

ADAMS COUNTY COMMUNITY FOUNDATION

Investment and Spending Policies

Purpose and Background

The purpose of Adams County Community Foundation of Pennsylvania's **Investment and Spending Policies (IS Policies)** is to support current as well as future grantmaking and administrative needs while ensuring the inflation-adjusted spending power of the Community Foundation's charitable assets over time.

In developing the IS Policies, the Community Foundation's Board acknowledges that its ability to disburse funds is directly linked to and influenced by its investment approach. Because the Community Foundation is a community foundation, the vast majority of its assets comprise permanent endowments for unrestricted as well as donor-designated charitable needs. With an investment time horizon of essentially forever, the Board of Directors takes a long-term view in setting and monitoring the impact of these policies.

Fiduciary Responsibility

The Board of Directors has fiduciary responsibility for **all** funds of the Community Foundation, which are held subject to and in accordance with the Community Foundation's governing documents (namely its articles of incorporation and bylaws, as may be further amended from time to time).

The Community Foundation holds all of its assets in corporate form, whether managed as part of the Community Foundation's pooled investments or separately managed by a financial institution preferred by a donor. The Community Foundation will select an appropriate investment approach, consistent with IS Policies, for managing such assets, which may include using one or more investment managers, mutual funds, bank services, or other strategies.

Fiduciary responsibility is shared with banks and investment management advisory organizations. Institutional investment firms must be qualified to provide either diversified investment services, or expertise in a specific asset class/style. All investment firms and banking institutions must be willing to manage assets subject to the Community Foundation's governing documents, IS Policies, and the fiduciary oversight of the Board of Directors to assure that our donor's funds, whether part of the Community Foundation's investment pool or separately managed, will qualify as a "component fund" of our community foundation as defined by the Department of Treasury and Internal Revenue Service (IRS).

Investment & Finance Committee

The Board of Directors has delegated supervisory authority over its financial affairs to the Investment & Finance Committee of the Board. Among its various duties, the Investment & Finance Committee is responsible for monitoring the Community Foundation's charitable investments and reporting to the Board at least annually on the status of investments. In

carrying out its responsibilities, the Investment & Finance Committee and its agents will act in accordance with IS Policies and all applicable laws and regulations. The Board reserves to itself the exclusive right to revise IS Policies, though it will look to the Investment & Finance Committee for counsel and guidance.

The Board of Directors and its Investment & Finance Committee are authorized to retain one or more Investment Counselors, Asset Managers or Bank Institutions to assume the investment management of funds. In discharging this authority, the Investment & Finance Committee can act in the place and stead of the Board and may receive reports from, pay compensation to, and enter into agreements with Counselors and Managers and Investment Consultants. The Board may also grant exceptions to the IS Policies when appropriate.

The Investment & Finance Committee will include not less than five members, a majority of which shall be members of the Board of Directors. The Board Treasurer shall be appointed as a full voting member of the committee. Members will be appointed by the Board Chair with the goal of creating a diverse committee with expertise in both the financial and charitable fields.

Total Return Approach

The Community Foundation uses a total return approach to guide its investing and spending policy, as allowed under 15 Pa C.S.A. 5547, 5548 (c)(2), and 5549. This approach allows the Board to establish an annual payout rate based on a percentage of assets over a five-year period. The payout amount may be more or less than the actual income earned by interest and dividends, with capital appreciation (and in rare cases principal) used to help meet the established payout when necessary. By using the total return approach, the Community Foundation is able to maintain and increase the value of donated assets while funding current asset needs at an appropriate level.

Benefits of the Total Return Approach:

1. The Community Foundation is not forced to focus investment strategies on required distributions from income alone.
2. Investing for growth and income will assure better long-term future funding.
3. A larger and more predictable flow of funds will be available since distribution will not be determined solely by changes in current investment income, interest rates, etc.

