selection, timing and execution. A trustee, banking institution and/or independent professional investment management firm will not be appointed as Investment Manager if it would have less than \$100,000 in Assets for which it was responsible, unless exceptions are approved by the Board.

**Manager Qualifications:** In choosing an Investment Manager, the Committee shall be guided by, but not limited by, the criteria set forth below.

- Firm organization strength – at least \$50 million under management.
- Tenure – the firm should have been in business at least 8 years.
- Well-articulated investment philosophy that is compatible with the Investment Policy of the Foundation.
- Consistent application of investment philosophy and process using a disciplined approach for the selection of securities.
- Portfolio characteristics relative to benchmarks specified in the Foundation's three investment pools.
- Sector weightings relative to style benchmark for diversification purposes.
- Consistent long-term performance relative to style benchmark and industry style average.
- Portfolio's long-term risk/reward profile compared to style benchmark and industry style average.
- Disclose the investment performance for three-, five-, and ten-year periods on a compatible basis, using the CFA Institute Standards for Chartered Financial Analysts (hereinafter CFA Standards). Real "risk adjusted" returns must equal or exceed the Foundation's benchmarks.
- Disclose past and current ownership, list the number of professionals directly involved with the firm, their length of service, and turnover of professional staff during the last three years. The

Investment Manager is also responsible for advising the Committee if any significant changes occur in the management of the firm, its staff or professional management.

- Have “state-of-the-art” information systems, a quality service and support record, and be able to report monthly and/or quarterly to the Foundation in formats compatible with the Foundation’s investment performance measurement, using CFA Standards.
- Annual fees should be reasonable with a fee structure that is comparable to other Investment Managers for similar type and size of accounts employed by the Foundation; and fees should be responsible in relation to industry standards.
- Be willing to meet periodically with the Committee to report directly on its performance; and be willing to assume a role in supporting the continuing asset development activities of the Foundation.
- Disclose any litigation or enforcement actions that have been initiated against the firm, the firm’s officers, directors or investment professionals in the past three years.
- Have fidelity bond coverage and/or fiduciary or other insurance that would protect the interests of the Foundation in the event of a breach of fiduciary duty.
- Be able to designate an account manager with extensive investment experience and substantial client responsibilities; this account manager must be acceptable to the Foundation, and provide adequate attention and service to the account.
- Once engaged as an Investment Manager, the Investment Manager will be expected to comply with the Foundation’s Investment Policy and reporting requirements.

## **INVESTMENT POOLS**

The Foundation has three pooled investment categories to allow for diversification and support donors’ charitable intentions: Preservation of Capital Portfolio, Income Portfolio and Growth & Income Portfolio.

### **Preservation of Capital Portfolio:**

**Summary** – The objective of this portfolio is to provide principal stability, liquidity and income by investing in high-quality, short-term fixed income securities and money market accounts. (Target allocation: 100% cash and cash equivalents)

The customized benchmark used for Investment Managers’ performance comparison will be based on the following weighted market indices:

100% Lipper Money Market Index

### **Income Portfolio:**

**Summary** – This portfolio emphasizes current income and has a secondary goal of capital appreciation. The model has a target allocation of 65% in fixed income securities with the balance in equity investments. The fixed income instruments seek to provide current income. The income portion

primarily invests in government, corporate, mortgage-backed and other fixed income securities. The balance in equities is intended to add diversification and enhance returns. The equities chosen for this portfolio should ideally be the stocks of companies with a history of generous, but well-covered dividends that increase annually. (Target allocation: 35% equities / 65% fixed income)

<b>Asset Class</b>	<b>Range</b>
Domestic Large-cap Equity	25 - 45%
Domestic Mid-cap Equity	0 - 5%
Domestic Small-cap Equity	0 - 5%
International Equity	0 - 10%
Total Equity	25 - 45%
Cash & Fixed Income	55 - 75%

The customized benchmark used for Investment Managers' performance comparison will be based on the following weighted market indices:

55%	Barclay's Capital U.S. Aggregate Bond Index
35%	Standard & Poor's 500 Stock Index
10%	Lipper Money Market Index

