



THE COMMUNITY FOUNDATION

Rochester Area Community Foundation

Investment Policy

Investment Policy Statement

The purpose of this investment policy (the Policy) is to establish a formal framework in which to manage endowment, quasi-endowment and similar investment assets of Rochester Area Community Foundation – (collectively, the Portfolio).

The Board of Directors of Rochester Area Community Foundation (the Community Foundation) has the fiduciary responsibility to establish the parameters under which the assets of the Community Foundation are managed. These parameters include risk levels, asset allocation, diversification guidelines, credit quality, and the selection of investment managers and/or consultants who will most effectively implement the investment plan. The Board of Directors has delegated its oversight to the Investment Committee of the Community Foundation. It is the role of the Investment Committee to provide oversight and stewardship of the assets entrusted to the Community Foundation by its benefactors. The Board of Directors and Investment Committee recognize that sound investment practices and procedural prudence are the keys to fulfillment of their fiduciary responsibility.

The Investment Committee shall review this Policy at least once a year and provide any recommended changes to the Board of Directors for its review and approval in order to assure consistency in attaining the goals and viability of the program.

This Policy outlines the following:

- Investment Philosophy and Mission
- NYPMIFA
- Asset Allocation
- Diversification Requirements
- Credit Quality
- Manager Selection and Review
- Statement of Spending Policy

1. Investment Philosophy and Mission

The Board of Directors and staff of the Community Foundation strive to exercise good stewardship of the assets entrusted to the Community Foundation. The investment of the Portfolio is made in accord with the following principles:

- A. **Mission of the Community Foundation** – Investments are made in accordance with the mission of the Community Foundation, to support its grantmaking, and insure the long-term viability of the organization.
- B. **Prudence** – In accordance with the concept of the prudent investor, this Policy is based on a flexible, balanced fund approach to

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accomplish the goals of the Community Foundation and yield an appropriate return given the level of risk undertaken. The Community Foundation will use a total rate of return to establish its spending policy, as defined by this Policy. (Refer to *Funds Subject to Investment Policy: 1. Charitable Endowment Funds.*)

2. Fundamental Concepts

The Board of Directors stresses an investment approach which seeks to grow the assets of the Community Foundation over time, preserve the purchasing power of the assets, control risk, and provide for the spending needs as specified by the spending policy of the Community Foundation or recommended by its donors. The Board of Directors and the Investment Committee recognize that:

- A. Inflation erodes the purchasing power of assets of the Community Foundation;
- B. Global economic growth is likely to continue;
- C. Any investment requires the assumption of risk.

The Investment Committee believes that the goals of capital appreciation, protection against inflation, and generation of sufficient income and returns for funding the spending policy of the portfolio can best be achieved by structuring a flexible, balanced fund approach.

The Policy shall cover the following investments:

- Charitable Endowment Funds
- Charitable Investor FundsSM

In managing and investing the Portfolio, the Community Foundation may incur only costs that are appropriate and reasonable in relation to the Portfolio assets, the purposes of the Community Foundation, and the skills available to the Community Foundation. The Investment Committee shall make a reasonable effort to verify facts relevant to the management and investment in the Portfolio. Under certain circumstances, the Investment Committee may deem it necessary to delegate this to the Community Foundation's investment consultant.

3. New York Prudent Management of Institutional Funds Act

As required by the New York Prudent Management of Institutional Funds Act (NYPMIFA), the Community Foundation considers the following factors when investing its assets:

- A. General economic conditions;
- 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 overall investment portfolio of the fund;
- E. The expected total return from income and the appreciation of investments;
- F. Other resources of the Community Foundation;
- G. The needs of the Community Foundation and the fund to make distributions and to preserve capital; and
- H. An asset's special relationship or special value, if any, to the purpose of the Community Foundation.

The Portfolio shall be invested with the care an ordinarily prudent person in a like position would exercise under similar circumstances. Investment of the Portfolio shall be so diversified as to minimize the risk of large losses, unless the Investment Committee prudently determines that, because of special circumstances, the purposes of the Portfolio are to be better served without diversification. The Investment Committee shall review a decision not to diversify as frequently as circumstances require, but at least annually.

The Investment Committee may employ one or more investment managers of varying styles and philosophies to attain this Policy's objectives. Any person who has special skills or expertise, or is selected in reliance upon the person's representation that the person has special skills or expertise, has a duty to use those skills or that expertise in managing and investing the Portfolio.