Spending Policy

The annual cash payout of all funds, except those funds containing illiquid assets (such as certain real estate or other property) is expected to be 4.5% of the average market value, using a 20-quarter or 5-year trailing average and net of financial management fees. For funds less than five years old, the market value will be the average of all quarterly market values to date. This payout will be used to meet both grantmaking and administrative needs per schedule. **The payout rate will be established by the Board at its December Meeting, and may be adjusted to reflect special funding needs and/or financial market conditions.**

To meet the payout level determined each year, the Community Foundation may utilize both traditional interest and dividends generated by its various funds as well as capital appreciation. Where prudent and not inconsistent with the Community Foundation's bylaws, trust documents, and fund agreements, the Community Foundation may use a portion of the principal of certain funds (such as new funds with little or no capital appreciation) to meet the established payout or to fund special projects as determined by the Board or as designated by the donor of such funds. This spending strategy reflects the total return approach to investing and disbursing funds described above.

Investment Policy

A. Goals & Targets

The Community Foundation's assets must be managed to meet the payout percentages and assure sufficient growth, beyond inflation, to maintain and ideally grow the spending power of those assets over time. The investment target goal of the Community Foundation is to achieve a minimum long term (10+ years), average total return of 8% or greater annually. The minimum target rate of return over a rolling 5-year period is that which equals or exceeds the payout rate plus the rate of inflation as measured by Consumer Price Index (CPI). For example, if inflation is at 3% and the payout rate is 4%, the minimum target rate of return would be 7%.

B. Performance Objectives

The Community Foundation's basic target asset allocation will be 70% equity and 30% fixed income. Performance will be benchmarked to the most appropriate index related to each categorized investment within each area of allocation. For example, within the equity portion of the account, the S & P 500 (weighted) Index will be the primary measure of success within the fixed income portion, the Barclays Aggregate Bond Index (formerly called Lehman Brothers Aggregate Bond Index) will be the main performance measurement. A blended benchmark created by combining indices to mirror the detailed target asset allocation (section C below) will be used to evaluate manager performance and should be included on all performance reports. The indices and weighting for the blended benchmark are as follows:

| <u>Asset Class</u> | <u>Index</u> | <u>Weighting</u> |
|--------------------------------|--------------------------------------|-------------------------|
| Domestic Large Cap Equity | S&P 500 | 45% |
| Domestic Fixed Income | Barclays Capital U.S. Aggregate Bond | 30% |
| International Developed Equity | MSCI EAFE | 15% |
| Domestic Small Cap Equity | Russell 2000 | 5% |
| Domestic Mid Cap Equity | Russell 2500 | 5% |

The overall portfolio is expected to maintain a beta (volatility) no greater than 1.20 versus the relevant equity benchmark(s). The risk-adjusted alpha (performance) of each actively managed fund is expected to be positive. Each mutual fund (other than passive index funds or ETFs) used will be expected to rank above the median return within their respective category over an investment cycle.

C. Asset Allocation

Asset allocation for this fund reflects the risk posture of the Community Foundation and the belief that growth in asset value is achieved by using higher returning investment classes and proper diversification. This allocation will be global in scope and will allow the portfolio to include domestic and foreign securities. The target range for each category will be maintained within a 5% range.

The Community Foundation's assets are to be managed as follows:

| <u>Asset Class</u> | <u>Target %</u> | <u>Minimum</u> | <u>Maximum</u> |
|--------------------|-----------------|----------------|----------------|
| Equities | 70 | 65 | 75 |
| Fixed Income | 30 | 25 | 35 |

Within the Community Foundation Portfolio, the investment manager will work to provide investments that produce the following portfolio:

| <u>Equities:</u> | <u>Target Range</u> | | <u>Fixed Income</u> | <u>Target Range</u> | |
|------------------|---------------------|--------|---------------------|---------------------|--------|
| US Large Cap | 45% | 35-60% | Investment Grade | 30% | 20-40% |
| US Mid Cap | 5% | 0-15% | High Yield | 0% | 0-10% |
| US Small Cap | 5% | 0-15% | Cash/ | 0% | 0-10% |
| International: | 15% | 5-25% | | | |
| Total: | 70% | | Total: | 30% | |

The goal of the detailed target asset allocation for the investment portfolio is to facilitate the achievement of the Community Foundation's long-term investment goals within the established risk parameters. If warranted, when the maximum/minimum allocation levels are breached, the asset allocation shall be re-balanced within the ranges specified. The Directors reserve the right to adjust these guidelines based on changing long-term market expectations. Additional asset categories may be added from time to time as well.

