COMMUNITY FOUNDATION
OF ST. CLAIR COUNTY

Statement of Investment Policies, Procedures and Objectives

(With Separately-Approved Addendums)

Board-approved 10/18/22 w/F & I Committee August 2024 edits

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Section 1 – Investment Policies, Procedures and Objectives

Introduction

The Community Foundation of St. Clair County is a 501(c) (3) organization whose primary mission is to serve charitable needs and enhance the quality of life in St. Clair County. The Foundation’s goal is to do this by providing a flexible and desirable vehicle for donors having a variety of charitable goals and needs and by servicing as responsible stewards over the assets entrusted to us. The Foundation also strives to respond to community needs and to maximize the resources available to meet these needs through community-wide, collaborative efforts.

The purpose of this Investment Policy Statement is to establish a clear understanding of the philosophy and the investment objectives for The Community Foundation of St. Clair County, hereinafter, “Fund”. It is the responsibility of the Finance and Investment Committee, hereinafter referred to as “Committee”, acting on behalf of the Board of Trustees, to select investments that will provide maximum financial resources for the Foundation, balancing risk and return, and in recognition of the fiduciary responsibilities of the Board of Trustees. This document will further describe the standards that will be utilized by the Committee in monitoring the asset allocation policy, investment manager guidelines, investment performance standards and procedures for managing the Fund's assets.

The purpose of the Fund is to accumulate a pool of assets sufficient to meet the needs of the Community Foundation of St. Clair County Fund. These assets are to be invested in a manner consistent with the Prudent Investor Rule.

Investment objectives consider both the Fund’s financial needs and the Committee’s tolerance for investment risk, inflation expectations, and Fund liquidity needs. A strategic asset allocation policy is developed to ensure achievement of investment objectives, maximize expected investment returns with a prudent amount of investment risk and in recognition that the capital markets may behave differently throughout the life of the Fund.

Investment guidelines are established for each manager, consistent with their investment style and Fund return/risk/liquidity objectives. Performance standards are developed as a means of independently determining whether or not investment objectives are being achieved. Each manager has specific performance standards based on their investment style, which incorporate return, risk and time horizon. Conformance to these standards and policies is closely monitored and evaluated in an unbiased analysis each quarter. This analysis includes an evaluation of each manager's contribution to the achievement of overall Fund investment objectives.

Delegation of Responsibilities

The Committee

1. The Committee is responsible for investment policies and strategies, in the selection of investment managers and/or advisors, and other fiduciaries, and monitoring the performance of the managers, advisors, and other fiduciaries.

2. The Committee shall have fiduciary responsibility for the assets of the Foundation Fund. The Committee may delegate the fiduciary responsibility, in whole or in part, to one or more investment managers who would have discretion regarding decisions to buy, sell, and retain particular investments, subject to this policy.

3. Any and all recommendations from donors pertaining to the investment of their gifts shall be considered advisory only. The Foundation's Finance and Investment Committee has the power to make all final investment decisions through its authority granted to them by the board, as outlined in the Addendum – Policy on Investment Recommendations from Donors within this policy document.

4. Investment managers shall either be registered under the Investment Adviser Act of 1940 or a bank as defined in the Act.

5. The Committee may authorize the investment manager to buy, sell, exchange, convert and otherwise trade any stocks, or other securities, and may establish and execute securities transactions through accounts with such brokers or dealers as it may select and within the constraints of the guidelines set forth in this policy.

All Committee responsibilities and decisions referenced in the above sections are subject to Board approval.

Custodians

The primary responsibilities of the Board's custodian are to:
1. Provide safekeeping services.
2. Settle securities transactions on time.
3. Collect trust fund income when due.
4. Provide accounting services.
5. Prepare investment reports.
6. Provide cash-management services.
7. Provide administrative support.
8. Develop and maintain data processing capabilities.
9. Handle proxy administration.

The Director of Finance will report any noted problems with service levels from any of the Foundation's custodians to the Committee.

Scope

This Investment Policy Statement is intended to apply to all Foundation investments, although for separate donor investment pools, the Committee may allow discretion in limited areas such as the level of passive vs. active management and target allocations provided there remains compliance with overall asset allocation ranges.