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1. Asset Allocation

Given the above stated goals, the Portfolio shall be managed as follows:

- A. Nominally, the equity pool of the Portfolio should be invested in common equities including domestic as well as international or non-domestic equities. No more than 5% of the total equity portion of the Portfolio shall be invested in the equity securities of any one issue. For purposes of determining this for mutual funds and limited partnerships used within the Portfolio, these investments shall not be considered the issuer of securities but rather the underlying investments within these funds will be used to calculate the overall equity position. Equities should be diversified by economic sector and in multiple industries to assure diversified exposure to various sectors of the economy.

Within the equity portion of the Portfolio the Investment Committee will consider diversification by style and market capitalization.

- B. Nominally, the fixed income pool of the Portfolio should be invested in fixed income securities as described below:
1. Investment Grade (as measured by a nationally recognized rating service such as Moody's or Standard & Poors), marketable corporate notes or bonds including convertible bonds.
 2. Non-investment grade securities.
 3. U.S. Government treasury or agency bills, notes or bonds including Treasury Inflation Protected Securities (TIPS).
 4. High quality, short-term money market instruments, certificates of deposit, commercial paper generally with an A1/P1 rating.
 5. High quality mortgage-backed securities.
 6. International bonds including developed and emerging market debt.
- C. In order to enhance investment results, the Community Foundation may elect to invest in alternative investment strategies including, but not limited to multi-strategy hedge funds, long/short equity hedge funds, private equity, real estate and REITS. These investments are made with the intention of raising the Community Foundation returns and/or lowering total volatility.

- D. Tax-exempt issues are not appropriate for the Portfolio by virtue of the Community Foundation's tax-exempt status.
- E. Individual manager or fund liquidity should be limited to residual cash and income received. In general money market positions should be 5% or less.
- F. Except as set forth in C above, managers may not employ leverage, margin, short sales or buy/sell uncovered options without the express prior written permission of the Investment Committee.
- G. Assets will be re-balanced by the staff to meet the asset allocation requirements as directed by the Investment Committee as defined in the *Current Investment Operating Guidelines*.

2. Implementation

Generally, portions of the Portfolio will be managed by independent investment managers with full discretion subject to the objectives and constraints imposed in this Policy. The fixed income portion of the Portfolio may be managed by investment advisors and/or laddered by maturity in a buy/hold strategy directed by the Investment Committee. Alternative investments may be managed by individual managers or fund of fund managers.

The investment managers shall be reviewed at least annually by the Investment Committee or its delegated consultant as requested by the Investment Committee to review their Portfolio holdings, transactions and investment performance. Securities will, whenever possible, be held in a custodial arrangement with an independent custodian unless there is prior approval of the Investment Committee. Monthly custodial statements shall be sent to the financial officer of the Community Foundation and will constitute the official valuation statement of the Portfolio. Each investment manager is required to submit periodic reports as determined by the Investment Committee and the staff.

Certain Community Foundation investments may be part of a co-mingled fund or limited partnership. In such cases, securities may not be held by an independent custodian. The Investment Committee should favor investment managers who operate in a manner which would allow the Community Foundation's securities to be held by an independent custodian.

3. Due Diligence for Selecting Investment Managers

In order to accomplish the goals and objectives of the Community Foundation, it is important that the Investment Committee engage qualified and competent investment professionals to manage the Portfolio. The Investment Committee will consider the following factors when selecting investment managers:

- **Performance Adherence to Stated Investment Style** - The investment manager has a clearly articulated investment strategy and demonstrated discipline.
- **Performance Against Peers** - Time-weighted actual quarterly results, over the long-term, outperform peer group median.
- **Performance relative to assumed risk** - Evaluated using statistical measures such as Sharpe Ratio, Alpha, and Standard Deviation of returns.
- **Performance of Key Decision Makers** - Same portfolio manager (or portfolio management team) for 2-3 years, at least \$75 million under management.
- **Performance of Organization on Expense Control** - Expense ratio, fees, execution, and reasonable soft-dollar arrangements.
- **Performance of Overall Organization** - Stability, absence of regulatory problems, ability to handle growth.

The Investment Committee shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in: selecting, continuing or terminating an investment manager, including assessing the investment manager's independence, including any conflicts of interest such investment manager has or may have; establishing the scope and terms of the delegation, including the payment of compensation, consistent with the purposes of the Community Foundation and the Portfolio; and monitoring the investment manager's performance and compliance with the scope and terms of the delegation. In performing a delegated function, an agent owes a duty to the Community Foundation to exercise reasonable care, skill and caution to comply with the scope and terms of the delegation.

It shall be the Investment Committee's responsibility to interview investment managers that have at least three years experience and track record and who have demonstrated skill in their defined area of expertise. Such responsibility may be delegated to an independent consultant. Recognizing that many good firms do not subscribe to AIMR (Association for Investment Management and Research) standards, the Investment Committee should strive to select managers that are AIMR compliant and composite returns should be audited.

