

# Investment Policy Statement

ACT for Alexandria

UPDATED 07/27/2021

## About ACT for Alexandria

ACT for Alexandria is Alexandria's community foundation. Our mission is to improve the lives of Alexandrians by turning ideas into action and resources into results.

## Purpose and Background

The Investment Committee is responsible for establishing the Investment Policy Statement ("IPS") to guide the investment of the Community Foundation's assets. The IPS describes the overall investment guidelines and the framework, including the degree of overall investment risk that the Investment Committee deems appropriate, using prudent investment principles while achieving the long-term target total return to fund the Foundation's ongoing annual operational and grantmaking budget in perpetuity.

The purpose of this IPS is to assist the Board of the Community Foundation, the Finance Committee, and its Investment Committee in effectively managing the investments of the Community Foundation's assets. It defines and assigns the responsibilities of all involved parties, articulates the framework in which the portfolios will be managed as it relates to risk and return objectives as well as constraints, and establishes a basis for evaluating performance.

This IPS addresses the following issues:

- The investment goals of the Community Foundation
- The roles and responsibilities of the Foundation's investment management
- Policies and guidelines for Investment Consultant(s) and Investment Manager(s) (IM's)
- Investment asset allocation and rebalancing policies
- Measurement and evaluation of investment performance and applicable benchmarks

## Investment Goals

The investment goal of the Community Foundation is to maintain adequate liquidity to meet near-term needs and to earn a total return that will provide long-term preservation and growth of the Community Foundation's invested assets. To meet this goal, the Community Foundation maintains a diversified total portfolio that is invested in various asset classes and investment styles.

## Roles and Responsibilities

The Community Foundation's Investment Committee is authorized by the Finance Committee to act on its behalf subject to this IPS. The Investment Committee, in turn, is authorized to retain, terminate, or replace Investment Consultants and third-party Investment Managers. Further responsibilities are detailed below.

The Investment Committee is responsible for:

1. Overseeing the investment of the Community Foundation's assets
2. Establishing, reviewing, and maintaining the IPS and target asset allocations
3. Monitoring the net-of-expenses performance and risk profile of the investment portfolio of the Community Foundation as a whole
4. Reviewing the Investment Consultant's implementation of the IPS
5. Hiring, terminating, or replacing any Investment Consultants or Investment Managers
6. Briefing the Board at least annually on the investment performance of the Community Foundation's assets

The Community Foundation's third-party Investment Consultant is responsible for:

1. Reviewing, disclosing, and addressing all potential conflicts of interest
2. Recommending rebalancing and tactical shifts between Investment Managers to the Investment Committee
3. Monitoring the appropriateness of each Investment Manager's strategy given the Community Foundation's overall investment strategies, philosophies, and objectives
4. Monitoring the investment performance of each Investment Manager compared to the benchmark established for that manager
5. Preparing and delivering quarterly performance reports on a timely basis reflecting the status of the Community Foundation's investments to the Investment Committee and/or Board and written statements which will include a summary of the actions taken with respect to the Community Foundation's assets under management and the rationale behind those actions

Each of the Community Foundation's third-party Investment Managers are responsible for:

1. Making investment decisions in accordance with their investment objectives and philosophies
2. Day-to-day buying and selling of securities to portfolio monitoring, transaction settlement, performance measurement, and regulatory and client reporting

## Types of Investment Assets

The Community Foundation's invested assets are currently comprised of the following:

### Operating Fund

The purpose of the ACT for Alexandria Operating Fund is to fund the operations, discretionary grants, and other programs of the foundation. It will exist as long as the Foundation exists.

### Managed Funds

Managed Funds, or Field of Interest Funds (Renaming: Catalyst Fund & Community Initiative Fund) are liquid funds used to fund special projects. These are established by the foundation or donor to support a specific charitable project or issue, such as education, the arts, health etc. The Fund's Advisory Committee or the Foundation direct the grants and expenditures

### Norma Steuerle Community & Reserve Fund

The corpus for the Community Fund was established when the Steuerle family made a generous \$1M gift, which launched ACT. The purpose of the fund is to support ACT's work, with priority

given to the activities that generate specific community impact. In accordance with ACT's past financial management policies, the Community Fund will continue to support ACT's operations as needed. However, ACT's long-term aspiration is that the Community Fund is exclusively used to support community programs.

### Advised Funds

1. Pooled assets:
  - Donors can allocate funds to be managed by ACTs selected Investment Management partners, utilizing target asset allocation mixes
2. Separately managed assets:
  - These funds are managed at the discretion of outside investment advisors as directed by donors. Therefore, are outside of scope of ACTs investment management partners

## Investment Goals and Objectives

The Community Foundation's investment goals and objectives for its invested assets are as follows:

### Operating Fund

The Operating Fund is invested 100% in Cash and Cash Equivalents as liquidity is the primary objective for this fund. The Operating Fund requires low risk and liquidity due to the volume of transactions for operations and grants.

