



The  
**COMMUNITY  
FOUNDATION**  
of the New River Valley

# **INVESTMENT POLICY STATEMENT**

**APPROVED BY THE BOARD OF DIRECTORS  
JANUARY 28, 2016**

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## EXECUTIVE SUMMARY

### STATEMENT OF PURPOSE

The purpose of this Investment Policy Statement (together with its Appendix, the “Statement”) is to set forth the policies and procedures that shall guide the Board of Directors (the “Board”), Committee (the “Committee”), staff, and any other relevant Committees of the Community Foundation of the New River Valley (the “CFNRV”) in supervising and monitoring management of CFNRV’s investable assets (the “Endowment”).

### GENERAL PRINCIPLES

The objectives, strategy, risk-tolerance, and related preferences set forth in this statement shall form the basis for the Endowment’s investment strategy, as more fully described herein.

The CFNRV shall diversify the investments of the Endowment unless the Board, and, if applicable, the Committee, after appropriate deliberation, reasonably determine that because of special circumstances, the purposes of the Endowment are better served without diversification.

The Endowment shall be managed in accordance with high standards of fiduciary duty, in compliance with applicable laws and regulations<sup>1</sup>, and the philanthropic and community values of the CFNRV and the Board.

Standards for risk, return, asset allocation, diversification, and liquidity shall be determined from a strategic perspective and measured over successive market cycles.

### ROLES AND RESPONSIBILITIES

The Chair of the Committee (the Committee) must be a current member of the CFNRV’s Board, as must at least three (3) other members of the Committee. The remainder of the Committee may be board members or community advisors (“CA’s”). The CFNRV’s money managers, charged with management of the Endowment as described herein, may not serve as members of the Committee. If the Board elects to oversee investment matters directly, it shall undertake the roles and responsibilities prescribed for the Committee herein. Otherwise, the Committee shall implement the management process and monitor the Endowment in accordance with this statement.

The Committee, acting pursuant to this Statement and to instructions from the Board, shall have responsibility for the oversight and management of the Endowment and for the establishment of investment policy and procedures to the Board. Authority and responsibilities not conferred directly to the Committee in this statement, including final approval for revisions to this statement, shall belong to the Board.

The Committee shall, as more fully described herein, manage the Endowment via a set of risk and return parameters at the asset class level, combined with strategic, well-considered investment goals, and liquidity policy. The Committee shall manage the Endowment in service of and as a reflection of the CFNRV’s philanthropic mission and values.

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<sup>1</sup> Including but not limited to the Uniform Prudent Management of Institutional Funds Act of Virginia, Title 64.2, Chapter 11 of the Virginia State Code

In fulfilling its responsibilities under this Statement, the Committee shall, among other activities, recommend to the Board the hiring and dismissal of money managers and/or other related advisors.

The Committee shall require the CFNRV's money managers to provide annual reports on the portion of the Endowment the manager in question oversees, and those reports shall contain all of the standard reporting required of money managers herein. The Executive Director (or, in lieu of the executive director, the assigned staff person charged with facilitation of the Committee) shall be responsible to the Committee for maintaining detailed records of all invested funds and for carrying out the investment policies and procedures established by the Board, the Committee, and this Statement.

## REVIEW OF POLICIES AND PROCEDURES

This Statement and the policies, procedures, strategies, values, and goals specified herein shall be reviewed annually by the Committee and any recommendations for changes shall be presented to the Board in a timely manner.

## GOALS AND OBJECTIVES

### PURPOSE OF THE ENDOWMENT

The Endowment has a long term investment with aims to exist in perpetuity. The primary objectives of the endowment are:

- To maintain the real purchasing power and growth of the Endowment after inflation, costs, and spending with the aim of achieving intergenerational equity.
- Maximize the Endowment's risk-adjusted returns within the levels of risk deemed acceptable by the policies set forth herein
  - Should the goal of maximizing risk-adjusted returns conflict with the goal of remaining within the prescribed levels of risk (as determined by risk metrics and asset allocations detailed more fully within this Statement), priority shall be given to maintaining appropriate levels of risk, rather than the pursuit of greater return.
- Provide a stable source of liquidity and financial support for the charitable mission of the CFNRV.

