

# COMMUNITY FOUNDATION *for* MUSKEGON COUNTY

## INVESTMENT POLICY STATEMENT

### 1. Purpose and Authority

This Investment Policy Statement serves as the guideline for management of the Community Foundation for Muskegon County (CFFMC) investment portfolio. The CFFMC Board of Trustees uses this policy to aid in the fulfillment of its fiduciary responsibility for the general management of the investment portfolio. Although the CFFMC delegates decisions to the Investment Committee, the Board of Trustees remains ultimately responsible for these primary responsibilities:

- Determining investment goals and objectives
- Choosing an appropriate asset allocation strategy
- Establishing an explicit, written investment policy consistent with the goals and objectives
- Approving appropriate investment advisors, money managers, mutual funds, or other "prudent experts" to implement the investment policy
- Monitoring the activities of the overall investment program for compliance with the investment policy
- Avoiding conflicts of interest and prohibited transactions

Investment Committee actions are monitored and approved through reporting at CFFMC Board of Trustees Meetings.

### 2. Investment Committee

CFFMC By-Laws state the Investment Committee shall act as liaison between the Board of Trustees and the fiscal agents employed, monitor investment performances and make recommendations to the Board of Trustees regarding investment performance issues. The Committee is responsible for the establishment, implementation and oversight of the Foundation's investment program within the guidelines provided by the CFFMC Board of Trustees. The Committee may delegate certain decisions to professional money managers, trustees and/or investment advisors and consultants. Even when decisions are delegated, the Committee still retains the same primary responsibilities as noted above for the Board of Trustees.

*See Addendum A for detailed list of Investment Committee tasks.*

### 3. Role of CFFMC Staff

Staff is responsible for administration of this Investment Policy, recommending Investment Advisors or Consultants, recommending Custodians, and performing such duties as may from time to time be assigned by the Investment Committee. In performing these duties Staff retains the same primary responsibilities as noted above for the Board of Trustees.

*See Addendum before detailed list of Staff tasks.*

#### **4. Spending Policy**

Spending of funds is determined primarily by the donor's stated charitable intent as to spending and preservation of principal.

The Foundation has established a spending guideline of 5% - 6% absent specific donor intent. This spending includes; grants, administrative fees, and investment expenses. Under this spending guideline and absent direction from the donor, the Foundation will make grants of 4% from unrestricted funds.

*See Addendum for additional spending policy discussion.*

#### **5. Investment Goal, Objectives, Time Horizon, and Asset Allocation**

The primary investment goal for the Foundation will be to provide for long-term growth of capital to fund its perpetual grant making role. A perpetual grant making objective should be matched with a long-term investment horizon leading to a more aggressive asset mix and higher returns. The Foundation has adopted a long-term investment horizon.

The total long-term investment return objective is to equal or exceed the spending target plus the rate of inflation (e.g., 5% - 6% + Inflation). Our long-term objective is to exceed the CPI Index by 6%.

A second objective is for total investment return to meet or exceed the CFFMC Balanced Index Benchmark, which is comprised of 39% CRSP US Total Market Index, 31% FTSE Global All ex US, 5% MSCI US Investable Market Real Estate 25/50 Index, 25% Bloomberg Barclays US Aggregate Float adjusted TR Index.

The strategic asset allocation decision is one of the most critical financial issues board members face. It will have a much greater impact on the Foundation's long term financial position than the relative performance of its individual investment managers. As much as 90% of a fund's relative performance is attributable to the asset mix decision.

For individual managers, the objective is to achieve market benchmark returns for passive investments and to exceed market benchmark returns, on a risk-adjusted basis, for actively managed investments.

We recognize the need to accept risk associated with our long term return target, but will work to minimize it by appropriate diversification of assets. The CFFMC portfolio is expected to achieve returns commensurate with the CFFMC Balanced Index Benchmark with equal or less risk, as measured by standard deviation and beta.

Disciplined management of the asset mix among classes of investments is both a necessary and desirable responsibility. In the allocation of assets, diversification of investments among asset classes that are not similarly affected by economic, political, or social developments is expected. Consequently, the general policy shall be to diversify investments so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class or investment category. The diversification does not necessarily depend upon the number of industries or companies in a portfolio or their particular location, but rather upon the broad nature of such investments and of the factors that may influence them.

