# INVESTMENT POLICY STATEMENT

## Statement of Purpose

The Investment Policy Statement ("IPS") presents the investment process for The Foundation's investment portfolio, including investment objectives, asset allocation, investment restrictions, and review procedures.

The IPS governs the investment process through the following:

- Stating the Foundation's objectives and guidelines for the investment of endowed, quasi-endowed and non-endowed assets.
- Setting forth an investment structure that includes various asset classes, investment management styles, asset allocations and acceptable ranges consistent with the Foundation's long-term objectives.
- Managing the overall level of risk and liquidity in accordance with the objectives.
- Establishing criteria to monitor evaluate and compare the performance relative to appropriate benchmarks.
- Defining suitable investments.
- Complying with best fiduciary practices including all applicable laws, rules and regulations, as well as best practices of Council on Foundations' National Standards.

The investment process set forth in the IPS enables the Foundation to consistently utilize meaningful diversification to achieve return objectives during a variety of economic and market conditions.

This IPS is not a contract nor does it imply a guarantee of future investment results.  It is a dynamic tool that is subject to revision based on changes in the Foundation's investment objectives.

This IPS governs assets of commingled endowed, non-endowed, and quasi-endowed funds.  The investment strategies and restrictions for these funds were established via each fund's establishing documents, and are accommodated in establishing these guidelines.

## Statement of Policy

### Division of Responsibilities

The Investment Policy of The Community Foundation San Luis Obispo County (the "Foundation") is implemented under the supervision of the Board of Directors of the Foundation (the "Board"), which has ultimate responsibility for the approval and maintenance of the policy. The Board exercises responsibility through its Investment Committee, which, within the broad guidelines of this approved Investment Policy, will have broad discretion with regard to stewardship of the Foundation's invested funds. This policy is designed to comply with all fiduciary and stewardship responsibilities under the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as well as all prudence and due diligence requirements commonly utilized by experienced investment professionals. It is the intention of this Investment Policy Statement to be sufficiently specific to be meaningful, yet flexible enough to be practical.

The Board appoints the Chair of the Foundation's Investment Committee. Other members of the committee shall be appointed according to the process outlined in the Foundation's By-Laws. The Chair of the Investment Committee shall participate in the identification and invitation of committee members. The Investment Committee will be composed of a minimum of five and a maximum of twelve members. The Committee shall include current members of the Board, community members, and other "expert" members as shall be deemed appropriate and necessary. At least 60% of the Investment Committee members will be current or former Board members. In no case shall the Committee include members who are currently active managers of the invested funds of the Foundation. The President of the Board shall serve as a member of the Committee and shall designate such staff of the Foundation as necessary to serve and support the Committee and its ongoing work.

The Investment Committee shall meet at least quarterly, and more frequently as it deems necessary. The Committee shall report to the Foundation's Board at least quarterly, and shall annually provide a full calendar year report to the Board.

The executive staff of the Foundation shall have broad responsibility to manage and coordinate the implementation of the Investment Policy, under the direction of the Investment Committee, and shall be the official representative of the Foundation in day to day administration of the policy and in relationship to investment managers and related parties. Staff also has the responsibility of working with individual donors to the Foundation as funds are established. Foundation executive staff is empowered to enter into such relationships as may benefit the philanthropic and charitable intent of the Foundation, with due respect to the Investment Policy and the Foundation's strategic goals and objectives.

In all of their collective work on behalf of the Foundation's assets, Board, Investment Committee and Staff members shall be guided by a commitment to adhere to all legal, ethical and operational standards required and expected of charitable fiduciaries. In particular these individuals shall be committed to meeting the expectations of honesty, loyalty, integrity and transparency as they serve the Foundation, its donors and its beneficiaries. Any actual or potential conflicts of interest possessed by a member of the Investment Committee must be disclosed and resolved pursuant to the Foundation's Conflict of Interest Policy.

## Endowed and Quasi-Endowed Funds

### *Statement of Objectives*

For endowed and quasi-endowed funds, the primary objective is to preserve the portfolio's real value through asset growth at least equal to the spending policy, plus admin/investment fees, plus the rate of inflation. In order to ensure a predictable level of funds, a total return spending policy has been adopted. This policy is reviewed and revised annually by the Investment Committee and is approved by the Board. This policy provides for a certain percentage spending of the rolling 12-quarter market value for endowment funds, not to exceed accumulated earnings, in accordance with applicable laws, regulations and fund agreements.

