

**SHIAWASSEE COMMUNITY FOUNDATION  
INVESTMENT/FINANCE COMMITTEE POLICY  
(Approved by board on 10-24-23)**

**PURPOSE/MISSION**

The purpose of the Shiawassee Community Foundation (referred to as “foundation” in the following sections of this policy) is to solicit, collect, receive and administer funds exclusively for such religious, charitable, scientific, literary and educational purposes as permitted for organizations defined in Section 501 (c) (3) of the Internal Revenue Code as will best promote and enhance the well being of the residents of Michigan.

In fulfilling its mission as stated in the mission statement and in articles of incorporation of the foundation, the board of directors of the foundation desire to establish this finance committee policy (hereafter “policy”) with the objective of preserving or enhancing the real (inflation adjusted) purchasing power of the permanent as well as quasi endowment funds of the foundation, while producing a relatively predictable and stable payout stream that is maximized over the long run. With this objective in mind, this policy statement is set forth in order to:

1. Provide an understanding among the board of directors of the foundation, the finance committee of the board, the investment consultant employed, and any investment managers employed of the finance policy of the foundation;
2. List the duties and responsibilities that the foundation expects its finance committee and investment managers to assume;
3. Establish a method for determining the annual spending budget for the foundation;
4. Establish the basis for evaluation of the investment performance of the foundation’s portfolio and of any investment manager(s) servicing the portfolio;
5. Give donors and grantees a clear statement of the foundation’s investment philosophy;
6. Maintain a disciplined approach to investment management.

**RESPONSIBILITIES/COMPOSITION**

The board of directors of the foundation shall delegate responsibility for execution of this policy to its finance committee. The committee shall consist of a minimum of four members with a minimum of two board members identified as having expressed interest in serving on the committee. It is recommended that the committee be comprised of members from throughout Shiawassee County who possess financial expertise. Members will serve for a renewable one-year term or until a successor is appointed. The board chair will appoint the committee chair at the annual meeting. The board chair and executive director will serve as ex-officio members.

**SPECIFIC DUTIES**

- To implement and periodically review the policy;
- To identify and recommend investment consultants and investment managers to be hired by the board;
- To recommend to the board the allocation of funds between approved investment managers;
- To monitor the performance of all such investment managers;
- To manage all assets not managed by investment managers;
- Recommend fiscal policies to the board.

All actions of the finance committee are subject to review by the board. The committee will make recommendations to the board regarding adoption of policy, the hiring of investment consultants and investment managers and the eventual disposition of all assets not managed by the investment managers.

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**MEETING SCHEDULE**

The committee will meet on a quarterly basis or as deemed necessary by the finance committee chair.

**STANDARDS FOR PRUDENT INVESTING**

In investing and managing the portfolio, the Committee will consider both the purposes of the Foundation and the purpose of any specific institutional fund. Management and investment decisions about an individual asset will be made not in isolation but rather in the context of the portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the Foundation.

In managing the portfolio, the Committee will incur only those costs that are appropriate and reasonable in relation to the portfolio or any specific institutional fund, the purposes of the Foundation, and the skills available to it and will use reasonable efforts to verify facts relevant to the management and investment of the portfolio or any specific institutional fund.

Except as a donor's gift instrument otherwise requires, and consistent with the state's adoption of the **Uniform Prudent Management of Institutional Funds Act**, the following factors must be considered, if relevant, in managing and investing the investment portfolio, including the requirements for any specific institutional funds:

- general economic conditions;
- the possible effect of inflation or deflation;
- the expected tax consequences, if any, of investment decisions or strategies;
- the role that each investment or course of action plays within the Foundation's overall investment portfolio;
- the expected total return from income and the appreciation of investments;
- other resources of the Foundation;
- the needs of the Foundation and a given institutional fund to make distributions and to preserve capital; and
- an asset's special relationship or special value, if any, to the purpose of the Foundation.

**EXCESS BUSINESS HOLDINGS**

The Pension Protection Act of 2006 amended section 4943 of the Internal Revenue Code to limit ownership of closely-held business interests in a donor advised fund. A fund's holdings, together with the holdings of disqualified persons (donor, advisor, members of their families and businesses they control) may not exceed any of the following:

- 20% of the voting stock of an incorporated business;
- 20% of the profits interest of a partnership, joint venture, or the beneficial interest in a trust or similar entity;
- Any interest in a sole proprietorship.