Each investment manager is to be given a copy of this Policy and must agree to its terms unless there is a separate written agreement approved by the Investment Committee. Each manager shall compare its returns to an index that

is appropriate to its investment style, as agreed to by the Investment Committee and the respective investment manager. The Investment Committee will use the most appropriate active and passive indices.

4. Evaluation and Termination of Investment Managers

Investment managers will be evaluated on rolling 3- and 5-year periods based on their performance against their benchmark, client service and communications, adherence to the terms of the investment policy, continuity of key professionals and ownership structure, style discipline, and spending policy requirements.

The Investment Committee should use reports and data that enable comparison of performance to the appropriate benchmarks and peer managers by style. These reports should be provided to the Investment Committee on a quarterly basis, and should be regularly reported to the Board. Should the Investment Committee so determine, it may engage the services of a consultant to provide comparative data for the Investment Committee's consideration.

Investment managers that do not meet the expectations of the Investment Committee shall be given fair notice. It is important to recognize that there may be periods of underperformance by good managers. The Investment Committee must endeavor to monitor performance issues over the rolling 3- and 5-year periods to determine if an investment manager should be terminated.

In the case of hiring a new investment manager to replace a terminated manager, or the need to add an additional investment manager, the Investment Committee, acting as a whole or members thereof acting as an *ad hoc* committee, will interview and evaluate potential new investment managers. The Investment Committee may utilize and delegate the services of an outside consultant in the search process including the interview process. Hiring a new manager will require the approval of the Investment Committee. These actions should then be communicated to the Board of Directors.

5. Implementing a Diversity Lens in our Investment Manager Selection

This initiative is targeted toward our fiduciary duty to maximize risk-adjusted returns. To that end, the Investment Committee will appoint the best possible managers while ensuring that we actively consider qualified women and people of color. In keeping with the principles described by the Association of Black Foundation Executives (ABFE), a Philanthropic Partnership for Black Communities, our measure of success is not a target number of managers or assets. We believe that hiring a diverse pool of quality investment managers is essential for achieving the goal of maximizing returns: it demonstrates a focus on finding the best investment management talent and aligns with the mission of community philanthropy by helping to build wealth in communities of color and among women.

For tracking we will adopt the following definition of minority- and/or woman-owned investment management firms as one in which ownership is greater than 50% Asian, Black, Latinx, Pacific Islander, or Alaskan Native, or female.

The Investment Committee will engage in this effort in three ways:

- A. Asking the consultant to report, at least annually, on its efforts to expand its universe of managers to include firms with diversity in ownership. Further, the consultant will regularly report upon the diversity of its own staff and diversity initiatives.
- B. When proposing managers, the consultant will provide information on the firm's diversity in both leadership (i.e. race and gender representation in senior staff) and ownership (i.e. race and gender representation in ownership) as well as its Diversity Initiatives.
- C. Each year the Investment Committee will receive a report from the consultant on the percentage of the portfolio allocated to managers that are minority and/or woman owned (as defined above).

Funds Subject to the Investment Policy:

1. Charitable Endowment Funds

The Community Foundation's endowment and quasi-endowment funds are managed with a long-term horizon using the total rate of return approach. The assets are invested in the equity, fixed income and alternative investment pools of the Community Foundation using an asset allocation of 70% equities as defined by the equity pool's strategic sector allocation, 20% fixed income as defined by the fixed income pool and 10% alternative investments as defined by the alternative investment pool.

The Board of Directors and the Investment Committee believe that this asset allocation will maintain the purchasing power and future grantmaking capability of the endowment funds over the long term.

Funds expended for grantmaking and administration are included in the Community Foundation's spending under this Policy. The level of income available for grantmaking is set at five percent (5%) of the rolling twenty-quarter average market value of the Charitable Endowment Funds. This spending policy adjusts for unusual short-term market fluctuations, thereby giving predictability to future distributions. The amount of spending policy includes interest, dividends and appreciation. If a fund does not have enough appreciation to make spending policy, only interest and dividends are available for spending.

The Community Foundation has a separate administrative fee structure for endowment funds.

The Investment Committee shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors: the duration and preservation of the Charitable Endowment Funds; the purposes of the Community Foundation and the Charitable Endowment Funds; general economic conditions; the possible effect of inflation or deflation; the expected total return from income and the appreciation of investments; other resources of the Community Foundation; where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the Charitable Endowment Funds, giving due consideration to the effect that such alternatives may have on the Community Foundation, and the investment policy of the Community Foundation. For each determination to appropriate for expenditure, the Community Foundation shall keep a contemporaneous record describing the consideration that was given by the Investment Committee to each of the factors enumerated above.