Investment Objectives

The primary objective of the investments for the Fund will be to provide for long-term growth of principal, through capital appreciation, income, donor development and gifts. The focus will be on consistent, long-term capital appreciation, with income generation as a secondary objective, with an appropriate level of risk. Moreover, emphasis shall be placed on maintaining "real" growth of assets, net of inflation, spending (grants and fund management fees) and other investment-related expenses..

The Fund's investment objective is to earn a "real" rate of return that exceeds the rate of inflation by at least 5% per year over rolling five-year periods. The rate of inflation is defined as the annual rate of change in the U.S. Consumer Price Index.

The Fund's objective is based on the expected returns under the strategic asset allocation policy, which follows. This asset allocation policy should result in normal fluctuation in the Fund's actual return, year-to-year. The expected level of volatility (return fluctuation) is appropriate given the Fund's current and expected tolerance for short-term return fluctuations. Appropriate diversification of Fund assets will reduce the Fund's investment return volatility.

ASSET ALLOCATION POLICY

This strategic asset allocation policy is consistent with the achievement of the Fund's financial needs and overall investment objectives. Asset classes are selected based on their expected long-term returns, individual reward/risk characteristics, correlation with other asset classes, manager roles, and fulfillment of the Fund's long-term financial needs. Conformance with statutory investment guidelines is also considered.

The Committee established an allocation range for each asset class in recognition of the need to vary exposure within and among different asset classes, based on investment opportunities and changing capital market conditions. The Committee selected the target allocation for each asset class based on the Foundation's current financial condition, expected future contributions, withdrawals, Foundation expenses and current investment opportunities, notwithstanding short-term performance. The Committee intends to review these allocation targets at least annually, focusing on changes in the Foundation's financial needs, investment objectives, and asset class performance.

Asset Class	Manager Implementation	Range	Policy Target Allocation
U.S. Equities	Active or Passive	40 to 70%	56%
Non-U.S. Equities	Active or Passive	10 to 30%	20%
Fixed Income	Active or Passive	10 to 30%	18%
Value-Added Real Estate	Active or Passive	0 to 5%	2%
Hybrid Investments	Active or Passive	0 to 10%	4%
Cash Equivalents		0 to 5%	0%
Total Fund			100%

The Committee acknowledges that alternative asset classes are available and intends to periodically evaluate the merits of using different asset classes. The Committee also recognizes the benefits of diversifying manager roles within a given asset class and intends to periodically evaluate this decision as well as the active versus passive management decision.

The Foundation will be intentional with integrating Diversity, Equity and Inclusion (DEI) within its investments. When adding new investment managers, the Foundation expects diverse managers to be among those for consideration. The same performance standards and management expectations will be applied to all decisions, without mandated DEI numbers and percentages.

Diversity is defined as having 40% diversity threshold in at least one of the following areas: Firm ownership, Firm Leadership and Strategy Management. Diversity dimensions include: Female, BIPOC*, LGBTQ+ Individuals^, Veterans and People with Disabilities.

* Black, Indigenous, and people of color ^ Lesbian, gay, bisexual, transgender, queer, and other identities

Investment Oversight Procedures

The Committee will monitor the investment performance of each manager and the overall deployment of the Fund's assets. Monitoring may include periodic meetings with the managers and a quarterly performance evaluation performed by the Investment Consultant. Each performance evaluation will include current period and historical, time-weighted rates of return for each investment portfolio and the overall Fund; dollar weighted rates of return may be used to evaluate private partnerships. Each manager will be evaluated against the previously specified performance standards. Additional quantitative measures and analysis will be employed to objectively monitor the manager's compliance with investment policies and guidelines.

Managers are requested to provide the Committee with quarterly statements showing portfolio holdings, security prices, cash flows, and transactions. In addition, the Fund's custodian will also deliver a separate accounting of Fund assets, cash flows, expenses, and related transactions.

The managers and Investment Consultant are also expected to keep the Committee apprised of any material changes in manager investment style, objectives, market outlook, key personnel and business conditions within their firm, on a diligent basis.

<u>Due Diligence Process Conducted by the Investment Consultant</u>

As an ongoing process when preparing the quarterly investment performance report, the Investment Consultant will examine compliance with the *Statement of Investment Policies, Procedures and Objectives (PP&O), including:*

I. <u>Asset Allocation</u>
   a. At least quarterly, the Consultant will review the actual asset allocation of Fund versus the target allocation.
   b. Recommend rebalancing as necessary.
   c. Rebalancing recommendations will be subject to market conditions and target ranges.

