Adams County Community Foundation
Investment Policy Statement

Purpose

The purpose of this investment Policy Statement (IPS) is to establish guidelines for the investable assets of the Adams County Community Foundation (ACCF).

The IPS details the policies, procedures, asset allocation, and guidelines for each of ACCF's investment portfolios, and defines and assigns the responsibilities of all parties involved. The IPS is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

Investment Philosophy

The basic tenets upon which the IPS is based include the following:

- Endowment management must be a highly disciplined, well-monitored process.
- The design of the portfolio is based on a long-term view (intergenerational investment).
- Market timing and large volumes of trading and rebalancing activities are prohibited.
- Investment-related fees and expenses should be reasonable and competitive.
- A diverse allocation of assets is essential and will generate more consistent returns and protect from extreme market fluctuations.
- Global investing recognizes a global marketplace and helps to diversify allocations of assets.

Investment Objectives and Constraints

A. **Target Rate of Return**: The primary overall objective is to provide for an optimal level of total return, in real terms after inflation, and long-term growth of capital, subject to an acceptable level of risk.

B. **Spending Target**: Provide sufficient returns to support distributions for fund objectives and to meet ACCF's budgeted organizational spending needs.

C. **Structure**: Invested funds shall be structured into two portfolios, Growth and Aggressive. The objective for each portfolio shall be accomplished through a mix of equity, fixed income, real assets and cash. Equity investments will target growth over a long-term horizon and fixed income and cash investments will serve as a source of liquidity, income, and capital preservation.

Specific portfolio objectives are as follows:

- Growth Portfolio – The goal is to grow the purchasing power over time and to produce a modest stream of current income. Asset allocation between equities and fixed income will emphasize equities to produce capital appreciation. Total principal value can fluctuate noticeably due to the magnitude of the portfolio exposure to equities.

- Aggressive Portfolio – The goal is to achieve capital appreciation over a relatively long time horizon. Asset allocation will be heavily skewed towards equities which may cause substantial short-term fluctuation in total principal value.

Spending Policy

The ACCF spending policy is established to determine the monies which will be available for organizational and administrative costs of ACCF each year. It is the purpose of the spending policy to seek balance between making yearly distributions to meet fund objectives and providing for continuity and growth of ACCF.

Distribution Policy

ACCF establishes the distribution rate for endowed funds. The present annual distribution rate for aggregate investment portfolios is 4.0%. The distribution policy allows for an annual distribution rate of 3.5% - 4.5% for the Growth portfolio and 4.0% - 5.0% for the Aggressive portfolio.

The distribution rate will be established by the Board of Directors annually and may be adjusted to reflect special needs and/or market conditions. Annually, the Board of Directors will review the distribution policy. A twelve-quarter rolling average of each fund's market value will be used to establish the distribution rate for each fund. Until a fund has twelve quarters of history, the fund distribution rate may be limited to accounting income attributed to the fund.

Uniform Prudent Management of Institutional Funds (UPMIFA)

ACCF operates under UPMIFA. This requires ACCF to act in good faith and with the care of a prudent person when making a decision regarding payout and investment of ACCF funds.

UPMIFA eliminates the legal requirement to not invade historic dollar value of a gift. ACCF believes preserving historic dollar value is a prudent policy and will strive to maintain the historic dollar value of each gift.

UPMIFA provides guidelines to use in making investment decisions. The Board of Directors shall follow these guidelines when annually reviewing investment and spending options. The Board will consider:

- The need to preserve the fund and the duration of ACCF.
- The purpose of ACCF.
- Current and projected economic conditions.
- The effects of inflation or deflation on the funds.
- The expected return from income and appreciation.
- Other resources the institution has available (i.e., farmland).
- The Investment Policy Statement.

Description of Responsibilities

A. **Investment Committee**: Accountable to the Board of Directors, the Investment Committee is responsible for adhering to investment policies; monitoring investment performance; and recommending and terminating investment consultants and managers.
B. **Investment Manager**: Responsible for actively managing fund portfolios of approved securities in compliance with ACCF's IPS and direction of the Investment Committee.

Asset Allocation Guidelines

A. **Current Fund Portfolios**: 100% of the assets in this fund portfolio shall be invested in money market funds, FDIC-insured savings and checking accounts, CD's, and broadly diversified short-term investment grade fixed income mutual funds or ETFs, defined as FTSE USBIG Treasury Bill 3 M Index, which shall serve as its asset class benchmark.

B. **Endowment and Invested Funds Portfolios:** The asset allocation strategy, including permissible asset classes and applicable guidelines, is described below. Based on the investment goals and risk tolerances stated in this document, the following asset mix targets and ranges are considered appropriate for the identified portfolios:

C. **Strategic Asset Allocation**
ACCF IPS favors a Strategic Asset Allocation with a long term time horizon and asset allocation based on expected returns, volatility, and ACCF's unique risk tolerance and investment objectives.