### *Time Horizon*

The Foundation is a permanent institution with long term investment objectives. Based upon significant evidence that long-term investors do not benefit from short-term asset class forecasting or market timing, the Foundation has adopted a strategic asset allocation with a long-term horizon extending well beyond normal capital market cycles.

### *Risk Tolerance*

The Foundation recognizes and acknowledges that risk must be assumed in order to achieve long-term investment objectives. Because there is an established relationship between the level of risk assumed and the level of return that can be expected, the Foundation uses two primary factors to determine risk tolerance:

- Financial ability to accept temporary risk of loss within the investment program.
- Willingness to accept return volatility.

Taking these two factors into account, the Foundation rates the risk tolerance as Moderate in order to minimize volatility.

### *Performance Expectations*

The design of the investment portfolio is based upon a "Total Return" approach, including both current income (interest and dividends) and capital appreciation. Achievement of the investment objective will be monitored quarterly but evaluated over a full market cycle, which is customarily more than 5 years.

### *Asset Allocation*

The management of this portfolio is rooted in the principle that markets are reasonably "efficient" and that returns are determined principally by asset allocation decisions. The Foundation's investment process will identify sources of excess return, take advantage of sophisticated trading strategies, and keep trading costs and fees to a minimum. The Foundation will seek superior managers that have exhibited the ability to achieve these results. Managers will be monitored through both quantitative and qualitative measures, including Modern Portfolio Theory and returns-based attribution analysis.

The expected return and risk of a portfolio are primarily determined by the asset class mix. The Foundation has reviewed the long-term risk and return characteristics of various asset classes and developed the Strategic Asset Allocation ("SAA"), contained in Exhibit A. The Foundation has adopted strategic targets for each asset class within minimum and maximum percentages. Specific categories and percentages for each asset class are described in Exhibit A. A detailed description of each class of asset, including selection criteria and restrictions, are found in Exhibit B.

The asset allocation may be implemented through any combination of individual securities, separately managed accounts (SMA), institutional mutual funds, limited partnerships or passive strategies designed to mirror an index return such as Exchange Traded Funds (ETFs).

Note: In certain circumstances, the Foundation may act as Trustee of a fund, such as a Charitable Remainder Trust. In such cases, the funds are held and invested separately from the main endowment pool as they are not the Foundation's assets. Every effort will be made to invest this type of fund according to the Foundation's allowable assets and target asset allocation within the upper and lower limits as outlined in Appendix A, but in the event the fund cannot meet the minimum to be in a certain asset class, the Investment Advisor will be given written instructions as to the alternate asset allocation.

### *Alternative Investments*

The Foundation may invest in a broad range of alternative strategies. The intent will be to provide broad diversification across manager styles and strategies while providing low correlations to traditional long-only fixed income and equities. The strategies may include real estate, energy and natural resources, private equity, commodities, managed futures, hedging strategies using options and other derivatives, absolute return, and opportunistic equity.

The evaluation process for alternative strategies and managers will include both quantitative and qualitative due diligence and research. In many cases, these investments will be implemented via limited partnerships. Therefore, restrictions are established by the offering documents for each partnership. The Committee will include partnership management fees and restrictions on immediate liquidity when evaluating limited partnership documents.

### *Rebalancing of Strategic Allocation*

The discipline of regular portfolio rebalancing is known to improve portfolio performance. As a general rule, new cash to the Foundation will first be used to rebalance the total portfolio in accordance with the strategic target asset allocation policy. In addition, the portfolio will be evaluated at least quarterly for rebalancing in consultation with the Investment Advisor. In the event that market events cause the risk and return profile of the portfolio to become materially different from the stated policy objectives, the entire portfolio will be evaluated and rebalanced to long-term asset allocation targets subject to approval by the Investment Committee. The purpose of rebalancing is to maintain the risk and return relationship implied by the stated long-term strategic asset allocation targets. This process may result in withdrawing assets from investment managers who have performed well in recent periods and adding assets to managers who have lagged in recent periods. This policy may necessitate the purchase and sale of securities which could create transaction costs to the portfolio.

## Non-Endowed Funds

### *Statement of Objectives*

The Foundation holds and manages temporary and non-endowed funds for charitable purposes. For non-endowed funds, the primary objective is to preserve capital and have liquidity on a short term basis. These funds will be invested in cash or short term instruments with a maturity date not to exceed one year, except where predicted cash needs can be accommodated using time deposits. The same objectives will be applied to multi-year scholarships that have been encumbered.