### INVESTMENT PHILOSOPHY

While acknowledging the importance of preserving capital, the Board also recognizes the necessity of accepting some degree of risk if the Endowment is to be able to meet its long-term investment goals. It is the view of the Board that choices made with respect to asset allocation, liquidity, risk, and values will be the major determinants of investment performance. The Committee shall seek to ensure that risks taken are appropriate and commensurate with the Endowment's goals.

### ASSUMPTIONS ABOUT THE MARKET

In setting target rates of return, asset allocations, and risk and liquidity parameters for the Endowment, the Committee shall seek expert advice and analysis on the state of the market and perceived risk in the near-term and

long-term. The Committee shall seek such advice and analysis from multiple sources and shall recognize that past returns and past levels of risk are by no means indicative of future performance and risk. The Committee shall make it a priority to attempt to understand levels of systemic risk facing the market (or individual asset classes) at any given time and to act accordingly. The Committee shall also commit to understanding the ethical implications of investment decisions and how, if at all, those decisions coincide with or conflict with the CFNRV's philanthropic mission.

## TARGETED RATE OF RETURN

The Committee shall work with staff on an annual basis to calculate a targeted rate of return for individual money managers. That targeted rate of return shall be the estimated return on investment necessary for the CFNRV to maintain inflation-adjusted purchasing power on a year-to-year basis and shall be calculated as follows:

- The sum of:
  - Fee rate for money managers
  - CFNRV's administrative fee
  - The distribution rate set by the CFNRV annually
  - The estimated annual rate of inflation as calculated on a 3-year rolling average

Should any of the contributing factors to this calculation change significantly within the course of a year, it will be the responsibility of the Committee to revise its expectations of and instructions to money managers accordingly. The Committee will inform the Board when it sets or changes the targeted rate of return.

## INVESTMENT POLICIES AND PROCEDURES

### OPERATING GUIDELINES

The Endowment shall be managed in accordance with the Operating Guidelines for risk and liquidity described in this section. Once the Operating Guidelines have been approved by the Board, the Committee shall have the authority to manage the Endowment within the Operating Guidelines without further authorization from the Board.

The following policy descriptions refer to items in the corresponding sections of both the "Annual Operating Guidelines Board Summary" in Appendix A and the "Standard Template for Money Manager Reporting" in Appendix B.

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### RISK POLICY

The CFNRV's primary hedge against risk is diversification of assets as per the asset allocation guidelines herein. Beyond diversification, however, the Committee shall also select other risk metrics appropriate to the CFNRV's investment strategy and goals. These metrics shall be reviewed annually. As of the drafting of this report, the CFNRV shall define risk along the following parameters:

- Sharpe's Ratio, a metric which measures performance of a money manager as a ratio of the volatility of that money manager's investment decisions.
- Upside/Downside capture rate vs. the chosen benchmark fund

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## LIQUIDITY POLICY

The Committee shall endeavor to maintain a level of liquidity appropriate to the CFNRV's operating costs in any given year. This liquidity shall be maintained in cash or cash equivalents and should be revisited annually to ensure that the level of liquidity meets the needs of the CFNRV.

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## PERFORMANCE METRICS

The Committee shall monitor the performance of the Endowment and individual money managers relative to the following factors:

- Absolute rate of return as compared to targeted rate of return
- Benchmarked rate of return as compared to a benchmark fund of similar asset allocation to the Endowment's overall asset allocation
  - The fund used for this benchmark should be selected and approved by the Committee annually.
- Sharpe's Ratio (see 'Risk Policy' above)
- Any and all mitigating factors with regard to market or asset class fluctuation

The Committee shall monitor performance through reports at least annually and through a presentation by individual money managers on an annual basis. Managers who are not able to provide metrics such as Sharpe's Ratio should consult with the CFNRV about other acceptable metrics.

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## BENCHMARK FUND

All money manager performance shall be evaluated in comparison to the annual returns of a benchmark fund. The benchmark will be selected annually by the Committee and communicated to money managers by January 1<sup>st</sup> of each calendar year. Money managers are also welcome to continue to report on other benchmarks used within their firms in addition to the selected benchmark from the CFNRV.