### Managed Funds

Managed Funds, or Field of Interest Funds (Renaming: Catalyst Fund & Community Initiative Fund) are liquid funds used to fund special projects. Similarly to the Operating Fund, the Managed Funds are invested 100% in Cash and Cash Equivalents as liquidity is the primary objective for this fund.

### The Norma Steuerle Community Fund

- The investment goal for The Norma Steuerle Community Fund is to earn a total return that balances growth of assets with preservation of capital. Investment management will, at all times, be prudent and minimize risk by the use of diversified, well-managed investments with a record of successful performance, as well as low expenses.
- Investment Time Horizon: ~10 Years

### Advised Funds

- Donors are able to allocate funds into various asset allocation models (to be determined in conjunction with Investment Consultant) based on risk tolerance, time horizon, and investment objective.
- ACT seeks to provide a Sustainable Investing / ESG (Environmental, Social, Governance) management option available to donors.

## Benchmarks:

### Equity Benchmarks

- **To be determined** by the Investment Committee in conjunction with the Investment Consultant that is selected to manage Community Foundation investment assets. Investment Policy Statement will be updated.

### Fixed Income Benchmarks

- **To be determined** by the Investment Committee in conjunction with the Investment Consultant that is selected to manage Community Foundation investment assets. Investment Policy Statement will be updated.

## Asset Allocation

- All Community Foundation asset portfolios shall be broadly diversified in a manner that is in keeping with fiduciary standards. The Investment Committee will evaluate IPS asset allocation targets and ranges for the Community Foundation and will review each at least annually.

## Target Investment Mix / Asset Allocations

- **To be determined** by the Investment Committee in conjunction with the Investment Consultant that is selected to manage Community Foundation investment assets. Investment Policy Statement will be updated.

## Liquidity

Liquidity is required to meet the grantmaking needs of the Community Foundation's investment assets.

- The Norma Steuerle Community Fund liquidity needs are 10% of the value of the funds for grantmaking, plus liquidity to cover administrative and advisory fees.
- The Advised Funds liquidity needs will vary according to Asset Allocation assignment by the donors who created them.

## Asset Class Guidelines

### Cash

The purpose of the cash and cash equivalent allocation is to assure immediate liquidity for Community Foundation grantmaking. Preservation of liquidity is the priority as opposed to generating yield. This allocation will be invested in only the lowest risk assets, including Treasury bills, Agency notes, or low risk money market instruments that focus on Treasury bills and equivalents.

### Fixed Income

The purpose of the Fixed Income allocation is to create some measure of diversification for managed funds. Preservation of principal is a core emphasis of this allocation. A current risk for cash and high-quality fixed income is the possibility of negative real returns or returns which are less than the rate of inflation. Fixed income investments, whether individual instruments or managed portfolios, should always balance interest rates, quality, and maturity to ensure the highest return that minimizes the risk of devaluation.

## Global Equities

The purpose of the allocation to Global Equities is to provide long-term capital appreciation and diversification. Equity managers will be selected with the objective of building a portfolio that is diversified by geographic region, economic sector, industry, and market capitalization. Equity managers are expected to generate average annual compounded returns higher than those of relevant broad market indices, net of fees, over full market cycles.

## Alternative Asset Classes – Hedge Funds, Private Equity

The Investment Consultant will not make direct investment in these asset classes without the written authorization of the Investment Committee Chair and the CEO of ACT.

## Real Assets

In general terms, Real Asset allocations seek to protect long-term purchasing power. Real Assets investments may include real estate, energy, timber, and commodities. Real estate may be comprised of properties or REITs in various operating segments - office, retail, hotel, industrial, and multi-family. Global energy, timber, and commodity investment funds commit capital to investments that develop resource opportunities or to companies that provide services to the sector, such as gas processing or contracted drilling. Across the Real Assets sectors, managers generally seek some balance between income, stability, and risk, which can drive capital appreciation. Any allocation to Real Assets will be considered part of the equity asset allocation targets and must be made in publicly traded securities only.

## Rebalancing

At times, markets may move in such a way that normal cash flows will be insufficient to keep the actual asset allocation within the permissible minimum and maximum ranges to be set in conjunction with the 3<sup>rd</sup> party Investment Consultant. In these cases, on a quarterly basis, rebalancing should take place that transfer funds as necessary between asset types to bring the allocations back within the permitted ranges.

## Interest and Dividends

Interest and dividends generated by invested assets will be re-invested according to the Investment Manager's judgment unless otherwise directed by the Investment Committee.

## Recommendations to the Investment Committee

The Investment Consultant will be responsible for making recommendations to the Investment Committee about additions or withdrawals to or from different IMs, as per Roles and Responsibilities.

## Selection of Investment Managers (to be confirmed with Investment Consultant retained)

The Investment Committee, with the assistance of the Investment Consultant, will select appropriate Investment Managers to manage. Managers must meet the following minimum criteria:

1. Be a bank, insurance company, investment management company, or investment adviser as defined by the Registered Investment Advisers Act of 1940.
2. Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.
3. Provide performance evaluation reports prepared by an objective third party that illustrates the risk/return profile of the manager relative to other managers of like investment style.
4. Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel. This information can be a copy of a recent Request for Proposal (RFP) completed by the manager.
5. Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.