### **Growth & Income Portfolio:**

**Summary** – This portfolio seeks long-term capital appreciation and current income. Approximately 65% of total assets are allocated among equity securities to provide a capital appreciation component. The equity portion primarily invests in domestic large-cap stocks with lesser percentage allocated to small and mid-cap and international equities. The remainder is allocated to fixed income securities to provide an income component and diversification. The income portion primarily invests in government, corporate, mortgage-backed and other fixed income securities. (Target allocation: 65% equity / 35% fixed income)

**Asset Allocation** – The prime factor influencing the risk and ultimately the investment performance of the Foundation's portfolio is the allocation of investments between asset classes. Historical performance results and future expectations suggest that common stocks will provide total investment returns higher than fixed income securities over a long-term investment horizon. However, one can expect an increase in portfolio volatility as the stock percentage is increased, particularly over the short-term. Periodically, the Committee will establish an asset allocation target for each asset class within the ranges approved by the Board.

<b>Asset Class</b>	<b>Range</b>
Domestic Large-cap Equity	30 - 60%
Domestic Mid-cap Equity	5 - 15%
Domestic Small-cap Equity	5 - 15%
International Equity	0 - 20%
Total Equity	55 - 75%
Alternative Investments	0 - 5%

Cash & Fixed Income

25 - 45%

The customized benchmark used for Investment Managers' performance comparison will be based on the following weighted market indices:

30%	Barclay's Capital U.S. Aggregate Bond Index
40%	Standard & Poor's 500 Stock Index
7.5%	Russell 2000 Index
7.5%	Russell Midcap Index
10%	MSCI EAFE Index
5%	Lipper Money Market

### **INVESTMENT GUIDELINES**

**Cash Positions:** An important responsibility of the Investment Manager is to provide for the cash needs of the Foundation. To do this, the Investment Manager must be aware of the timing of the need for cash. Therefore, the Foundation staff must advise the Investment Manager of the timing and amount of anticipated cash needs.

**Diversification:** It is expected that any Investment Manager selected shall ensure adequate investment diversification. The Investment Manager is required to seek Committee approval if more than 5% at market value of the assets under an Investment Manager's supervision are to be committed to the equities of any one company.

**Marketability/Liquidity:** Acceptable levels of marketability/liquidity are frequently expressed as functions of quality, market capitalization, and location of trading of a given security. It is the Foundation's expectation that the Investment Manager will ensure adequate marketability of assets under its supervision.

**Fixed Income Assets:** The primary objective of the fixed-income portion of the Assets shall be to provide a secure stream of income and to provide a relatively stable market value base.

Fixed-income investments may include issues of U.S. and foreign Government and Agency obligations, corporate bonds, mortgage or asset backed bonds, collateralized mortgage obligations, REIT debt, and preferred stocks with sinking funds as deemed prudent by the Investment Managers.

Securities and mutual funds comprised of the same in this category should primarily be of investment grade (as measured by Moody's and Standard & Poor's) with an average credit rating of "A" or better. If a security has more than one rating, the lower rating shall apply. High yield/non-investment grade securities shall not exceed 5% of the Foundation's total assets.

Except for instruments issued or insured by the U.S. Government, securities of one issuer shall be limited to 5% of the total market value of Fixed Income Assets. Exceptions to these limits may be appropriate in specific instances, but must be pre-approved by the Committee.

Within the Income and Growth & Income pools, cash equivalent investments (maturities less than one year) are permitted, up to 15% of the total market value of the account, when the Investment Managers' investment policies discourage longer-term commitments. However, the Committee must be consulted in the event that the Investment Manager chooses to increase its cash equivalent position beyond 15% of the assets under its supervision.

**Alternative Investments:** The use of mutual funds or ETFs (Exchange Traded Funds) for alternative investment strategies may be used for diversification as well as to enhance the performance of the asset pool (i.e., precious metals, commodities, etc.). The use of these strategies is limited to 5% of the total portfolio.

**Cash Equivalent Investments:** Such investments should be prudently diversified and would include:

- Any instrument issued by, guaranteed by, or insured by the U.S. Government, agencies, or other full faith instruments.
- Commercial paper issued by domestic corporations which is rated both "P-1" and "A-1" by Moody's and Standard & Poor's, respectively.
- Certificates of deposit with FDIC-insured financial institutions up to the insured limits.
- Commingled, short-term cash reserve funds managed generally in accordance with the principles set forth above.