Such investments shall be housed in cash accounts with local or community-based banks (see MRI discussion later in this policy), our investment advisor or other reputable financial institutions. Cash and short-term instruments will be placed so as to preserve liquidity and maximize return. Any earnings on non-endowed funds will revert to the Foundation.

## Selection of Investment Advisor

The Foundation may select and retain an objective, third-party advisor to assist the Investment Committee in managing the endowed portfolio and with the investment process. The Investment Advisor will be responsible for guiding the Foundation through a disciplined and rigorous investment process to enable the Foundation to meet its fiduciary responsibilities.

Criteria used to select the Investment Advisor will include, but not be limited to:

- Shall have at least 10 years of experience as an investment advisor/consultant
- Shall reside and work outside of San Luis Obispo County to maintain impartiality

- Should have at least one of the following three credentials:
    - Chartered Financial Analyst (CFA)
    - Certified Financial Planner (CFP)
    - Certified Investment Management Analyst (CIMA)
- Shall not invest any part of the Foundation's assets through transactions that involve self-dealing or an actual or perceived conflict of interest.
- Shall have the ability to meet performance objectives as stated in this IPS

If requested by the Investment Committee, the Investment Advisor shall collect and collate performance information from each of the Fund Managers so as to provide the Investment Committee with timely and accurate reports on the performance of the endowed portfolio as a whole, as well as anticipated changes in current investments. The Investment Advisor may, or may not, serve as the custodian of the Foundation's assets.

Fees incurred by the Foundation for fund management and overall portfolio management shall be customary and reasonable in all respects, and not excessive in light of the returns realized on the portfolio.

**Selection of Money Managers for All Funds**

The Foundation will select managers that meet the following minimum criteria:

- Must be a bank, insurance company, investment management company, or investment adviser as defined by the Registered Investment Advisers Act of 1940.
- Must provide monthly statements and historical quarterly performance using the Performance Presentation Standards as defined by the CFA Institute (formerly the Association for Investment Management and Research – AIMR). The performance is based on a composite of all fully discretionary accounts of similar investment style, and reported both gross and net of fees.
- Must provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the manager relative to other managers of like investment style.
- Must provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel.
- Must clearly articulate the investment strategy that will be followed and document that the strategy has been adhered to over time.
- Must have no outstanding legal judgments or past judgments.

It is recognized that alternative investment managers may not comply with all of the criteria stated above, but their actions shall be governed by the terms of their offering document.

**Individually Managed Funds**

At the Foundation's discretion, and with its advance approval, the assets of a particular component fund of the Foundation may be managed by an investment advisor recommended by the fund's donor or advisor provided the value of the fund is $1 million minimum and the investment advisor satisfies the Foundation's criteria. Any such advisor must acknowledge and agree to comply with this IPS, including the Foundation's allowable assets and target asset allocation within the upper and lower limits as outlined in Appendix A (or as close to as possible if the size of the fund does not allow for investment in a certain asset class as specified in the Foundation's allocation targets/ranges), by signing a written acknowledgement. Advisor performance will be reviewed on the same basis as the Foundation's other investment advisors.

The Board, upon recommendation of the Investment Committee's approval of a donor's recommended advisor is contingent on the execution of a written agreement that meets the Standards for Investment Managers. Upon the death of the fund's original donor, the agreement between the Foundation and the investment advisor may continue for a period of up to five years if the donor has so requested in writing. Additional extensions of the agreement must be approved by the Investment Committee.

Donors and fund advisors may not act as investment advisors and the Investment Committee will not approve any investment advisor who is a member of the donor's family or any investment firm controlled by the donor or investment advisor either individually or together with members of the person's family.

**Control Procedures for All Funds**

***Monitoring Investment Advisor***

The Investment Committee will monitor/review each investment advisor on a regular basis and evaluate the advisor based on the following criteria:

- Performance is reviewed quarterly
    - The advisor should consistently meet or exceed the composite benchmark(s) that match the pool or fund under management
    - Failing to come within 200 basis points of the composite benchmark(s) over six consecutive quarterly periods will result in a six month probationary period that may lead to termination of the investment advisor
    - Investment returns are measured net of fees
- Adherence to the philosophy and style that were provided by the advisor to the Investment Committee when the advisor was retained
- Continuity of personnel and practices at the firm
- Compliance with IPS requirements
- Review a sampling of transactions to ensure good internal controls