D. **Asset Class Constraints:**

	Growth portfolio			Aggressive portfolio		
	Min	Neutral	Max	Min	Neutral	Max
Equities	55.0%	65.0%	75.0%	70.5%	80.5%	90.5%
Real Assets	0.0%	3.5%	10.0%	0.0%	3.0%	10.0%
Fixed Income	21.5%	29.5%	37.5%	7.0%	14.5%	22.0%
Cash	0.0%	2.0%	10.0%	0.0%	2.0%	10.0%

E. **Tactical Asset Allocation:** A Tactical Asset Allocation may occasionally be employed which is a tool of active investment management that establishes a short-term asset allocation to take advantage of valuation discrepancies in specific asset classes. The objective of this periodic bias is to produce incremental returns on top of those of an already diversified portfolio. Changes in the Tactical Asset Allocation are an average 3-4 times a year and disciplined, based on the concept that a continuous or severe shift in and out of asset classes introduces "market timing", increasing inefficiencies and market risk. Tactical Asset Allocations will be conducted in a magnitude that does not jeopardize the overall Strategic Asset Allocation objectives.

F. **Rebalancing:** Shall take place if the weighting of any asset class is outside of the Asset Class Constraints, defined above or at least annually. A rebalancing of the Portfolio should bring the weightings of each asset class listed above back in line with its Strategic Asset Allocation target unless there has been a Tactical Asset Allocation change within an asset class, for which the rebalancing shall bring the weighting back to the target Tactical Asset Allocation for that asset class. Trading costs should also be considered prior to rebalancing

Asset Class Definitions

A. **Equities: U.S. Large Cap**
   1. **Eligible Securities:** Publicly traded U.S. equity securities including common stocks and convertible preferred stocks, as well as mutual funds and exchange-traded funds that invest primarily in eligible U.S. equity securities. Securities should generally be large cap securities, defined as securities

following into the Russell 1000 benchmark, though securities outside the large cap designation are permitted. Also, American Depository Receipts (ADRs) are permitted.
2. **Excluded Investments:** Non-convertible preferred stocks.
3. **Benchmark:** S&P 500 Index.

B. **Equities: U.S. Small and Mid-Cap**
1. **Eligible Securities:** Publicly traded U.S. equity securities, regardless of market capitalization or style, including common stocks and convertible preferred stocks, as well as mutual funds and exchange-traded funds that invest primarily in eligible U.S. equity securities. Securities should generally be large cap securities, defined as securities following into the Russell 2500 benchmark, though securities outside the small and mid-cap designation are permitted. Also, American Depository Receipts (ADRs) are permitted.
2. **Excluded Investments**: Non-convertible preferred stocks.
3. **Benchmark:** Russell 2500 Index.

C. **Equities: International Equity**
1. **Eligible Securities**: Publicly traded equity securities of non-U.S. companies incorporated in developed markets, as defined by Morgan Stanley Capital International (MSCI), regardless of market capitalization or style, including common stocks and convertible preferred stocks. The portfolio can also invest in mutual funds and exchange-traded funds that invest primarily in eligible securities.
2. **Excluded Investments**: Non-convertible preferred stocks
3. **Benchmark**: MSCI EAFE Index (Net).

D. **Equities**: **Emerging Markets Equity**
1. **Eligible Securities**: Publicity-traded equity securities of non-U.S. companies incorporated in emerging markets, as defined by Morgan Stanley Capital International (MSCI), regardless of market capitalization or style, including common stocks and convertible preferred stocks. The Portfolio can also invest in mutual funds and exchange-traded funds that invest primarily in eligible securities.
2. **Excluded Investments**: Non-convertible preferred stocks.
3. **Benchmark**: MSCI Emerging Markets Index (Net).

E. **Fixed Income: Investment Grade**
1. **Eligible Securities**: U.S. dollar-denominated debt securities issued by governments, government agencies and instrumentalities (or guaranteed by the U.S. government, its agencies, or instrumentalities), municipalities, and corporations, both domestic and foreign, that are rated investment grade (Baa3/BBB- or higher). All foreign debt securities must be issued by government entities located in countries that are classified as developed markets by Morgan Stanley Capital International (MSCI) or companies incorporated in those same countries. In the event that an individual security is split rated; the lowest rating shall be used. The Portfolio can also invest in mutual funds and exchange-traded funds that invest primarily in eligible securities.
2. **Diversification:** There are no diversification limitations for U.S. Treasury securities, agencies, or its instrumentalities, as well as securities guaranteed by the U.S. government, its agencies, or instrumentalities.
3. **Duration:** The duration shall be within +/- 20% of the duration of the stated benchmark.

4. **Excluded Investments**: Mortgage-Backed Securities and Asset-Backed Securities.
5. **Benchmark**: Barclays US Aggregate Index.

F. **Fixed Income: High Yield**

1. **Eligible Securities**: Mutual funds and exchange-traded funds that invest in below investment grade debt (lower than Baa3/BBB-) and/ or syndicated bank loans.
2. **Benchmark**: B of A Merrill Lynch US High Yield Master II Index.