These limitations do not apply if the donor-advised fund holds an interest that does not exceed two percent of the voting stock and two percent of the value of the business.

Donor-advised funds receiving gifts of interests in a business enterprise have five years from the receipt of the interest to divest holdings that are above the permitted amount, with the possibility of an additional five years if approved by the Secretary of the Treasury. To prevent a violation of these rules, it is the Foundation's

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policy is to divest itself of such holdings within five years from the date the Foundation acquired the asset. If that is not possible, the asset will be transferred to a new or existing fund that is not an advised fund. Because they are not “business enterprises,” the rule will not apply to most gifts of real property, although undeveloped land may become a business enterprise under some circumstances. Interests in investment partnerships and LLCs—including family partnerships, hedge funds, REITs, and so forth—are excluded from the definition of business enterprise as long as 95 percent or more of the entity’s income is from passive sources. Examples of other property gifts that are excluded because they are not business enterprises include: oil and gas interests (non-working); life insurance; tangible personal property (as long as it is not inventory); and remainder interests in personal residences and farms.

### **INVESTMENT OBJECTIVES**

The safeguards and diversity that a prudent investor would adhere to must be present. All transactions of the foundation must be in the sole interest of perpetuating the foundation. Each advisor or mutual fund will be monitored relative to their investment style with a performance target of top quartile in management style. Minimal acceptable performance shall be the median in management style.

Each advisor or mutual fund is encouraged to take advantage of opportunities to achieve a higher rate of return than the targeted minimum goals set out below without increasing or surpassing the previously defined risk parameters.

### **EQUITY FUNDS**

- The primary purpose of equity funds is to provide long-term growth of assets and diversification.
- Equity investment advisors are expected to provide a minimum return equal to:
  - the S & P 500 plus 100 basis points on large cap equity assets,
  - the Wilshire Small Cap plus 100 basis points on small cap equity assets, and
  - the Morgan Stanley EAFE plus 100 basis points indexes on international equity assets.
- The overall risk of equity funds shall be less than or equal to the risk of the appropriate style index over a business cycle.

### **BOND FUNDS**

- The primary purpose of bond funds is to provide income and diversification.
- Investment managers of bond funds are expected to provide a minimum return equal to the Lehman Brothers Government/Corporate Index over a business cycle.
- The overall risk of bond funds shall be less than or equal to the risk of the Lehman Brothers Government/Corporate Index over a business cycle.

### **MONEY MARKET FUNDS**

- The primary purpose of money market funds is preservation of capital and liquidity.
- Primary consideration will be given to the safety and liquidity of the assets.

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**BALANCED FUNDS**

- The primary purpose of balanced funds is to provide moderate growth and income.
- Investment managers of balanced funds are expected to provide a minimum return equal to the 50-50 Balanced Index, composed of 50% S & P 500 and 50% Shearson Lehman Government/Corporate plus 100 basis points of total assets
- The overall risk of balanced funds shall be less than or equal to the risk of the 50-50 balanced index.
- The main objective is to protect the principal through a balanced portfolio structure while providing long-term growth. This growth may be provided through a combination of capital appreciation and a cash flow through dividends and interest
- It is expected the investment objective of long-term growth will be achieved over normal market and business cycles consisting of three to five-year periods.
- It is the goal of the foundation board of directors that the investment portfolio will consistently provide a total “real” return (i.e. after inflation) of at least 5% on average annually. It is also expected the portfolio will provide a stable and predictable income cash flow from interest and dividends sufficient to provide for the annual funds to meet operating needs.

**FIDUCIARY RESPONSIBILITY**

- The investment advisor shall act with the same care, skill, prudence and diligence under the circumstances prevailing that a prudent person would use in managing the assets of the foundation’s portfolio under similar circumstances.
- The investment advisor shall also act with due regard for the management, reputation and stability of the issues as well as the character of the particular investments considered for inclusion in the foundation investment portfolio.
- The investment advisor will diversify the investments within the portfolio to minimize the risk of excessive losses unless under the circumstances it is clearly not prudent to do so. The investment advisor will also perform its investment responsibilities in accordance with any documents, instruments, or instructions governing the foundation board or its finance committee that such advisor knows exist.
- It is considered the obligation of the advisor to make the foundation aware of any conditions requiring alterations in the strategies considered desirable for the achievement of satisfactory investment results. The advisors are also obligated to inform the foundation of any conflicts between a desired strategy for satisfactory investment performance and the stated investment objectives and goals of the foundation.

