Chester County
COMMUNITY FOUNDATION

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Let your legacy
make a difference in
Chester County

INVESTMENT POLICY STATEMENT AND GUIDELINES

Revised September 2019

v. 9/18/19

growing philanthropy
for good. forever

Mission Statement

The Chester County Community Foundation connects people who care with the causes that matter, so their philanthropy makes a difference now and forever.

I. Purpose of this Investment Policy Statement

This statement of investment policies, guidelines and objectives is set forth in order to:

1. Provide a clear understanding of the investment policy, guidelines and objectives between the Investment Committee, the Finance Committee, the Board of Directors of the Chester County Community Foundation, the CIO for the Foundation's pooled assets, and Medallion Investment managers, for donor-directed assets.

2. Encourage effective communication between the above groups.

3. Provide the Chief Investment Officer (CIO) with a clear understanding of the objectives, guidelines, risk tolerance, and performance expectations for the investment of Foundation pooled assets.

4. Provide a basis for evaluation of investment performance and investment objectives.

5. Comply with all applicable trust, fiduciary, prudence, and due diligence requirements that experienced investment professionals and the Investment Committee should reasonably utilize, and with all applicable laws, rules and regulations from various local, state and federal entities that may impact Foundation assets.

It is intended that these objectives be sufficiently specific to be meaningful, but also flexible enough to be practical. All modifications of this document will be in writing and signed by the Investment Committee Chair, the President/CEO, and the Board of Directors.

II. Operating Guidelines

The Investment Committee will meet at least quarterly, or as frequently as necessary, to provide a continual monitoring of all investments and to discuss changing portfolio objectives and strategies.

Committee members who are active investment professionals will recuse themselves from voting regarding the possible retention of their firm, or any matter regarding their firm.

Individuals affiliated with the Investment Management Firm/s retained by the Foundation cannot serve as members of the Investment Committee. They can, however, be invited as guests to provide the Investment Committee with information.

The Foundation shall employ a duly registered Investment Manager or CIO, to implement the strategy of the assets. The Managers shall have full discretion within the parameters established in this policy and using the general guidelines established in the Uniform Prudent Investor Act of 1994, with specific focus on the concepts of diversification, risk/return and cost minimization.

Investment Committee Responsibilities

The Investment Committee is charged by the Board with the responsibility of effectively supervising the Foundation's investment assets. The Investment Committee monitors key performance indicators of the Foundation's investment assets, as well as the overall performance of the CIO selected to manage the endowed funds and invested assets of the Foundation. The Investment Committee responsibilities are to:

1. Develop, evaluate and update the Investment Policies regarding the investment of the Foundation assets.

2. Outline the objectives, goals, risk, and liquidity for each underlying Foundation investment option.

3. Assure the development of accounting and financial reporting regarding investment portfolio performance.

4. Ensure regular and timely review of investment performance indicators, investment management performance, and investment management expenses.

5. Monitor the overall performance of the CIO and make appropriate recommendations to the Board concerning the CIO's employment, retention and replacement. Investment reports are made at each Board meeting, submitted in writing and reviewed verbally by the Investment Committee Chair and Executive Vice President Business Affairs or their designates.

6. Provide advice and direction on other Foundation investment requirements as needed.

7. Monitor and perform due diligence on Medallion Managers.

8. Monitor compliance with applicable state laws regarding investments.

Chief Investment Officer (CIO) responsibilities

1. Full day-to-day responsibility and discretion for investing the Foundation's pooled assets through selected investment managers, within the guidelines and asset allocation ranges as set forth in the Investment Committee-approved Annual Investment Plans derived from this Investment Policy.

2. All actions with respect to investment managers for the pooled assets, including hiring and terminating, monitoring and reviewing investment manager contracts, meeting on a periodic basis and evaluating their investment performance, reviewing their compliance procedures, and communicating any important information to the Investment Committee.

3. Administrative and operational functions to support the Investment Policy dealing with the investment and reinvestment of the portfolios.

4. Reviewing and ensuring that the asset allocations of the pooled portfolios are consistent with this Investment Policy.

5. Periodically reviewing and recommending any changes or modifications of the Investment Policy and the asset allocation ranges to Investment Committee for its consideration.

6. Allocating new contributions and other cash flows generated by the pooled portfolio to investment managers or to other investment accounts as established.

III. Portfolio Objectives

The Foundation is committed to prudent investment management strategies and fiscal policies that it believes will lead to the long-term growth of endowment fund principal and meet the Foundation's distribution policy objectives. The Foundation seeks to preserve and enhance the value of the portfolio's assets by providing long-term growth greater than the rate of inflation and fee costs, while recognizing that prudent risks must be taken.