For the traditional, passive component of the portfolio, the investment advisor will actively manage the asset allocation based on their determination of market valuations, but remain within an acceptable range at all times. Should any category move out of acceptable range due to market movements, the investment advisor will use prudence in rebalancing the portfolio following these guidelines:

1. Utilize incoming cash flow (contributions) or outgoing money movements (disbursements) of the portfolio to realign the current weightings closer to the target weightings for the portfolio.
2. The portfolio will be reviewed quarterly to determine the deviation from target weightings. During each quarterly review, the following parameters will be applied:
  - a) If any asset class (equity or fixed income) within the portfolio is +/-5 percentage points from its target weighting, the portfolio will be rebalanced.
3. The investment manager may provide a rebalancing recommendation at any time.
4. The investment manager shall act within a reasonable period of time to evaluate deviation from these ranges.

| <b>Aggregate Strategic Asset Allocation Guidelines Asset Class</b> | <b>Long-Term Target</b> | <b>Min</b> | <b>Max</b> |
|--|-------------------------|------------|------------|
| Variable Return/Equities   | <b>65%</b>              | <b>35%</b> | <b>85%</b> |
| Fixed Income   | <b>25%</b>              | <b>5%</b>  | <b>35%</b> |
| Real Assets /Real Estate/Absolute Return                           | <b>10%</b>              | <b>5%</b>  | <b>20%</b> |
| Cash   | <b>0%</b>               | <b>0%</b>  | <b>10%</b> |

*See Addendum for additional asset allocation policy discussion.*

### **Investment Guidelines and Parameters**

It is recognized that a wide range of investments should be considered and used by the CFFMC to provide appropriate diversification and risk control. Investments should be made in a variety of variable return and fixed income type of investments, both domestic and international. CFFMC guidelines for investment managers are in Addendum E.

Many investments are made with pooled/mutual fund investment managers, where the CFFMC cannot dictate policy. It is our intent to select and retain only pooled/mutual funds with policies similar to the guidelines in Addendum E.

All types of alternative investments, including but not limited to; real assets (inclusive of REITS), private equity, venture capital and limited partnerships are open to consideration. Currently, the only types of alternative investments approved in the asset allocation guideline are hedge funds and REITS. Hedge funds are utilized in the portfolio to provide an absolute return strategy, defensive protection in challenging markets and low correlation to traditional equity and fixed income managers.

Investments in hedge funds shall be made through a fund-of-funds vehicle to provide appropriate diversification by manager and strategy. Investments in hedge funds will be used to diversify the overall portfolio and enhance total return. Derivative securities may be utilized indirectly as part of a diversified hedge fund-of-funds strategy. It is understood that hedge funds have limited liquidity (typically annual redemption) and are private partnerships that may experience high variability of returns. It is the Committee's intent to only retain those hedge funds that have characteristics consistent with lower volatility strategies and whose historical standard deviation of returns is in line with that of the Bloomberg Barclays Aggregate Index. The Committee shall consider certain criteria including, but not limited to, the following in its evaluation of a fund:

- a. Tenure and track record of management as a team;
- b. Expertise in targeted areas of investment;
- c. Diversification relative to other investments;
- d. Use of leverage;
- e. Liquidity of investments;
- f. Maintain registration with the SEC

The Foundation will only invest in offshore limited partnership shares ~ to avoid "Unrelated Business Taxable Income" (UBTI) ~ and its investment will not comprise more than 10% of any individual partnership's assets.

## **6. Investment Advisor Responsibilities**

An Investment Advisor is used by the CFFMC to provide professional advice and guidance in developing and monitoring the CFFMC investment strategy. The Investment Advisor is also relied on to recommend investment options. This advice and guidance shall include the relevant information needed for the Investment Committee to manage a prudent investment process.

*See Addendum for detailed list of Investment Advisor tasks.*

## **7. Custodian Responsibilities**

The Foundation may choose to utilize custodians to hold some or all of its investments. Where a custodian is utilized, the role of the custodian is to: 1) Hold securities for safekeeping; 2) Report holdings and transactions; 3) Collect interest and dividends; 4) if required, affect trades; and 5) provide support for required reporting.

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## **Addendum A - Investment Committee Tasks**

1. The Investment Committee holds regular meetings about six weeks following the end of a calendar year quarter. Standing agenda items for these regular meetings include:
  - Approval of last meeting minutes
  - Staff Reports
  - Review Investment Advisor Report & Recommendations
    - Changes in asset allocation