**EQUITY SECURITIES**

- Equity securities are defined to include convertible issues as well as common stock.
- Equity securities are to be selected in accordance with criteria to be determined by the investment manager and applied on a consistent basis. Purchases and sales of such investments are the direct responsibility of the investment manager or mutual fund under the discretion granted herein.
- Funds available for investment in equity securities may be temporarily invested in short-term U.S. Treasury obligations, short-term obligations of government sponsored enterprises, federal agencies, commercial paper, commercial bank certificates of deposit and money market funds.

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**FIXED INCOME INVESTMENTS**

- Fixed income securities may include U.S. Treasury obligations, obligations of government sponsored enterprises, federal agency obligations, corporate notes, debentures, preferred stocks, commercial paper and commercial bank certificates of deposit. All bonds will have a minimum of an investment grade rating.
- Fixed income securities are to be selected and managed to assure appropriate balance of quality, maturity and coupons consistent with current market and economic conditions.

**ASSET ALLOCATION**

- The committee believes that a diversified portfolio will limit the degree of risk to each fund and stabilize the long-term results.
- Currently the foundation invests in the stability objective. Emphasis is balanced between achieving principal growth and generating current income. Stability would be achieved by creating a portfolio that will grow in value to provide future income in excess of inflation, while also generating a moderate level of income today.
- The parameters set out below represent the maximum and minimum exposure to each asset class which the committee deems appropriate to accomplish the stated objectives of the foundation.

**INVESTMENT ACCOUNT GUIDELINES**

|                                     | <b>Maximum</b> | <b>Goal</b> | <b>Minimum</b> |
|-------------------------------------|----------------|-------------|----------------|
| Equity Total                        | 70%            | 60%         | 30%            |
| Large Cap Equity                    | 50%            | 30%         | 10%            |
| Medium Cap Equity                   | 15%            | 8%          | 0%             |
| Small Cap Equity                    | 15%            | 8%          | 0%             |
| International Equity                | 25%            | 17%         | 0%             |
| Fixed Income (including cash/bonds) | 70%            | 40%         | 30%            |
| Cash (money market)                 | 40%            | 0%          | 0%             |

- Alternatives – Range 0% to 25% (including, but not limited to hedge funds, real estate, private equity/venture capital, natural resources/commodities)
- The investment advisors can re-balance investments when necessary to maintain consistency with the Investment Account Guidelines outlined in this policy.
- When multiple investment advisors are used, it is the responsibility of the committee to monitor the asset mix. Reviews should be made quarterly.
- Except for guidelines expressed above, the asset allocation in each fund will remain flexible, depending upon the outlook of the economy and security market.
- Not more than 5% of the equity portion of the fund, based on cost value at the time of purchase, shall be invested in the securities of any one issuing corporation of its parent holding company.
- The aggregate investment of this fund in the equity securities of any one issuing corporation shall not exceed 1% of the outstanding capital stock of that corporation or its parent holding company.
- The investment advisor is granted full investment discretion regarding industry diversification, subject to the terms of the trust agreement, the investment objectives and guidelines stated in this finance policy.

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**COMMUNICATIONS**

- It is expected the investment advisor will meet with the finance committee quarterly.
- It is expected the investment advisor will deliver to the finance committee quarterly performance results and an annual report.
- Any significant changes in investment strategy by the manager or mutual fund will be communicated to the finance committee.
- Performance results, portfolio listing and valuations and transaction summaries should be provided monthly.

**PROXIES**

- Due to the investment advisor and/or mutual fund research capabilities and their familiarity with the companies they are buying on behalf of the foundation, the finance committee expects each manager vote all proxies related to the securities for which they are responsible.
- Proxies are to be voted on behalf of the foundation, solely in the best interest and for the exclusive benefit of the participants of the foundation.
- The finance committee reserves the right to cast the vote for any proxy related to the securities which are owned by the foundation and will notify the manager if it is their intention to do so.