The Foundation's investment goals are:

1. to achieve a return in excess of the target return (defined below).
2. to minimize portfolio drawdown risk, to the extent possible, in seeking to achieve the Foundation's long-term growth objectives.

Endowed Funds Long Term Target Return: The Foundation desires a long term target return that provides portfolio growth, exceeds inflation, covers investment fee expenses, covers the Foundation's 1% administrative fee, and covers the annual grant payout (of up to 5% of the previous fiscal year end balance). Based on the fluctuating actual spend, the minimum required long term target return will be defined as the trailing 5 year actual spend rate + Current CPI + administration fees.

Quasi-Endowed Funds Long Term Target Return: The Foundation desires a long term target return that provides portfolio growth, covers investment fee expenses, covers the Foundation's 1.25% administrative fee, and partially covers a potential annual grant payout (of up to 20% of the previous fiscal year end balance).

Risk Constraints

Endowed Funds - Risk Constraints

<u>Liquidity:</u> Annual liquidity needs are expected to be moderate to low. The management of the portfolio will take into consideration the semi-annual distributions for grants. The portfolio's commitment to illiquid assets will not exceed 30% at the time the commitments are made. The committee will monitor this figure with the understanding that market conditions could increase the total commitment level beyond 30%. Asset allocation guidelines and the corresponding investment

manager structure should ensure adequate diversification in order to reduce the volatility of investment returns over the long-term.

Time Horizon: The Foundation (exclusive of the liquidity reserves described above) has a long time horizon, which is typical for the Foundation assets. The horizon extends well beyond a normal market cycle and, for the purpose of investment strategy, can be considered to be in "perpetuity".

Laws and Regulations: Most Foundation assets are governed by state regulations, which embrace the "Prudent Person Rule." "The Prudent Person Rule" is a flexible legal investment standard that allows a fund fiduciary to evaluate the merits of specific investments based on prevailing market conditions, and the intended role of the individual investments within the context of the overall portfolio.

Tax Considerations: The Foundation is exempt from Federal income tax under Section 501 (c) (3) of the Internal Revenue Code. Consequently, tax considerations are not a meaningful constraint for the Foundation.

Quasi-Endowed Funds - Risk Constraints

Liquidity: Annual liquidity needs are expected to be moderate to high. The management of the portfolio will take into consideration the semi-annual distributions for grants. The portfolio's liquid assets should be at least 80% of the portfolio's total assets, thus creating a substantial liquid base from which to draw. Asset allocation guidelines and the corresponding investment manager structure should ensure adequate diversification in order to reduce the volatility of investment returns over the long-term.

Time Horizon: The Foundation (exclusive of the liquidity reserves described above) has a short to medium time horizon, which is typical for quasi-endowed assets.

Laws and Regulations: Most Foundation assets are governed by state regulations, which embrace the "Prudent Person Rule." "The Prudent Person Rule" is a flexible legal investment standard that allows a fund fiduciary to evaluate the merits of specific investments based on prevailing market conditions, and the intended role of the individual investments within the context of the overall portfolio.

Tax Considerations: The Foundation is exempt from Federal income tax under Section 501 (c) (3) of the Internal Revenue Code. Consequently, tax considerations are not a meaningful constraint for the Foundation.

IV. Portfolio Structuring

Asset Allocation Strategy

To achieve the investment objective of each pooled portfolio, an asset allocation study was conducted to establish percentage ranges for each asset class eligible for investment within the portfolio. The expected return and risk of various portfolios were evaluated in terms of their ability to best meet the Fund's long-term investment objectives. Based upon this analysis, an asset allocation policy including ranges for each asset class was constructed that meets the current investment objectives of each portfolio.

Policy Portfolio Structure and Ranges

Asset Class	Benchmark	Endowed Range				Quasi Range		
Growth Assets	ACWI ETF	60%	-	80%		40%	-	60%
Diversifiers	BarCap ETF	0%	-	30%		0%	-	20%
Fixed Income Assets	Blend	10%	-	40%		20%	-	60%

Each asset class shown in the Investment Plan has a defined role within the overall asset allocation structure of the Foundation. These roles are defined as:

<u>Growth Assets</u>

Domestic and International Equity - The role of these investments is to provide long-term capital appreciation in excess of inflation. Due to the liquid nature of domestic and international common stocks, they are the dominant asset classes in the Foundation's portfolio. International equities help to control total portfolio volatility because they are not highly correlated. The domestic equity portfolio includes both large and small capitalization portfolios of different investment styles, i.e. growth/value and active/passive in the large-cap portfolio. The international equity portfolio is diversified across exposures to developed and emerging market opportunities.