- Re-balancing
  - Investment manager changes
  - Review Investment Advisor due diligence review or educational materials when approving new investment options
2. Evaluate CFFMC investment practices against benchmark information and best practices. Benchmark investment performance and spending policy information is available from Council of Foundations. Best practice fiduciary information is available in [A Handbook for Investment Fiduciaries](#), written by the Foundation for Fiduciary Studies.
3. Items to be reviewed on an annual basis:
- Investment Policy Statement
  - Investment Advisor Performance
  - Investment Manager / Mutual Fund Performance (through Investment Advisor)
  - Custodian Performance
  - Investment Advisor guidance on establishing a diversified portfolio that meets the CFFMC Investment Goals and Objectives:
    - A risk level has been identified
    - An expected, model return to meet investment objectives has been identified
    - An investment time horizon has been identified
    - Selected asset classes are consistent with the identified risk, return, and time horizon
  - Spending policy (relationship to Investment Goals and Objectives)
  - All fee structures
  - Internal Controls

### **Addendum B - Staff Tasks**

#### Tasks:

- Update Investment Committee on applicable laws
- Maintain schedule of documents & records to be maintained for investment management (e.g., contracts)
- Prepare Combined Investment Fund activity report and reconcile to balance sheet
- Maintain documentation on Internal Controls for investment
- Maintain schedule of persons authorized to make investment transactions
- Maintain documentation on Donor precatory requests for handling of investments
- Monitor service vendors
- Report to Investment Committee on an annual basis

### **Addendum C - Investment Advisor Tasks**

CFFMC will retain an Investment Advisor to provide professional advice and guidance in developing and monitoring the CFFMC investment strategy. The Investment Advisor is also relied on to manage the portfolio. This advice and guidance shall include the relevant information needed for the Investment Committee to manage a prudent investment process.

Guidance on establishing a diversified portfolio that meets the CFFMC Investment Goals and Objectives will include:

- A risk level has been identified
- An expected, model return to meet investment objectives has been identified
- An investment time horizon has been identified
- Selected asset classes are consistent with the identified risk, return, and time horizon

Due diligence criteria for recommending investment options will include:

- Performance relative to market benchmark
- Performance relative to peer group
- Performance relative to assumed risk
- Inception date of product
- Assets under management
- Expense ratios or fees
- Stability of the organization

Guidance on monitoring of investment strategy will include:

- Quarterly reports which compare investment performance against appropriate index, peer group, and CFFMC Investment Policy Statement objectives
- Recommendations to rebalance portfolio
- Periodic reviews are made of qualitative and/or organizational changes of investment decision makers
- Control procedures are in place to periodically review policies for best execution, soft dollars and proxy voting
- Fees for investment management are consistent with agreements and the law
- "Finder Fees", 12B-1 fees, or other forms of compensation that may have been paid for asset placement, are appropriately applied, utilized, and documented

### **Addendum D - Spending Policy & Asset Allocation**

CFFMC has set a spending guideline of 5% to 6%. Actual spending is influenced by donor wishes and actual investment returns.

Grant guidelines for funds at CFFMC, within our spending policy:

- Donor intent is first consideration
- Target grant making in 4% to 5% range
- Unrestricted funds grant target is 4% applied to rolling 16 quarter fund balance
- Endowment fund grants are limited to accumulated earnings (i.e., principal will not be granted)

What is the appropriate level for grants from a fund?

When donors' intend for their gift to be a permanent fund that will provide grants in perpetuity (an endowment fund), an annual amount to spend on grants must be determined.

When the donor is most concerned with current opportunities to invest in the community, it is appropriate to move to the higher end of the target grant range (e.g., 5%). When the donor is more focused on providing a growing long term source of grants, it is appropriate to move to

the lower end of the target grant range (e.g., 4%).

Some donors have established funds, which are left to the discretion of the Trustees of CFFMC. Absent direction from the donor, CFFMC will focus on providing a growing long term source of grants and has set a grant target of 4%. Three thoughts drive this direction:

- First, we believe it is reflective of the intent of many of the donors of these funds (for good for ever).
- Second, a more conservative grant level increases the ability to maintain grants in difficult financial markets (often the time when community needs are the greatest). It also takes advantage of the endowment experience that less current spending creates more total spending (less is more).
- Third, current needs in our community are a good opportunity to encourage and engage donors. Ultimately the success of the foundation is dependent on matching donors with community needs.

Why use a rolling 16 quarter fund balance?

We believe this benefits the community by providing a more level amount for grants. This is especially helpful in down markets, when community needs are often at a high level.