**SPENDING POLICY**

The main responsibilities of the foundation are:

1. To carry out the intent of each donor in perpetuity
2. To provide grants and/or scholarships that benefit Shiawassee County
3. Use prudent spending guidelines to protect the foundation's investments for the long term

To achieve these responsibilities, the spending policy of the foundation is reviewed annually by the Finance Committee using the guidelines outlined below. The Finance Committee recommends grant and scholarship amounts to the Board of Directors for final approval.

Determination of the annual spending policy is based on the previous 28 quarters moving average balance of the market value of each endowment fund ending September 30<sup>th</sup>. Endowment funds that have not yet reached 28 quarters will be determined by the number of quarters available until 28 quarters are reached.

In accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the Finance Committee considers the following factors in making their annual spending policy determination:

- The intent of the donor as expressed in the fund agreement
- The duration and preservation of each endowment fund
- The purposes of the foundation, the nature of the endowment fund, and any donor restrictions
- Use the care of an ordinary prudent person in like circumstances
- General economic conditions
- Possible effect of inflation or deflation
- The foundation's administrative fee
- The expected total return from income and the appreciation of investments
- Investment return history

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- The overall investment policy of the foundation
- Any other resources available to make prudent spending decisions

The specific determining factors utilized annually will be made a part of the minutes of both the Finance Committee and the Board of Directors.

Any special distributions from endowment funds more than the annual spending policy require special approval of the Board of Directors.

**ADMINISTRATIVE FEES**

Administrative fees are assessed quarterly from the earnings of the fund and are based on the average beginning and ending year to date balance of the fund.

Effective September 18, 2018, administrative fees are:

|                                 |       |
|---------------------------------|-------|
| Scholarship/Multi-Purpose Funds | 2.00% |
| Field of Interest Funds         | 1.50% |
| Donor Advised Funds             | 1.50% |
| Unrestricted Funds              | 1.50% |
| Designated Funds                | 1.25% |
| Agency Funds                    | 1.25% |

Specific calculations for each quarter are as follows:

| <u>For Quarter Ending</u> | <u>Beginning YTD Period</u> | <u>Ending YTD Period</u> |
|---------------------------|-----------------------------|--------------------------|
| March                     | January                     | March                    |
| June                      | April                       | June                     |
| September                 | July                        | September                |
| December                  | October                     | December                 |

Pass-Thru fund fees will be determined on a case-by-case basis.

**EVALUATION OF INVESTMENT ADVISORS**

**TIME HORIZON**

The board of directors seeks to achieve or outperform the targeted expected returns, as defined by the asset allocation decision over a full market cycle. The board of directors does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, investment managers may produce significant over or under performance relative to the broad markets. For this reason, long-term investment returns will be measured over a 5-year moving period. The board of directors reserves the right to evaluate and make any necessary changes regarding investment managers over a shorter term using the criteria established under "Manager Evaluation" below.

**MANAGER EVALUATION**

All investment returns will be measured net of fees. The investment manager will be reviewed by the board of directors on an ongoing basis and evaluated upon the following criteria:

- Avoidance of regulatory actions against the firm, its principals or employees;

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- Adherence to the guidelines and objectives of this finance policy;
- Avoidance of significant deviation from the style and capitalization characteristics defined as “normal” for the manager;
- Ability to exceed the return on the appropriate benchmark index;
- Ability to meet or exceed the median performance of a peer group of managers with similar styles of investing.

This policy shall be reviewed annually. The investment performance will be reviewed on a quarterly basis by the Finance Committee members. The investment advisors may provide any suggestions regarding appropriate adjustments in this statement or the way investment performance is reviewed. Changes in the policy shall be upon action by the board of directors of the foundation upon recommendation by the finance committee.

**ACKNOWLEDGEMENT**

The board of directors, finance committee, investment managers, and investment consultant, each recognize the importance of adhering to the mission and strategies detailed in this document and agree to work to fulfill the objectives stated herein, within the guidelines and restrictions, to the best of their ability. It is acknowledged that open communications are essential to fulfilling this mission and if at any time it is necessary to discuss improvements to this document, they are welcome and should be referred through the foundation.