Select Equity – Active managers investing in global publicly traded securities that are focused on broad, non-style boxed opportunities. Managers within select equity are not managing towards a benchmark. These investments will be through a limited partnership structure with monthly valuations. The partnership has an initial 1 year lock up followed by quarterly liquidity.

Commodities – Commodities' main benefit in the portfolio is for greater diversification. Commodities returns historically have had a low correlation to both equities and bonds. Additionally Commodities do well in both expected and unexpected inflationary environments. For this reason they are expected help protect the investment portfolio during these periods.

Real Estate – Real Estate Investment Trusts provide growth potential for the portfolio but have historically had a lower correlation to long only equities as well as fixed income. REITs are required to pay out 90% of their operating income on an annual basis. Due to the appreciation potential in REITs and their ability to grow their cash flow and payouts, they are able to provide inflation protection that other income producing assets cannot.

Private Equity - By serving as substitutes for domestic and global common stocks, the role of these investments is to provide high real returns. The illiquidity and higher volatility associated with private equity is partially offset by its lower correlation with other asset classes. The private equity allocation will be diversified by the primary sub-categories of Venture, Buyout, Debt and Real Estate and will also be diversified by vintage year.

Diversifiers

Special Opportunities – Special Opportunities are used to take advantage of opportunities that arise from a number of different situations such as Market Crises, Government/Regulatory changes, Investment Marketability Issues, etc. These investment opportunities are typically not available within traditional assets, and tend not to belong in hedge funds or private fund equity due to unique characteristics such as the terms, size, strategy, or structure or the investment. These opportunities are reviewed on a case by case basis and as a whole will be implemented in order to enhance returns in the portfolio.

Total Return Hedge Funds - Total Return is structured to complement an existing equity portfolio by enhancing the overall risk mitigation profile of the equity portfolio. This strategy is designed to deliver equity-like returns with approximately one-half the volatility of the equity market over a full market cycle. This strategy will focus on more aggressively managed strategies including distressed securities, equity long/short and macro trading.

Absolute Return Hedge Funds - Absolute Return is structured to complement an existing fixed income portfolio, particularly during challenging environments involving rising interest rates or a widening credit spreads. The goal is to enhance the overall risk mitigation profile of the fixed income portfolio. This strategy is designed to deliver fixed income like returns with approximately one-half the volatility of the fixed income market over a full market cycle. This strategy will focus on conservatively managed investment strategies such as convertible arbitrage, merger arbitrage and market neutral trading.

Opportunistic Fixed Income - This strategy will be implemented to take advantage of yield spreads relative to traditional high quality fixed income investments. This portfolio will include asset classes such as high yield bonds (below investment grade bonds), international fixed income, and emerging markets fixed income.

<u>Fixed Income Assets</u>

> **Investment Grade Fixed Income** - Fixed Income investments are intended to preserve principal during periods of deflation, provide a source of current income, and reduce overall volatility. This strategy will consist of investment grade fixed income and will target an intermediate duration.
>
> **Cash** – Cash is used to reduce the overall risk profile of the portfolio while providing liquidity for distributions that are needed.

Investment Implementation

Except as noted below concerning private investments, partnerships and alternative investments, the CIO shall have full discretion to select investments and manage the portfolio within the parameters of this IPS. The portfolio may utilize commingled pools (common trust fund or mutual fund), exchange traded funds, and or other investment vehicles to provide access to asset classes or styles and specialist managers and to achieve proper diversification. The CIO shall work to ensure that in instances where commingled pools and exchange traded funds have specific policies that deviate from the guidelines established in this Investment Policy Statement that deviation is warranted and justified in pursuit of the overall goals of this IPS.

The use of separately managed accounts may be utilized as determined by the CIO. In these instances, guidelines must be created by the CIO to govern each separately managed account.

Further, the portfolio may invest in private real estate, limited partnership interests and alternative investments, including private equity and hedge funds, only with the prior approval of the Investment Committee. The Investment Committee, at the request of the CIO, will determine the appropriateness of each investment on a case-by-case basis, taking into consideration the relevant analysis of the investment as provided by the CIO, including the illiquidity of the investment, in addition to the Fund's overall allocation to alternative investments.