### *Duties and Responsibilities of each Advisor and Manager*

The duties and responsibilities of each advisor and each manager retained by the Foundation include the following:

- Managing the Foundation's assets under its care, custody and/or control in accordance with the IPS objectives and guidelines set forth herein.
- Exercising full investment discretion within the investment agreements and guidelines set forth herein.
- Informing the Foundation in writing regarding all significant and/or material matters and changes pertaining to the investment of the Foundation's assets on a timely basis.
- Advising the Foundation promptly of any event that is likely to adversely affect the management, professionalism, integrity or financial position of the advisor/manager's firm or its progress toward the goals and objectives of this policy.

### *Monitoring Managers*

Each manager's quarterly performance will be evaluated to measure achievement of long-term expected return objectives and adherence to investment style. It is understood that there are likely to be short-term periods during which performance deviates from market indices.

At least annually, the Foundation will review:

- Each manager's adherence to the IPS guidelines and portfolio construction.
- Material changes in the manager's organization, investment philosophy and/or personnel.
- Comparisons of the manager's results to appropriate benchmarks.
- Portfolio based performance attribution.
- Portfolio based style analysis.
- Portfolio based fundamental review.

Managers may be replaced for reasons that include, but are not limited to, failure to adhere to the responsibilities outlined in the IPS, inconsistent execution of the investment mandate, or substantive personnel changes. Managers may be terminated for any reason or no reason, in the discretion of the Investment Committee.

### *Review of IPS and Performance Objectives*

A moderate level of risk is intended to be sustained over our investment horizon, unless there is a significant change in financial circumstances or other goals and objectives. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS. The Foundation will review the IPS at least annually and determine any necessary adjustments to fully and accurately express its investment goals and objectives. In addition, the Foundation will monitor the performance of the endowed portfolio on a quarterly basis and will regularly monitor performance in comparison to the benchmarks of other community foundations and Council on Foundations.

## SRI/Mission Related Investing (MRI)

Sustainable, responsible and impact investing (SRI) is an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact. There are several motivations for sustainable, responsible and impact investing, including personal values and goals, institutional mission, and the demands of clients, constituents or plan participants. Sustainable investors aim for strong financial performance, but also believe that these investments should be used to contribute to advancements in social, environmental and governance practices. They may actively seek out investments—such as community development loan funds or clean tech portfolios—that are likely to provide important societal or environmental benefits.

The Foundation may invest up to 5% of its invested endowed assets in SRI funds through our investment advisor and/or Mission Related Investing loans.

### *SRI Investing*

The Foundation wishes to allocate part of its endowment investment pool to an SRI fund which includes equities and fixed income accounts, subject to the limitation above regarding amount.

### *Mission Related Investing (MRI)*

The Foundation may invest in San Luis Obispo County companies, agencies and intermediaries that support and promote a healthy and vital community. Our aim is to maximize overall social impact in SLO County communities most in need, while maintaining no more than a moderate risk level to the funds invested. Analysis of risk in order to preserve capital shall be done prior to any commitment of Foundation funds. The Foundation wishes to maintain some of its assets in mission related investments.

Funds may be used to provide:

- New types of leverage directly in communities that can promote jobs, housing, economic development and financial services for low-income residents in SLO County
- Opportunities which provide impact now and into the future
- Opportunities which provide a high social return as well as a financial return consistent with the policy
- Opportunities which allow the Foundation to act as a partner and to promote the engagement of other SLO County institutions and donors

Limitations and Considerations for Loans Given:

- Assets may only be used, with prior approval of the Board, from the Foundation's endowed funds.
- The maximum amount for any single borrower shall not exceed 1% of the Foundation's invested endowed assets.
- Investment time duration for any single investment shall not exceed five years without the written approval of the Board of Directors, however renewal of a successful investment at the end of its term will be considered.
- MRI loan rates will be at or below current market rates, but in no event shall be below 1%.
- The Foundation shall seek full or partial loan participation positions based on the financial strength of the borrowing organization, the size of the borrowing organization and the Foundation's MRI portfolio capacity.
- The Foundation shall consider geographic diversity within the county when making MRI loans.