## **INVESTMENT MANAGER PERFORMANCE**

The performance of the Investment Manager will be reviewed at least quarterly by the Committee. The Investment Manager will meet with the Committee as often as the Committee directs, but not less often than annually. An Investment Manager may be terminated if they fail to comply with these criteria or for any other reason(s) deemed appropriate by the Committee.

- Investment performance will be measured against appropriate market indices. All active Investment Managers are expected to meet or exceed relevant indices over rolling three-year, five-year, and ten-year time periods. Active Investment Managers are expected to add value over benchmarks that reflect similar style and/or investment risk levels. Passive investment vehicles are expected to generate similar performance to the targeted benchmarks.
- Investment philosophy and adherence to investment discipline.
- Continuity of personnel and practices at the firm, including ownership structure.
- Compliance with the Foundation's Investment Policy requirements.
- Timeliness and accuracy of reporting in compliance with industry standards.

## **INVESTMENT MANAGER RESTRICTIONS**

In addition to the investment limitations already set forth regarding quality, quantity, maturity, and type of securities to be held by the Foundation, the Investment Manager is subject to several additional restrictions.

### **Accounts Holding Individual Stocks and Bonds:**

- Each Investment Manager shall handle the voting of proxies and tendering of shares. Both duties shall be handled in a manner consistent with the investment objectives contained in this Investment Policy.
- There shall be no short-selling, securities lending, option trading, financial futures or other specialized investment activity without prior written approval from the Committee.
- There shall be no investments in non-marketable securities without prior written approval from the Committee.

### **Accounts Holding Exclusively Mutual Funds:**

- The Investment Manager shall avoid purchasing mutual funds that as their primary investment strategy utilize short selling, securities lending, option trading, financial futures or other hedging or derivative transactions. It is understood that certain mutual funds may from time to time engage in these transactions as one of their overall portfolio management strategies. The key is that it should not be their primary focus.
- There shall be no investments in non-marketable securities without prior written approval from the Committee.
- The Investment Manager shall attempt to assure that no single stock or bond position exceeds 5% of the total portfolio for all Foundation accounts in aggregate with the Investment Manager. One exception would be any securities issued by the U.S. Government or its agencies. The Foundation understands that due to the nature of investing in mutual funds this is unlikely to occur in the first place; however, it is expected that the Investment Manager will periodically review the underlying mutual fund portfolios to avoid a situation where any single holding may overlap among a number of funds and cause that holding to be disproportionately large.
- The Investment Manager shall maintain a portfolio that is widely diversified among sectors as defined within the S&P 500. The Foundation recognizes that this is difficult to monitor with mutual funds; however the Investment Manager will take steps to assure that proper diversification is maintained.
- The Investment Manager shall put together a well-diversified fixed income portfolio; take steps to keep the overall exposure to high yield securities to no more than 5% of the underlying fixed income portfolio; and take steps to assure that investments in emerging market debt do not exceed 5% of the underlying fixed income portfolio.
- The Investment Manager has discretion to invest in international mutual funds that may or may not utilize currency hedging, within the Foundation's asset allocation guidelines.
- With respect to international mutual funds, the Investment Manager shall take steps to assure that the exposure to emerging market equities not exceed 20% of the total international equity exposure.



- The underlying fixed income portfolio must retain an overall average credit rating of “A” or better by both Moody’s and the Standard & Poor’s rating services.

**REPORTING AND COMMUNICATION POLICY**

**Investment Manager’s communications with Foundation Staff:**

- Provide quarterly portfolio valuation and transaction listings.
- Provide quarterly portfolio reports.

**Committee communications with Investment Managers:**

- Provide Investment Managers with Investment Policy changes.
- Discuss cash flow trends and any other matters that may bear upon the portfolio.

**Committee communications with the Board:**

- The Committee will provide reports on the status of Foundation investments as needed, but not less than annually.

**INVESTMENT MANAGER REVIEW**

The Investment Manager is encouraged to provide any suggestions regarding appropriate adjustments in this statement or the manner in which investment performance is reviewed.

Acknowledged: \_\_\_\_\_ Date: \_\_\_\_\_  
 The Licking County Foundation

Acknowledged: \_\_\_\_\_ Date: \_\_\_\_\_  
 Investment Manager

Adopted by the Governing Committee of The Licking County Foundation on May 23, 2019.