2. Charitable Investor FundSM

The Charitable Investor FundSM (the CIF) allows the Community Foundation to consider the asset allocation request of the donor, such that the investment allocation will complement the charitable purposes and expected duration of the CIF. Both income and principal may be distributed for charitable purposes. Investments are pooled with the Community Foundation's endowment portfolio. They are divided among the equity pool, the fixed income pool and the alternative investment pool in varying asset allocation tracks selected for aggressive, long-term, balanced, moderate or conservative growth.

Each allocation track includes a five percent (5%) cash position for grantmaking liquidity.

Guidelines for Other Funds:

1. Expenditure Funds

The Community Foundation will hold funds awaiting distribution or disbursement in an expenditure fund (the Expenditure Fund). Since these monies will be spent within a short period of time, the investment objective shall be to produce current income and have low expected variability of principal. The Expenditure Fund is expected to earn competitive yields or returns available in the money market or short-term fixed income market. We recognize that since the Community Foundation uses a total rate of return approach, changes in Net Asset Value (NAV) can have an adverse short-term effect on the operating budget of the Community Foundation.

This Expenditure Fund shall use institutional money market fund(s), short-term fixed income funds, and short-term U.S. Government treasury or agency securities. For the purposes of this policy, "short-term" will be defined as having a final maturity of three years or less.

The fund or funds used shall be of high average credit quality. Returns should be compared to an appropriate universe of similar funds such as the Donahue Domestic Money Market index. The staff will seek to earn competitive money market returns without exposing the Expenditure Fund to unnecessary or inappropriate risks.

No mutual fund shall hold more than 10% of its assets in any one issuer or single obligor, except obligations of the U.S. Government or any agency thereof. In addition, for any given fund, the Community Foundation's holdings shall not exceed 10% of the total assets of that fund.

2. Charitable Checking AccountSM

The Community Foundation holds certain contributions in the Charitable Checking AccountSM (the CCA) until the donor directs distribution. Since these monies are expected to be spent within a short period of time, the investment objective calls for low risk or low expected variability of principal.

This CCA shall use institutional money market fund(s), short-term fixed income funds, and short-term U.S. Government treasury or agency securities. For the purposes of this Policy, "short-term" will be defined as having a final maturity of three years or less.

The fund or funds used shall be of high average credit quality. Returns should be compared to an appropriate universe of similar funds such as the Donahue Domestic Money Market index. The staff will seek to earn competitive money market returns without exposing the CCA to unnecessary or inappropriate risks.

No mutual fund shall hold more than 10% of its assets in any one issuer or single obligor, except obligations of the U.S. Government or any agency thereof. In addition, for any given fund, the Community Foundation's holdings shall not exceed 10% of the total assets of that fund.

3. Pooled Life Income Funds

Contributions in the Community Foundation's Pooled Life Income Fund, a separate charitable trust, are pooled with other donations and invested for maximum current income and preservation of principal. Quarterly payments of income earned are made to the beneficiaries. After the lifetime of the beneficiaries, the remainder is paid to the Community Foundation for charitable purposes. The administration of this trust is not subject to NYPMIFA.

The Community Foundation pays all administrative and investment management expenses so that the entire yield is paid to the beneficiaries until the fund matures. The trustee, Bank of America, invests the Pooled Life Income Fund as follows: 70% in fixed income securities and 30% in a diversified portfolio of equities, with re-balancing to that asset allocation every quarter. A variety of common trust funds and mutual funds are utilized in the investment program.

The Investment Committee shall have oversight of the Trustee Bank's investment program and shall consider Bank of America's management in the context of the Community Foundation's policies on investment manager selection and monitoring (Sections 3 and 4 in the Investment Policy Section).

4. Charitable Gift Annuity Funds

Contributions of cash or publicly traded securities are exchanged for a lifetime stream of income guaranteed by the Community Foundation. The New York State Department of Insurance regulates charitable gift annuities including certain mandated reserve calculations and investment requirements. The Investment Committee has concluded that the annuities represent a long-term liability that should be matched with a long-term asset allocation. The asset allocation is 70% in a diversified portfolio of equities and 30% in fixed income securities. The portfolio will limit any one investment manager to 10% of the assets in the equity and fixed portfolio. The charitable gift annuity fund will take into account the present and future distribution needs to or for the beneficiaries, looking at risk, return and time horizon objectives. The Community Foundation has contracted with Bank of America Planned Giving Services for administration and investment management within the New York State regulations.