II. <u>Total Fund Objective Compliance</u>
   a. On a quarterly basis, the Fund's performance will be compared to its Policy Index on an absolute and risk-adjusted basis over multiple time periods (Quarter, 1-Year, 3-Year, 5-Year…).
   b. On a quarterly basis, the Fund and the Policy Index's returns will be compared to an appropriate peer group over multiple time periods (Quarter, 1-Year, 3-Year, 5-Year…).
   c. The Fund's performance will be compared to a "real" rate of return benchmark (CPI + 5%) over rolling five-year periods.

III. <u>Investment Manager Objective Compliance</u>
   a. Performance objectives will be established for each investment manager.
   b. On a quarterly basis, the Investment Consultant will reconcile the custodial statements with the investment manager statements.
   c. On a quarterly basis, individual investment manager performance will be compared to an appropriate index and the appropriate peer group over multiple time periods (Quarter, 1-Year, 3-Year, 5-Year…).
   d. The Investment Consultant will also confirm that the investment manager has not violated the guidelines stated in the *PP&O*.
   e. Each investment manager will be reviewed by the Investment Consultant on an ongoing basis and evaluated upon the criteria listed below:

i. Maintaining a stable organization;
ii. Retaining key personnel;
iii. Avoiding regulatory actions against the firm, its principals, or employees;
iv. Adhering to the guidelines and objectives of this PP&O; and
v. Avoiding significant deviations from the manager's stated investment philosophy.

f. The Committee expects active managers to outperform their benchmarks over a full market cycle, but does not expect that all investment objectives will be attained each calendar year.
g. The Committee recognizes that over various time periods, active managers may produce significant over- or under-performance relative to their benchmarks. For this reason, long-term investment returns will be evaluated over a full market cycle (for measurement purposes: 5 years).
h. Managers failing to meet these criteria over a full market cycle will undergo extensive qualitative and quantitative analysis. This analysis will focus on the manager's personnel, philosophy, portfolio characteristics, and peer group performance to determine whether the manager is capable of implementing their defined portion of the overall portfolio structure.
i. Passive (or index) managers are expected to approximate the total return of their respective benchmark.

IV. <u>Risk Management</u>

a. <u>Diversification:</u> Fund investments will be diversified in order to minimize the impact of the loss from any given investment as may be relevant to an asset class.
   1. *International Exposure*: The Investment Consultant will contact all investment managers on a quarterly basis and determine the percentage of holdings in international markets.
   2. *High Yield Exposure*: The Investment Consultant will contact investment managers on a quarterly basis and determine the percentage of holdings in the high yield market.
b. <u>Portfolio Guidelines</u>: The *Statement of Investment Policies, Procedures and Objectives (PP&O)* will be updated as deemed necessary to ensure that the portfolio meets its objectives and operates within acceptable risk parameters.

V. <u>Communication to the Finance & Investment Committee</u>

a. The Investment Consultant will provide written quarterly investment reports to the Foundation President, Director of Finance, and the Committee. The "Conclusions and Recommendations" page will summarize performance and list "action" items, as required. For example:
   1. Recommend rebalancing of assets,
   2. Recommend formal action be taken relative to an investment manager's underperformance (probation or termination), as outlined in the *Statement of Investment Policies, Procedures and Guidelines.*
   3. Report aggregate percentage of Total Fund assets invested in

international and high yield securities.

4. Recommend updating the *Statement of Investment Policies, Procedures and Guidelines*, as deemed necessary.

b. The Investment Consultant is on the "first call" list with investment managers hired by clients. This means that they will be notified immediately of any significant changes at the investment management firm, such as a change of portfolio manager. The Investment Consultant will immediately contact the client – specifically the President and/or the Director of Finance of the Foundation. Appropriate action will be taken after the consultation.

c. Additionally, when deemed prudent, the Investment Consultant will contact the President and/or Director of Finance of the Foundation regarding significant capital markets events.

The Committee is to review Fund investment objectives and related policies at least once every 24 months. However, a review may be undertaken at any time, subject to changes in the Fund's financial needs, manager activities and performance, and capital market conditions.

Board-Approved October 18, 2022, with Finance & Investment edits August 2024

ADDENDUM I

Community Foundation of St. Clair County Policy:
Investment Recommendations from Donors

Background

From time to time, donors and/or their representatives may have a desire to recommend specific investments, strategies, brokers or fund managers. These recommendations may result from donors who would like their funds to be managed by a particular broker, financial representative or institution.