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## ASSET ALLOCATION

- **Asset Allocation:** the Committee shall, consistent with the above sections, invest the Endowment using an asset allocation that is designed to meet the Endowment's long term goals and is consistent with the CFNRV's needs, values, and risk tolerance. The Committee shall annually revisit its allocation ranges, as well as which asset classes are tracked and reported on, and recommend any changes to the Board.
  - **Tracked Asset Classes:** The Committee shall require its money managers to report on and stay within the bounds of the pre-defined ranges for the following four broad asset classes:
    - **Equities:** All equities including domestic, international, large cap and small cap, growth and dividend issuing, etc...
    - **Fixed Income:** All public and privately issued bonds and similar instruments offering a fixed rate of return, including domestic, international, and high yield fixed income instruments.
    - **Alternatives:** Generally classified as an "other" category, alternative investments include real estate, private equity, funds-of-funds, hedged strategies, or other more

sophisticated or unique investment products. As the definition of alternatives can vary, managers should be prepared to define alternatives within their individual portfolios as part of the annual presentation to the Committee.

- **Cash/Equivalents:** Cash or low-interest, no-risk or very-low-risk equivalent instruments
- **Reported Sub-Classes:** The Committee shall require each money manager to report on and explain their choices within the context of the more specific asset classes below, although there will be no pre-defined metrics or ranges for these asset classes:
  - Small/Mid Cap Domestic Equities
  - Large Cap Domestic Equities
  - International/Foreign Equities
  - Corporate Bonds
  - Government Bonds
  - International Bonds
  - High-Yield Bonds

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## CURRENT ASSET ALLOCATION

The table below reflects the current asset allocation ranges for reported asset classes:

| Asset Class        | Acceptable Range |
|--------------------|------------------|
| Equities           | 45%-80%          |
| Bonds/Fixed Income | 20%-40%          |
| Alternatives       | 0%-15%           |
| Cash/Equivalents   | 0%- 4%           |

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## REBALANCING

The purpose of rebalancing is to maintain the Endowment’s policy asset allocation within the targeted ranges, thereby ensuring that the Endowment does not incur additional risks as a result of having deviated from the policy portfolio. While the CFNRV takes the view that too much shifting in invested assets can increase risk and increase transaction costs, rebalancing is encouraged as frequently as is deemed prudent by money managers in order to make tactical changes to capture short-term market growth or avoid loss. If proposed rebalancing would place an individual money manager’s portfolio outside the acceptable ranges provided by the Committee, the money manager must seek approval from the Committee before making such a change.

## STANDARDS OF CONDUCT

In managing and investing the Endowment, the Committee shall:

- Act in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances
- Incur only costs that are appropriate and reasonable in relation to the assets and purposes of the CFNRV and the skills and expertise available to the CFNRV
- Make every reasonable effort to verify facts relevant to the management and investment of the Endowment.

- Seek to continually develop knowledge about the principles, concepts, and past, current, and future conditions of the market as is relevant to investment decisions for the CFNRV.
- Make management and investment decisions about an individual asset or group of assets not in isolation, but rather in the context of the Endowment’s portfolio of investments as a whole and as part of CFNRV’s overall investment strategy, including the risk and return parameters set forth in this statement.
- Consider the following factors, if relevant, in all decisions:
  - General economic conditions
  - The possible effect of inflation or deflation
  - The expected tax consequences of investment decisions or strategies
  - The role that each investment or course of action plays within the overall investment portfolio of the Endowment
  - The expected total return from gifts and investments in a given year
  - Other resources of the CFNRV
  - An asset’s special relationship or special value to the mission or charitable purposes of the CFNRV

## DELEGATION OF ASSET MANAGEMENT RESPONSIBILITIES

Subject to any specific limitations, legal or otherwise, set forth in the given gift, the Committee may delegate to an external agent (“money manager”) the management and investment of all or part of the Endowment to the extent that the CFNRV could prudently delegate under the circumstances. The Committee shall act in good faith with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in: (1) selecting a money manager; (2) establishing the scope and terms of the delegation, consistent with the purposes of the CFNRV and the Endowment; and (3) annually reviewing the money manager’s actions in order to monitor performance and compliance.

In this regard, the Committee shall engage qualified external professional money managers that have demonstrated competence in their respective investment strategies. These managers shall have full discretion and authority for determining investment strategy, security selection, and timing of purchases and sales of assets subject to the guidelines set forth in this statement and communicated by the Committee and the CFNRV.

