



# Investment Philosophy and Policies

*Reviewed and Revised February 28, 2023*

The McPherson County Community Foundation has committed to the following philosophy for investing funds.

- The foundation is investing for the long-term.
- The foundation does not invade the principal of its endowment.
- The foundation pools its permanent endowment gifts for maximum effectiveness and efficiency.
- The foundation accounts for each individual donor's fund separately (as in a mutual fund).
- The foundation exercises prudent investment practices and complies with state and federal requirements.
- The foundation has a volunteer investment committee that provides broad guidance and reviews and modifies asset allocation.
- The foundation may seek service of professional investment consultants and managers as deemed by the Board of Directors to execute the Foundation's investment strategies to meet performance expectations using the Foundation's guidelines and investment goals.

The McPherson County Community Foundation Board of Directors on June 9, 2021 adopted the above philosophy.

## **INVESTMENT POLICIES**

### **1) BACKGROUND**

Investment of Funds shall be the responsibility of the Finance/Investment Committee and ultimately the McPherson County Community Foundation Board of Directors. The actual management of said funds would be through investment professionals as approved by the Board of Directors upon recommendation from the Finance/Investment Committee.

Preference will be given to local investment managers or providers if qualifications are equal to those of other companies.

## **2) GOALS**

The McPherson County Community Foundation Endowment is designed to promote the preservation of permanent charitable capital through endowment for the future of McPherson County residents.

## **3) INVESTMENT OBJECTIVES**

The investment objective of the McPherson County Community Foundation is to earn the highest real total return over time commensurate with the risk profile of a given asset allocation. The minimum performance objective over time is to earn an average annual total return equal to the rate of inflation (CPI), plus the spending rate plus 2% administrative fee growth. The mechanics of the spending rate is governed by the spending guideline set forth in this Investment policy.

The foundation's investment policy is measured against industry accepted indices, specifically Lehman Aggregate (Taxable Fixed Income), S & P 500 (Large U.S. Equities, and MSCI EAFE (International Equities).

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.

### **UPMIFA**

When making spending policy decisions, the Foundation Board of Directors will consider several factors under the "prudence standard" as established in accordance with Uniform Prudent Management of Institutional Funds Act (UPMIFA), as outlined below:

- a. the duration of the funds;
- b. the purpose of the institution and organizational mission;
- c. general economic conditions;
- d. potential effect of inflation or deflation;
- e. the expected tax consequences, if any, of investment decisions or strategies;
- f. the expected total return of the portfolio (i.e. total return should exceed the distribution rate to preserve generational equity);
- g. organizational resources; and
- h. investment Policy – alignment with the spending need.

#### 4) GENERAL CONSIDERATIONS

- a) **Tax Status** - As a 501 (c) (3) organization, the McPherson County Community Foundation is exempt from income taxes. Investments will not be made in tax-exempt securities. Tax considerations are not to influence investment decisions. There are no requirements for, or restrictions against, the realization of realized gains or losses during any accounting period.
- b) **Liquidity Needs** – The McPherson County Community Foundation will not view cash as an investment vehicle. The Endowment Fund should only hold the cash needed to make distributions to the operating budget and to meet any expense of the fund itself.
- c) **Diversification** - Investments will be appropriately distributed to provide prudent diversification and limit undue concentration related to asset quality, industries, geographic location and managers.

Concentration per issuer cannot exceed 5% of the portfolio market value at the time of purchase, with the exception of cash, cash-equivalent, U.S. Treasury or Agency securities. Furthermore, the manager may not hold more than 5% of the outstanding shares of any single issuer with the exception of U.S. Treasuries of Agencies.

- d) **Real Estate** – The Endowment Fund will execute Gift Acceptance Policy A.4. The Foundation does not actively pursue real estate as an asset, but from time to time hold donated property until it has been liquidated.
- e) **Excess Holdings** –Under the Pension Protection Act of 2006 (PPA), the private foundation excess business holdings rule apply to donor-advised funds as if they were private foundations. That is, the holdings of a donor-advised fund in a business enterprise, together with the holdings of persons who are disqualified persons with respect to that fund, may not exceed any of the following:
  - Twenty percent of the voting stock of an incorporated business
  - Twenty percent of the profits interest of a partnership or joint venture or the beneficial interest of a trust or similar entity
  - Any interest in a sole proprietorship

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.

#### 5) ASSET ALLOCATION

Assets invested in capital markets will follow the general allocation outlined below.

<i>Asset Class</i>	<i>Minimum Allocation</i>	<i>Target Allocation</i>	<i>Maximum Allocation</i>
Equities	80%	70%	60%
Fixed Income	20%	30%	40%

To assist the Board of Directors in evaluating appropriate asset allocations, at a minimum of every three years an asset allocation-planning model should be completed. The portfolio should be reviewed at least annually against the targets and any needed adjustments will be reviewed.

**6) SPENDING POLICY**

The McPherson County Community Foundation Endowment Fund spending rate will be set at a level that can reasonably be expected to allow for real growth of endowment principal over time given the asset allocation policy and long-term performance results. Spending policy is calculated on a 12-quarter rolling average of a Fund’s balance. The Finance/Investment Committee will recommend a minimum spending rate subject to board approval regardless of current year fund performance, subject to minimum requirements and donor’s instruction.

**7) DISTRIBUTION**

The Funds allocated by the spending policy for use of the Foundation’s Purposes will be determined by the Finance/Investment Committee each May with Board approval in the regular June business meeting. The committee considers 3- and 5-year rolling averages when determining spending policies and distributions. Allocation of funds will not go into effect until the beginning of the new fiscal year (July 1).

Distributions for funds received within the fiscal year will be prorated based upon the spending rate for that year and on the date received by the foundation.

**8) PUBLIC ACCOUNTABILITY**

Fund managers will provide quarterly reports to the McPherson County Community Foundation’s President/CEO and the Treasurer. Copies of the Foundation’s annual 990 will be made available for public view upon request.

**9) ANNUAL REVIEW**

The Finance/Investment Committee shall evaluate the performance of the fund manager(s) with findings being reported to the Board in the June Business Meeting. The following general guidelines should be applied to this process.

- a) **Objective** - The investment managers should be evaluated against the strategy or objective for which they were hired.

- b) **Benchmarks** – Individual managers will be evaluated against appropriate performances indices and not against broad market indicators. The entire portfolio will be measured against a blended benchmark.
- c) **Time Horizon** – In general, the managers should be evaluated over a three to five-year period.
- d) **Reports** – The investment managers shall provide at a minimum quarterly written reports indicating performance results for calendar YTD and trailing one-year returns. These specialized reports shall contain the following information but not limited to:
  - i) Current Asset Allocation
  - ii) Gain/Loss in the portfolio this quarter, YTD, 1, 3, 5, 10 years, and its inception.
  - iii) Percentage portfolio returns over each of the aforementioned time horizons.
  - iv) Index mentioned above performance over each of the aforementioned time horizons.