In accordance with IRS regulations governing donor-advised requirements, the Foundation will have final determination for all investments. Any and all recommendations from donors pertaining to the investment of their gifts shall be considered advisory only, including a recommendation as to a particular broker, manager or institution.

The Foundation, through its Finance & Investment Committee, will review and take action on such recommendations in accordance with this policy addendum and criteria outlined below.

The following criteria will be used when approving a new investment advisor/manager at a donor(s) recommendation:

1) In consideration, the Finance & Investment Committee will subject prospective investment advisors/managers to a due diligence review comparable to what is exercised for any new manager/fund;
2) There will be a $2 million investment minimum for consideration of donor investment recommendations involving a separate investment pool;
3) For donor investment recommendations involving donor funds of at least $500,000 but less than this $2 million minimum, the Finance & Investment Committee will review recommendations on a case-by-case basis to determine the feasibility of engaging the broker/manager/institution within the main investment pool / asset allocations.
4) The investment advisor/manager, if selected, shall adhere to the Foundation's investment philosophy;
5) The investment must meet the current allocation mix of the Foundation's investment pools as outlined in the Investment Policy Statement, to which this addendum is attached. This Investment Policy outlines recommended asset classes, strategies, styles (active vs. passive) and target ranges.
6) The investment advisor/manager will provide standard benchmarks for performance measurement that are acceptable to the Foundation's Finance & Investment Committee;
7) The investment advisor/manager must provide a monthly/quarterly report of invested funds on an established format with details of investments and earnings to the Foundation and its Independent Investment Advisor;

8) As with any manager of the main pool, the new investment advisor/manager's performance will be reviewed by the Foundation's Independent Investment Advisor and the Finance & Investment Committee, and necessary action taken in accordance to the Investment Policy. The Finance & Investment Committee has discretion to terminate any donor investment pool relationship and consolidate this donor investment pool with the main investment pool should performance not meet expectations, the investment pool value not consistently maintain the minimum investment amount, or other factors deemed in the best interest of this Fund and the Foundation.
9) Fees of this investment advisor/manager are expected to be consistent with industry standards for the respective asset class and vehicle.

As last Amended: 3/24/2015

ADDENDUM II

COMMUNITY FOUNDATION OF ST. CLAIR COUNTY
POLICY ON MISSION INVESTING

STATEMENT OF PURPOSE

The Community Foundation's mission is to address our region's opportunities and challenges and help donors achieve their goals by connecting them with like-minded donors and partners striving to improve our quality of life and increase our regional vibrancy and prosperity. The Community Foundation believes this mission can be accomplished through a robust grant-making program along with thoughtful mission-related investments.

DEFINITION

Mission investing is the use of Foundation assets with the intention of generating a measurable, social or community impact. Mission Investing can be an excellent complement to grant-making and involves investments with both market-and below-market-rate returns. For the scope of our policy, our definition of mission investing will include;

- Program-Related Investments (PRI's): Generally loans made to other nonprofit organizations at zero interest or below market rates and may include partially forgivable terms.

- Mission-Related Investments (MRI's): Are assets from our invested pools that seek some degree of financial return along with a component of community impact that relates to the Foundation's mission and strategic priorities.

Both of these options above generally involve using funds outside of the Foundation's normal grant-making budgets. Mission-Related Investing is not a replacement for grant-making, but rather a compliment.

ASSET ALLOCATION

Mission-Related Investments will follow these terms and conditions:

- Will not exceed 5% of the total assets in the Main Investment Pool
    - No single investment may exceed 40% of the above number without prior approval of the full board
- Will fall within and under the approved range for Alternative Investments
- Shall be reported to the full board on a regular and timely basis and shall be clearly noted in investment reports and summaries

OVERSIGHT

a. The Finance & Investment Committee shall have overall responsibility for adhering to the terms and conditions of this policy.
b. Program-Related Investments (PRI):

   i. Should generally originate through one of the Foundation's grant-making committees. Any grant-making committee is eligible to submit requests for PRI's.
   ii. A written request for consideration of a PRI will be forwarded to the Executive Committee for review and action.
   iii. The Executive Committee will confirm with the Finance Committee that sufficient funds are available.
   iv. If sufficient funds are available, the Executive Committee will make the final determination. Their actions will be reported to the Finance Committee and back to the committee making the request.
   v. Once a dollar amount or dollar range is approved by the Finance Committee, even if that amount has not yet been contractually obligated or paid out, that dollar amount shall count against the 5% total cap.