Illustrative CFFMC spending with 5% to 6% guideline:

|                             | Organizational |             | Designated   |              | Advised & Unrestricted |              | General Scholarship |             |
|-----------------------------|----------------|-------------|--------------|--------------|------------------------|--------------|---------------------|-------------|
| <b>Total Spending</b>       | <b>5.0%</b>    | <b>6.0%</b> | <b>5.0%</b>  | <b>6.0%</b>  | <b>5.0%</b>            | <b>6.0%</b>  | <b>5.0%</b>         | <b>6.0%</b> |
| Administrative Fees         | 1.0%           | 1.0%        | 1.25%        | 1.25%        | 1.75%                  | 1.75%        | 2.0%                | 2.0%        |
|                             |                |             |              |              |                        |              |                     |             |
| <b>Available for Grants</b> | <b>4.0%</b>    | <b>5.0%</b> | <b>3.75%</b> | <b>4.75%</b> | <b>3.25%</b>           | <b>4.25%</b> | <b>3.0%</b>         | <b>4.0%</b> |

Illustrative CFFMC return target with 5% to 6% spending:

|                         |            |            |            |
|-------------------------|------------|------------|------------|
| Spending                | 5.0%       | 5.5%       | 6.0%       |
| Inflation               | CPI Index  | CPI Index  | CPI Index  |
| Composite Return Target | 5.0% + CPI | 5.5% + CPI | 6.0% + CPI |

## **Addendum E - Investment Manager Policy Statement**

### MANAGER EVALUATION

Each investment manager will be evaluated by the Investment Advisor and Investment Committee on an ongoing basis and this evaluation will include the following:

- a. Avoidance of regulatory actions against the firm, its principals, or employees.
- b. Adherence to the guidelines and parameters of this Investment Policy Statement.
- c. Ability to meet the return (net of fees) of the appropriate benchmark and, for non-index equity managers, produce positive alpha (risk-adjusted return) with a beta of less than 1.20.
- d. Ability to exceed, over a complete market cycle, the median performance of a peer group

of managers with similar styles of investing.

## General

Each investment manager shall:

- a. Have full investment discretion with regard to security selection consistent with this Investment Policy Statement.
- b. Immediately notify the CFFMC in writing of any material changes in the investment outlook, strategy, portfolio structure, ownership or senior personnel;
- c. Make no purchase that would cause a position in the portfolio to exceed 5% of the outstanding voting shares of the company or invest with the intent of controlling management;
- d. Not invest in non-marketable securities;

## GUIDELINES AND PARAMETERS

In today's rapidly changing and complex financial world, the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner in which investment risk is managed, will determine whether an appropriate standard of reasonableness, care and prudence has been met for the CFFMC's investments.

### Equity Guidelines

Each equity investment manager shall:

- a. Assure that no position of any one company exceeds the index weight +/- two percent of the manager's total portfolio as measured at cost and the index weight +/- three percent at market value;
- b. Vote proxies and share tenders in a manner that is in the best interest of the Foundation and consistent with this Investment Policy Statement;
- c. Maintain adequate diversification among economic sectors.
- d. Permissible holdings include common stocks or ADRs listed on a major U.S. exchange, common stocks traded through the NASDAQ, common stocks listed on major international exchanges, exchange traded funds (ETF's), securities convertible into common stock, mutual funds, real assets, and bank-pooled funds.

### Fixed Income Guidelines

Each fixed income investment manager shall comply with the following:

- a. No corporate obligation may be purchased whose rating by either Standard & Poor's Corporation or Moody's Investor Service is less than BBB or Baa. The overall dollar weighted average credit quality of the portfolio should be maintained at A1 / A+ or higher.
- b. All issues must be rated by at least one of the above rating agencies;
- c. Assure that no position of any one issuer shall exceed 5% of the manager's total fixed income portfolio as measured at cost except for securities issued by the U.S. government or its agencies;
- d. Maintain a duration within +/- 20% of the effective duration of the benchmark;
- e. With respect to the corporate sector of the portfolio, invest no more than 25% of the



- portfolio in any one economic sector;
- f. Permissible holdings include debt securities issued or guaranteed by the U.S., including Federal Agency securities; corporate bonds, debentures, and other forms of corporate debt obligations, including equipment trust certificates; and other variable rate obligations, Eurobonds or "Yankee Bonds"; preferred stock; mutual funds, exchange traded funds (ETF's), certificates of deposit; bankers acceptances; or commercial paper with ratings of at least A-1 (Standard & Poor's) or P-1 (Moody's);
  - g. The Foundation is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code; consequently, securities with tax-exempt features should be avoided except in very unusual circumstances.

### Cash and Equivalents

The investment manager's cash portion of the endowment fund shall be invested in a short-term investment fund administered by the investment manager.

- a. No security will have more than 30 days to maturity at the time of purchase; and
- b. Permissible investments include any security issued by the U.S. government and commercial paper or bankers acceptances rated at least A-1 or P-1 and fully insured or collateralized deposits in U.S. banks.