D. Asset Diversification

Due to the fact that the allocation of funds between asset classes may be the single most important determinant of the investment performance over the long run, investment managers are encouraged to diversify the Community Foundation's investments among appropriate asset classes. The Community Foundation and its financial partners are free to determine the degree and nature of the diversification of invested assets. However, investments in the equity securities of any one company shall not exceed 5% of the portfolio nor shall the total securities position (debt and equity) in any one company exceed 10% of the portfolio. Reasonable sector

allocations and diversification shall be maintained, with no more than 25% of the entire portfolio invested in the securities of any one sector.

E. Allowable Securities

The following are allowed investments within the Community Foundation accounts: publically traded common stocks listed on all major US stock exchanges, American depository receipts (ADRS), money market funds and money market instruments, SEC registered open and closed-end mutual funds, Exchange Traded Funds (ETFs) obligations of the United States Government and its agencies, bonds and preferred stock issued by US corporations or US subsidiaries of foreign companies that are incorporated within the US and are rated investment grade by at least one nationally recognized rating agency (S&P, Moody's), certificates of deposit issued by FDIC with never more than \$100,000 placed in any one institution, and "Yankee bonds" or foreign government bonds or corporate bonds of foreign companies, issued in US dollar denominations, and offered through registration and filing with the SEC and that carry a minimum "AAA" rating. No more than 10% of the portfolio may be invested in less than investment grade weighted (high yield) bonds and must be in either mutual fund or ETF form.

F. Prohibited Securities and Transactions:

The following categories of securities or security transactions are not permissible without the written approval of the Finance Committee: venture capital funds, letter stock, private placements, real estate properties (except for those that might become part of Board approved and accepted gifts), short sales, commodities and futures, margin purchases, lending of assets, buying or selling of put and call options, any individually purchased securities that are not offered through an SEC registration filing, the buying and selling of foreign securities not registered through an SEC filing or not denominated in US dollars, all securities not offered through an SEC registration filing except for direct obligations of the US government and its agencies and for managers specifically hired to manage foreign fixed income securities, and derivative securities including collateralized mortgage obligations (CMOs).

Investment Manager Responsibilities:

The investment manager will have full investment discretion with regard to security selection within the approved strategy and allocation and is expected to maintain a fully invested portfolio (6% or less money market). Further investment responsibilities are expected to be considered as "prudent" investment decisions for a community foundation portfolio.

Performance Monitoring and Reporting:

The Community Foundation's investment manager will provide detailed reporting at least semi-annually or as deemed necessary by the Investment & Finance Committee. Initial meetings will be held quarterly. Quarterly Investment Scorecard reports will be provided to the Investment & Finance Committee. This investment reporting will include the following areas:

1. Asset Allocation Analysis
2. Total Return for the Portfolio

3. Appropriate benchmarks for each asset class
4. Beginning and ending market values for the specific period
5. Benchmarking versus inflation (Consumer Price Index or “CPI”)
6. Performance vs. the blended benchmark

The Investment & Finance Committee shall report at least annually on the status of the investments.

Communications

The Community Foundation is to be informed immediately by telephone of any significant changes affecting the investment management company or bank, its parent(s), management personnel, ownership, structure, or key personnel, including partners, principals, officers, strategists, and individual portfolio managers. The Community Foundation will also be informed immediately by telephone of any changes global or national that may significantly affect the portfolio. These communications should be followed up in writing within seven (7) business days.

Acknowledgement

We recognize the importance of adhering to the mission and strategy detailed in this document and agree to work to fulfill the objectives stated herein, within the guidelines and restrictions, to the best of our ability. We acknowledge that open communications are essential to fulfilling this mission and if at any time we wish to discuss improvements to this document they are welcome and should be referred through the Community Foundation or its consultant.

Adams County Community Foundation

Date

Investment Manager

Date

Draft Revised: 6/14/2008, 5/18/2010, 10/12/2015, 12/12/2016, 04/09/2018

Approved by the Board of Directors: December 11, 2023