c. Mission-Related Investments (MRI):

   i. Require approval of the Finance Committee.
   ii. The Finance Committee may from time-to-time delegate partial decision making authority to other Foundation committees, such as C3. Such delegation will specifically state an approved dollar amount or dollar range.
   iii. Other committees wishing to pursue making MRI's must first seek approval and input from the Finance Committee. In such occasions, the Finance Committee will approve a dollar amount or dollar range. The Finance Committee may also delegate actual decision making to the requesting committee as long as other terms and conditions are met.
   iv. Once a dollar amount or dollar range is approved by the Finance Committee, even if that amount has not yet been contractually obligated or paid out, that dollar amount shall count against the 5% total cap.

As Last Amended 8/22/17

ADDENDUM III

COMMUNITY FOUNDATION OF ST. CLAIR COUNTY

Policy for Investment of Endowed and Non-endowed Funds

Endowed Funds

The Community Foundation of St. Clair County's core mission is to improve the quality of life in St. Clair County by meeting the broad philanthropic goals of our donors through the creation and administration of permanently endowed funds.

With this in mind, the majority of funds established with the Community Foundation will be permanent and perpetual in nature. Thus, our investment policy and investment pool of endowed funds has been structured with a focus on consistent, long-term capital appreciation, with income generation as a secondary objective and an appropriate level of risk.

Non-Endowed Funds

The Foundation occasionally has donors whose charitable goals involve unknown or shorter time horizons or other giving parameters that are best served through the creation of non-endowed (100% expendable) funds.

Our investment pools are structured to provide for long-term growth with asset classes that are selected based on their expected long-term returns, after considering many factors as they relate to the Fund's long-term financial needs. With this in mind, our investment pools are generally not suitable in nature for traditional, short-term non- endowed funds.

However, with the knowledge that more and more donors are looking for flexibility over a fund's time horizon and have other competitive options available to them, the Foundation's President / Vice President may allow non-endowed funds to become invested in our investment pools under certain criteria and parameters as described below.

Criteria / Parameters Where Non-Endowed Funds Could Be Invested In Endowed Pools:

1. Donor's time horizon for Fund is at least 18 months.
2. Non-endowed fund holders, regardless of size, may request to be invested in the main investment pool, however, grant distributions (withdrawals) in excess of 5% of the main investment pool's balance could take considerable time to allow for processing and liquidation given the pool's investment structure and asset allocations.
3. Most non-endowed funds should expect a reasonable turn-around time between when their request is received and approved, to when they will receive the funds.

However, at all times it shall be at the discretion of the Finance & Investment Committee to determine the exact timing of payouts.

4. Requests for fund payouts must include signed board meeting minutes authorizing such action from the requesting agency or organization.
5. In any given year, the Foundation reserves the right to decline to payout more than 5% of its total main investment pool, depending on the facts and circumstances at the time. Additionally, the Finance & Investment Committee reserves the right to prioritize or proportion withdrawal requests in the event that numerous requests are received within a short timeframe.
6. At least once per year, the Finance & Investment Committee will review a listing of all non-endowed funds invested within the main pool.
7. The Foundation reserves the right to move non-endowed funds out of the main investment pool and into shorter-term holdings, based on the facts and circumstances of an individual fund holder, or the condition of the national or global economy.
8. Donor’s clear understanding of these criteria will be documented in their fund contract folder. Where donors' non-endowed funds are invested in main pool, all subsequent gifts will similarly be invested absent documented investment directive otherwise
9. Fund contracts will not stipulate or agree to any specific timeframe for the payout of non-endowed funds.

Non-Endowed Fund Absent the Above Criteria:

These Funds will be invested outside our investment pool available for full distribution at any time in deposit accounts, CDs or other fixed income securities as deemed appropriate given consideration for donor’s time horizons, interest rates, and practicality. Based upon interest rates and the short-term nature, investment earnings on these non-endowed funds will generally be minimal and may not cover Foundation fund management fees.

As Updated 3/30/22 w/Oct. 2024 clarification