Investment Manager Structure

The assets in each asset class will be invested in accounts or investment products managed by one or more independent, third party investment managers. Investment managers of varying styles (e.g. growth, value, active, passive, etc.) may be employed within each asset class. Multiple investment managers may be utilized within an asset class at the discretion of the CIO. Performance results for each asset class will be included in the CIO's quarterly report to the Investment Committee.

It is expected that the investment managers and products will be selected by the CIO based upon a thorough quantitative and qualitative review process and will consider criteria including but not limited to the people, the investment philosophy, the investment process, the investment performance, the organization and the operations of the firm. It is expected the CIO in selecting investments will evaluate their effectiveness in complementing the portfolio's other investment in order to best achieve the Foundation's goals.

Rebalancing Procedures

The CIO will periodically rebalance the portfolios to ensure that the weight in each asset class is within the asset allocation ranges set forth in Attachment A. The need for rebalancing should be addressed at least quarterly, or more frequently if warranted by events.

Although it is the policy of the CIO to invest assets in accordance with the maximum and minimum ranges for each asset class, as set forth in Attachment A, rapid unanticipated market movements or cash flows may cause the asset mix to temporarily fall outside those ranges.

Portfolio Hedging

Hedging transactions are permitted to reduce the overall exposure the portfolio has to equity markets. Hedging transactions may be directed by the CIO or by a third party manager hired for this purpose. However, any transaction requires the approval of the investment committee. Derivative instruments are limited to exchange traded derivatives. Over-the-counter (OTC) derivatives are not permitted. For any hedging transaction, the notional value of such derivatives may not exceed the market value of the underlying physical equity exposure.

V. Performance Benchmarks

Performance Benchmarks are separate from the Foundation's Investment Goals. Whereas the Investment Goals attempt to measure the success of the investment portfolios in supporting attainment of the Foundation's mission, the Performance Benchmarks measure the success of the investment strategy in supporting the Mission in absolute terms and relative to passive alternatives. Each portfolio will reference two benchmarks for evaluating investment performance of the aggregate portfolio:

1. **Global Policy Benchmark** – total portfolio benchmark that includes the long-term target weights as defined in the sub-categories referenced in the above Policy Portfolio.

2. **Minimum Financial Return Benchmark** – trailing 5 year actual spend rate + Current CPI + Administration and Investment fees.

VI. Communication and Reporting

The CIO is responsible for frequent and open communication with the Investment Committee on all significant matters pertaining to investment policies and the management of the Foundation's assets, including, but not limited to:

1. Informing of major changes that are or have occurred in the CIO's investment outlook, investment strategy, or are planned in the portfolio structure. Permission is not necessary for said changes, however, the Foundation desires be kept informed of any major changes in the CIO's investment processes.

2. Advising the Foundation of any significant changes in the ownership, organizational structure, financial condition, or senior personnel staffing of the CIO's firm. Part II or Form ADV should be furnished annually.

3. Providing the Investment Committee with written quarterly transaction, valuation and performance reports with periodic review, not less than annually, at meetings of the Investment Committee.

These reports should cover:

- Review of the past quarter and year-to-date
- Performance against benchmarks
- Current value and rate of return
- Economic and market outlook
- Anticipated portfolio strategy

4. Advising the Investment Committee of any change in the portfolio managers assigned to the account.

5. Advising the Investment Committee annually of the investment management fees plus any additional sales commissions, transaction costs, or management administrative costs which are deducted from the portfolio market value.

6. Acknowledging in writing receipt of this document and confirming the CIO's ability and agreement to invest within the guidelines set forth in this policy statement.

VII. Committee Membership

The Investment Committee is a standing committee of the Board.

The Chairperson of the Investment Committee shall be appointed annually by the Chair of the Foundation, and can be renewed as mutually agreed upon by the Chair of the Board, the President/CEO, and the Chair of the Committee. The Committee Chair term is typically two years.

The Chair of the Board, the President/CEO, and if desired the Finance Committee Chair, shall serve as ex-officio voting members of the Investment Committee during their terms of office.

Members of the Investment Committee shall be appointed to a one-year term by the Chairperson of the Committee and will not be subject to approval by the committee. Committee members may serve additional terms at the request of the Chair. Recommendations for membership will be solicited from the Board, the Investment Committee, and the staff. Those recommended need not be Board members.

A Committee Chair who has retired from this position can continue to serve on the Committee with approval of the Committee Chair and President/CEO.

The desired committee size is 5-15 individuals, including the Chair but not including ex-officio members.