The Investment Committee, with the assistance of the Investment Consultant, should follow the Selection Criteria listed below:

1. *Regulatory Oversight:* Each investment manager must be regulated by a bank, an insurance company, a mutual fund organization, or a registered investment adviser.
2. *Correlation to Style or Peer Group:* The manager's product must be highly correlated to one of the asset classes approved by the Investment Committee. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the manager to the appropriate peer group.
3. *Performance Relative to a Peer Group:* The product's performance should be above median for the peer group for annual and cumulative periods (1, 3, and 5-year returns).
4. *Performance Relative to Assumed Risk:* The product should have above median risk-adjusted performance measured against the manager's peer group – considering the fund's Alpha, Sharpe, and/or Morningstar risk-adjusted measures.
5. *Minimum Track Record:* The product's inception date should be greater than three years and the same portfolio management team must have been in place for at least two years.
6. *Assets Under Management:* The manager should have at least \$75 million under management within the screened product.
7. *Holdings Consistent with Style:* The screened product should have no more than 20% of the portfolio invested in "unrelated" asset class securities. For example, a domestic

Growth fund should not hold more than 20% between cash, fixed income and/or international securities.

8. *Expense Ratios/Fees:* The screened product should not be in the top quartile (most expensive) of their peer group.
9. *Stability of the Organization:* There should be no perceived organizational problems – personnel turnover; regulatory issues; assets coming in faster than the manager can handle; and an inability to demonstrate “best price and execution” in trading.

The Investment Committee, with the assistance of the Investment Consultant, may also select appropriate mutual funds to manage a portion of the Fund’s assets. Mutual funds must meet the following minimum criteria:

1. Funds must correspond to the asset classes outlined in the Board’s IPS. For example, the growth component of the IPS must be implemented with a mutual fund invested in growth stocks.
2. The fund’s manager must have been in place for three years or more.
3. The funds must have been following the same investment strategy for at least three years.

## Monitoring of Mutual Funds/Investment Managers (to be confirmed with Investment Consultant retained)

Quarterly performance will be evaluated to test progress toward the attainment of longer-term targets.

On a timely basis, but not less than four times a year, the Investment Committee will meet to focus on:

- Manager's adherence to the IPS guidelines
- Material changes in the mutual fund's/investment manager's organization, investment philosophy and/or personnel
- Comparisons of the mutual fund's/investment manager's results to appropriate indices and peer groups

The risk associated with each mutual fund's/investment manager's portfolio, as measured by the standard deviation of quarterly returns, must not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group.

In addition to the information covered during the quarterly reviews, the Investment Committee will meet at least annually to focus on:

- The mutual fund's/investment manager's performance relative to mutual fund's/investment managers of like investment style or strategy. Each mutual fund's/investment manager is expected to perform in the upper half of the mutual fund's/investment manager's respective style universe.
- The Fund's investment performance results compared to the investment manager's overall composite performance figures to determine unaccounted for dispersion between the manager's reported results and the Fund's actual results.

The Investment Committee is aware that the ongoing review and analysis of mutual funds/investment managers is just as important as the due diligence implemented during the mutual fund/investment manager selection process. Accordingly, a thorough Review and Analysis of a Mutual Fund/Investment Manager will be conducted, should:

- A Mutual Fund/Investment Manager perform in the bottom quartile (75th percentile) of their peer group over a quarterly, or annual period.
- A Mutual Fund/Investment Manager fall in the southeast quadrant of the risk/return scatterplot for a five-year time periods.
- A Mutual Fund/Investment Manager have a five-year risk adjusted return fall below that of the median manager within the appropriate peer group.



Furthermore, performance which may require the replacement of a Mutual Fund/Investment Manager include:

- Mutual Funds/Investment Managers that consistently perform below the median (50th percentile) of their peer group over rolling three-year periods.
- Mutual Funds/Investment Managers which perform below the median (50th percentile) of their peer group over a five-year period.
- Investment managers with negative alphas for a five-year time period.

Major organizational changes also warrant immediate review of the mutual fund/investment manager, including:

- Change in professionals
- Significant account losses
- Significant growth of new business
- Change in ownership

The performance of the mutual funds/investment managers will be monitored on an ongoing basis and it is at the Investment Committee's discretion to take corrective action by replacing a mutual fund/investment manager if they deem it appropriate at any time.

## Conflict of Interest Policy

Any individual Investment Consultant or Investment Manager retained by the Community Foundation to manage its invested assets must be independent of the Community Foundation and its Board members and should disclose any conflict of interest. All potential conflicts of interest will be fully disclosed, discussed, and decided by the Board in consultation with the Investment Committee.

## Policy Review

This Investment Policy Statement will be reviewed periodically by the Investment Committee. Any amendments thereto suggested by the Investment Committee will be brought to the Board for discussion and vote.

## Approval

This Investment Policy Statement is a directional DRAFT and will be finalized in conjunction with the retained Investment Consultant before being approved by the Investment Committee and Board of Directors.