## GIFTS

The Committee shall review any and all gifts to the CFNRV and make recommendations to the Board as to the allocation of those assets. Any and all “grandfathered” pass-through gifts and gifts of less than \$1,000 shall be allocated to the money market endowed account.

It has been the practice of the CFNRV that if the source of endowed gifts is the client of a particular money manager for the foundation, the Committee will allocate the management of those assets to that money manager. The Committee bears responsibility for all asset allocations of new gifts and existing assets, and shall report its decisions to the Board regularly, seeking board approval for decisions where necessary by the terms of this statement or when deemed prudent by the Committee chair.

## APPENDIX A: ANNUAL OPERATING GUIDELINES SUMMARY

A copy of this document shall be created and approved by the Committee annually and passed to the Board for consideration and approval. Approval of this document by the Committee signifies that it has, to the best of its ability, completed its annual due-diligence in reviewing investment policy for the given year.

### Setting Annual Asset Allocation

| Reporting Year Asset Allocation Ranges |  | Year-end actual aggregate asset allocation |  | Asset allocation ranges for coming year |  |
|--|--|--|--|---|--|
| Equities                               |  | Equities                                   |  | Equities                                |  |
| Bonds/Fixed                            |  | Bonds/Fixed                                |  | Bonds/Fixed                             |  |
| Alternatives                           |  | Alternatives                               |  | Alternatives                            |  |
| Cash/Equivalents                       |  | Cash/Equivalents                           |  | Cash/Equivalents                        |  |

### Performance Against Benchmark

|                                | Name of Fund | Reporting Year Rate of Return |
|--------------------------------|--------------|-------------------------------|
| Endowment Benchmark Difference | -----        |                               |
|                                |              |                               |

### Setting Annual Benchmark

| Selected Benchmark Fund for Coming Year | 5-year rolling average rate of annual return for benchmark fund | Equity/Bond Balance of Fund |
|---|---|-----------------------------|
|   |   |                             |

### Setting Target Rate of Return

|   |  |
|---|--|
| Money Manager Fee Rate  |  |
| CFNRV Administrative Fee Rate                                 |  |
| 5-year rolling average of annual rate of U.S. inflation       |  |
| CFNRV fund distribution rate                                  |  |
| Target rate of return for coming year ( <i>sum of above</i> ) |  |

### Risk Metrics

| Risk Metric                                  | Reporting Year Target | Reporting Year Actual | Difference | Coming Year Target |
|--|-----------------------|-----------------------|------------|--------------------|
| Sharpe's Ratio<br>Upside/Downside<br>Capture |                       |                       |            |                    |
|  |                       |                       |            |                    |
|  |                       |                       |            |                    |
|  |                       |                       |            |                    |

### Notes/Narrative:

## APPENDIX B: STANDARD FIELDS FOR MONEY MANAGER REPORTING

All money managers must report annually to the Committee on the following metrics for the portfolio of CFNRV assets that manager has been allocated. All of the information below must be included in any given quarter, but recognizing the different reporting techniques, capacities, and practices of the various money managers, format for such a report can be determined by individual money managers. If, for any reason, a money manager is unable to provide some portion of the requested data, that manager will be asked to offer explanation to the Committee and to seek a solution for future reporting.

**Tracked Metrics & Asset Classes** (the metrics below must be reported and are used to evaluate money manager performance):

- Historic value of CFNRV assets allocated for management
- YTD value of CFNRV assets allocated for management
- Nominal rate of return for CFNRV assets
- Year-end asset allocation along the following four asset classes:
  - Equities
  - Bonds/Fixed Income
  - Alternatives
  - Cash/Equivalents
- All currently held investments with CFNRV assets and current value of invested funds

**Reported Metrics & Sub-Classes** (the metrics below must be reported but are only for informational purposes and are not currently used in evaluation of money manager risk-adjusted performance):

- Year-end asset allocation along the following asset classes:
  - Small/Mid Cap Domestic Equities
  - Large Cap Domestic Equities
  - International/Foreign Equities
  - Corporate Bonds
  - Government Bonds
  - International Bonds
  - High-Yield Bonds
  - A breakout of alternative investment classes to the extent possible
- The following risk/performance metrics:
  - Sharpe's Ratio (aggregate, whole portfolio)
  - Upside/Downside Capture vs. Benchmark (aggregate, whole portfolio)