Updates submitted for approval by the Board of Directors, September 25, 2019
Updates approved by the Investment Committee, September 11, 2019
Updates approved by the Investment Committee Task Force, August 2019

Anthony Morris, Esq., Board of Directors Chair
Phil Wagner, CFA, Investment Committee Chair
Karen A. Simmons, President/CEO

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Attachment A: Asset Class Ranges

Asset Class	**Endowed LT Policy**	**Endowed Range**			**Quasi LT Policy**	**Quasi Range**			**Newlin LT Policy**	**Newlin Range**		
U.S. Equities	27.00%	20%		50%	27.50%	15%		45%	32%	25%		55%
International Developed Equities	20.50%	10%		25%	17.50%	10%		25%	25%	15%		30%
Emerging Markets Equities	5.50%	0%		12%	5.00%	0%		10%	7%	0%		13%
Select Equity	7.00%	0%		20%	0.00%	0%		20%	7%	0%		20%
Commodities	0.00%	0%		10%	0.00%	0%		10%	0%	0%		10%
Public REITS	0.00%	0%		10%	0.00%	0%		10%	0%	0%		10%
Private Equity	10.00%	0%		15%	0.00%	0%		0%	0%	0%		15%
GROWTH	**70.00%**	**60%**	**-**	**80%**	**50.00%**	**40%**	**-**	**60%**	**70%**	**60%**	**-**	**80%**
Special Opportunities/Private Credit	6.00%	0%		10%	0.00%	0%		10%	0%	0%		10%
Hedge Funds	5.00%	0%		15%	0.00%	0%		10%	5%	0%		15%
Opportunistic Fixed Income	0.00%	0%		10%	10.00%	0%		20%	6%	0%		10%
DIVERSIFIERS	**11.00%**	**0%**	**-**	**30%**	**10.00%**	**0%**	**-**	**20%**	**11%**	**0%**	**-**	**30%**
Investment Grade Fixed Income	19.00%	10%		30%	20.00%	0%		30%	19%	10%		30%
Cash	0.00%	0%		10%	20.00%	0%		40%	0%	0%		10%
TOTAL FIXED INCOME	**19.00%**	**10%**	**-**	**40%**	**40.00%**	**20%**	**-**	**60%**	**19%**	**10%**	**-**	**40%**

Attachment B: Investment Decline Alert for 5% Spending Rate
"aka Speed Bump" *(approved 6/2008, updated 3/2016)*

Purpose
- an operational process that provides a timely alert regarding a significant decline in the Community Foundation's investment performance
-triggers a documented acknowledgement of significant investment performance decline, and has Board of Directors and affected fund advisors on record as being alerted and informed
- fulfills the Community Foundation's obligations of due diligence and reasonable prudence, and key operating principles of transparency and accountability

CCCF Investment Decline Alert Policy & Procedure
The CIO firm tracks investment returns and reports them to the Investment Committee each quarter.

If the Community Foundation's invested assets realize a significant decline in the market, in that the investment performance decreases 10% over 3 quarters, then:

A. The Investment Committee determines whether it believes this decline is temporary or longer term

1. If the decline is deemed to be **temporary**, the Investment Chair directs the Executive Vice President Business Affairs to notify the Board of Directors that the investment performance decrease has been noted and analyzed; and as it is believed the condition is temporary, it is recommended that the spending rate not be affected for the foreseeable future.

2. If the decline is deemed to be **longer term** in nature, the Investment Chair directs the President/CEO to notify all affected Fund Advisors (including the Board of the Community Foundation which authorizes the annual spending rate on the Foundation's own Operating Endowment & Grant Funds for Chester County). Fund Advisors should be notified that:

    In light of the investment performance decrease over the past 3 quarters, the Community Foundation Investment Committee on behalf of the Board of Directors recommends a temporarily reduced spending rate for Fund Advisors whose priority is to preserve capital.
    For those Fund Advisors whose priority is to grant funds to charities in times of need, they should do so, knowing that the spending rate will likely diminish the principal to some degree, depending on the inception date of the Fund.

If the conditions are a threat to the long-term health of the Community Foundation, a more substantial recovery and communications plan should be developed. ###

Matthew Kelly, Investment Committee Chair, Madeleine Wing Adler, Ph.D., Chair of the Board
Karen Simmons, President/CEO, Approved by the Board of Directors, 6/1/2008
John Diederich, Investment Committee Chair, William J. Gallagher, Esq., Chair of the Board
Karen Simmons, President/CEO, Approved Revision, 3/4/2016