## **Addendum F – Local Impact Investing**

### **Background**

Every community within the Community Foundation's 3- county service area has needs and goals related to downtown, neighborhood, or economic development. As the communities pursue these goals, the challenges they must overcome include lack of investment capital or affordable financing. The Community Foundation has been very active through the years in making loans on a case by case basis, guided by the parameters of its Program Related Investment program. Over the past several years, the Investment Committee has researched and studied ways we could complement our PRI program by unlocking the power of our endowed assets through the use of Local Impact Investing tools as an integrated part of our investment portfolio. This Addendum to our Investment Policy is the culmination of that work and its purpose is to establish the parameters for our expanded investment and development of resources in the community. Through the creation of a Local Impact Investment Policy we are seeking to provide a framework to: Create new sources of investment capital in order to provide community development benefits to our community; Increase our donors' philanthropic impact in our region; and Provide an example that will inspire others to leverage their assets for creating greater community impact. This addendum outlines the policies and guidelines of the Program.

### **Authority**

All Local Impact Investments must be approved by the Board of Trustees after recommendation by the Investment Committee. The Committee will meet as needed to review investment proposals.

### **Allocation**

The Local Impact Investments shall be considered investments which are part of the "Fixed Income" portion of our Asset Allocation. However, at no time shall Local Impact Investments comprise more than 5% of our combined portfolio, divided pro rata among the three counties included in the Community Foundation for Muskegon County, based on each county's total

invested assets in the portfolio.

## **Guidelines**

The Program will be managed based on the following guidelines:

1. Investments may be made directly, in partnership with others, or through intermediaries. Intermediaries may include, by way of example and not limitation, nonprofits such as community development financial institutions or for-profits such as investment managers.
2. The Local Impact Investments program will be an integrated portion of the Foundation's traditional investment pool. The Committee may also offer, as an additional option to Donor Advised Funds, participation in specific investments.
3. Investments can be made in both nonprofit and for-profit entities, and are intended to earn market rates of return (net of expenses and fees).

## **Investment Criteria**

1. Projects that qualify for consideration must:
  - a. need the Foundation's investment capital in order to happen;
  - b. create jobs, real estate development, or commercial or retail activity in the areas identified by the surrounding community and by the Community Foundation Board or Affiliate Advisory Board as economically disadvantaged, deteriorated, or designated for downtown development; and
  - c. if structured as a loan, have collateral of the type and amount as recommended by the Committee. Whenever possible, the investment will be secured by way of mortgage, personal guaranty, or other meaningful collateral or protections against loss.
2. The applicant may be a for-profit or non-profit entity, but must have an identifiable source of income or asset base for repaying the Foundation's investment.
3. If there are concerns regarding how secure or sufficient the sources of repayments might be, the investment could be further secured by a guarantee from a financially stronger entity.
4. The Foundation prefers to invest in entities with a prior track record of repaying invested capital and/or entities led by a management team with such experience.
5. Repayment schedules will be negotiated on a case-by-case basis based on the borrower's anticipated sources of repayments.
6. Investees will be expected to pay closing costs equal to legal fees incurred by the Foundation and, particularly for direct investments, the Foundation's transactions costs. Whenever possible, the Foundation will use the investee's or intermediary's standard loan and investment documents.
7. Every investment agreement shall provide that an investment that remains unused after one year from the date of its issuance shall automatically revert back to the Foundation.
8. No Local Impact Investment shall have a time horizon greater than 10 years, and not more than 50% of the portfolio shall have lengths of terms that exceed 7 years.
9. The aim of these investments is to maximize overall social impact in our region most in need while maintaining a moderate risk profile. The underlying intent is to minimize loss

and preserve capital.

10. The financial benchmark for return is Barclays US Aggregate Float adj Index.

11. Each project will also be evaluated on the specific outcome(s) that the project intends to impact.

### **Process**

All Local Impact Investment opportunities will be processed as set out below.

Staff, Board and Committee members may identify opportunities. Staff will perform initial due diligence. Diligence will include the review of:

- Three years of audited financials
- Business plan
- Bios and resumes of Executive Leadership

The due diligence process will also include legal due diligence on whether the potential investee has violated any significant legal or regulatory obligations. For investments in intermediaries, due diligence would include a review of loss reserves, loss experience, delinquencies, investment committee process and membership, and underwriting guidelines.

An investment summary memo regarding any Local Impact Investment opportunity will be submitted to the Investment Committee for review and approval. Final approval will be sought from CFMC Board of Trustees. Following that approval, staff will be authorized to execute documents.

**Board Approved Addendum F: February 27, 2017**

**Updated IPS Adopted by the Board of Trustees: 2-26-2018**

**Updated Fund Fees (Impacting Spending Guidelines) Adopted by Board: 3-02-2020**

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