G. **Fixed Income: Emerging Market Debt**

1. **Eligible Securities**: Mutual funds and exchanged-traded funds that invest in local currency, US dollar emerging market fixed income securities (including government, government entities and corporate issues).
2. **Benchmark:** JPM EMBI Global Diversified Index

H. **Fixed Income: Global Bonds**

1. **Eligible Securities**: Mutual funds and exchange-traded funds that invest primarily in developed ex US country fixed income securities (including government, government entities and corporate issues).
2. **Benchmark:** FTSE World Government Bond Index (USD) Index.

I. **Real Assets: U.S. Treasury Inflation-Protected Securities (TIPS)**

1. **Eligible Securities**: Debt securities issued by the U.S. government that are linked to inflation and mutual funds and exchange-traded funds that invest in eligible securities.
2. **Excluded Investments**: Debt securities issued by foreign governments as well as inflation-protected debt securities issued by corporations, both domestic and foreign.
3. **Diversification**: There are no diversification limitations for U.S. Treasury Inflation-Protected Securities.
4. **Duration**: The duration shall be within +/- 20% of the duration of the stated benchmark.
5. **Benchmark**: Barclays Capital U.S. Treasury Inflation-Protected Securities (TIPS) index.

J. **Real Assets: Real Estate Investment Trusts (REITs**)

1. **Eligible Securities**: Equity securities issued by domestic companies that are organized as either equity-focused real estate investment trusts (REITs) or real estate operating companies (REOCs), including mutual funds and exchange-traded funds that invest in eligible securities.
2. **Excluded Investments:** Mortgage REITS and hybrid REITs.
3. **Benchmark:** MSCI US REIT (Gross) Index.

K. **Real Assets: Commodities**

1. **Eligible Securities:** Mutual funds and exchange-traded funds (including exchange traded notes) that invest in broad commodity indices and the futures of single commodities.
2. **Excluded Investments**: Physical commodities and futures on individual commodities.
3. **Benchmark:** Bloomberg Commodity Index.

L. **Cash**
   1. **Definition:** The unallocated assets of the Portfolio that the organization decides to keep in cash. This allocation does not include the cash held by Investment Managers.
   2. **Eligible Investments**: Cash, cash equivalents (including commercial paper, bankers' acceptances, certificates of deposit), and money market mutual funds, including proprietary money market mutual funds, provided that they invest solely in eligible cash investments.
   3. **Excluded Investments**: Foreign bonds, zero-coupon bonds (including U.S. Treasury stripped securities), below investment grade securities, and short sales.
   4. **Benchmark**: FTSE-USBIG Treasury Bill 3M Index.

Other Asset Class Guidelines

A. **Excluded Investments**: Any type of investment not listed as an Eligible Security in the asset classes above shall be considered an Excluded Investment. The Investment Committee may approve specific exceptions to Excluded Investments.

B. **De Minimis Rule**: Mutual funds and exchange-traded funds whose underlying holdings are less than 20% of ineligible securities shall be deemed in compliance. For the classification of non-U.S. equity funds as developed markets or emerging markets, the de minis rule shall be 30%.

C. **Diversification:** No single issuer shall comprise more than 5% of the Portfolio, with the exception of the U.S. government, its agencies, and its instrumentalities (or guaranteed by the U.S. government, its agencies, or instrumentalities), as well as mutual funds and exchange-traded funds which are broadly diversified.

D. **Marketability:** The Portfolio shall only hold securities (individual shares, mutual funds, and exchange-traded funds) regularly traded on a national exchange. The Portfolio may not own privately held securities unless specifically approved by the Board of Directors after recommendation by the Investment Committee.

E. **Socially Responsible Investing:** ACCF recognizes the desire of some donors to screen the investment universe to focus on issues of Socially Responsible Investing (SRI). ACCF also recognizes that SRI issues are very personal. When possible, ACCF will assist in the search for investment opportunities that satisfy the SRI preference of donor-restricted funds.

Conflicts of Interest

Any person or organization involved in the oversight or management of invested portfolios of ACCF (a Covered Party), in addition to the general conflict of interest policy of the organization, shall adhere also to these guidelines regarding conflicts of interest:

A. **Identification of conflict.** A conflict of interest, whether actual or perceived, is defined for the purposes of the IPS as any event in which a Covered Party may personally benefit from knowledge of, participation in, or by virtue of, an investment decision or holding in the Portfolio.

B. **Process.** Should a conflict arise, the Covered Party, or any person who becomes aware of a conflict, shall immediately disclose the conflict in writing to the Investment Committee. Any such Covered Party will thereafter abstain from decision-making with respect to the area of conflict. A written record of the conflict shall be maintained by the Investment Committee.

Investment Policy Statement Review

The IPS shall be reviewed at least annually by the Board of Directors.