Limitations and Considerations for Investments placed at local banks:

- It is expected that funds placed with local banks would provide leverage in the community. Banking institutions considered are those which demonstrate that they support the community through lending to low-moderate income residents , demonstrate a commitment to local lending activities, and have achieved a "Satisfactory " or better Community Reinvestment Act rating.
- The maximum amount in any banking institution shall not exceed the amount of insurance provided by the FDIC, except where the depository bank collateralizes our assets, in which case the limit will be according to the collateralization agreement.
- Funds placed at local banks shall be comprised of non-endowed funds only, so are not included in the endowment pool asset allocation strategy.
- Duration of Certificates of Deposit (CD's) will be determined at the opening of the CD, but shall not exceed three years.
- All banking investments must be approved by the Investment Committee prior to funding.

# Appendix A

## Asset Class Targets & Limits

## Strategic Asset Allocation

| Investment Portfolio | Lower Limit | Strategic Allocation | Upper Limit |
|---|---|---|---|
| **Equities - Domestic** | 20% | **41 %** | 65 % |
| **Equities – International** | 10% | **20 %** | 35 % |
| **Fixed Income and Cash** | 15% | **27 %** | 50 % |
| **Alternative Strategies** | 0 % | **10 %** | 20 % |
| **Real Assets** | 0 % | **2 %** | 10 % |

Approved by Board of Directors 02-01-17

# Appendix B

## Asset Class Descriptions

***Cash/Cash Equivalents***

Money market mutual funds selected must adhere to the following guidelines:

- Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1, P-1 or higher. Commercial paper, treasury securities with maturity of less than 90 days, certificates of deposit with maturity of less than 90 days, and repurchase agreements are also acceptable investment vehicles for the money market mutual funds.
- Any idle cash not invested by the investment managers shall be invested in an interest bearing cash account.

Cash balances may also be invested in federally insured bank deposit accounts or similar instruments.

***Fixed Income***

Fixed income strategies will employ a variable maturity approach that relies less on interest rate forecasting, but shifts the maturity structure in response to changes in the yield curve. Managers and mutual funds selected to manage the Foundation's assets must adhere to the following guidelines:

- The core domestic fixed income component (excluding any dedicated high yield allocation) will maintain a minimum credit rating of 'BBB'.
- The international fixed income component may be hedged to avoid fluctuations in currency exchange rates.
- Fixed income investments will generally have short to intermediate durations to minimize interest rate volatility.

***Global Equities***

Managers and mutual funds selected to manage the Foundation's assets must adhere to the following guidelines:

- Equity holdings in any one company should not exceed more than 10% of the market value of the Foundation's equity portfolio.
- Allocations for all equities will generally avoid excessive industry or sector concentration.
- The managers shall emphasize quality in security selection and diversify to avoid risk of loss.
- The managers shall have the discretion to invest a portion of the assets in cash reserves

when they deem appropriate. However, the managers will be evaluated against their mandated benchmarks and peers on the performance of the total funds under their direct management.

- Allocations to any specific country shall not be excessive relative to a broadly diversified international equity manager benchmark or peer group. It is expected that the non-US equity portfolio will have no more than 40% in any one country.
- Foreign exchange contracts may be utilized provided that use of such contracts is limited to hedging currency exposure within the manager's portfolio. There shall be no direct foreign currency speculation or any related investment activity.

The following types of securities and transactions are not authorized without receiving specific Foundation approval:

- Letter stock and other unregistered securities.
- Investments for the purpose of exercising control management.

***Real Assets***

The Foundation may invest in a combination of real asset strategies that include, but are not limited to, Real Estate, Commodities & Natural Resources, and Energy Infrastructure Master Limited Partnerships (MLPs) described below:

- Real Estate: Public and/or private investment in a diversified portfolio of global real estate companies, including Real Estate Investment Trusts or REITs.
- Diversified Commodities & Natural Resources: Investment in a diversified portfolio or index of commodity (or commodity futures) and natural resource investments.
- Energy Infrastructure Master Limited Partnerships (MLPs): Investment in a diversified portfolio of Master Limited Partnerships (MLPs) focusing primarily on energy infrastructure, or pipeline investments.

***Hedged Strategies***

The Foundation may invest in a diversified portfolio of Hedge Funds either directly or via a Fund of Hedge Funds approach. Given the unique risks associated with Hedge Funds (e.g. lack of transparency, relative illiquidity, and use of leverage), attention shall be paid to ensure that:

1. The portfolio is sufficiently diversified across an appropriate number of hedge fund managers and strategies,

2. Liquidity of the Hedge Fund allocation is periodically reviewed both at the individual manager and the aggregate hedge fund portfolio levels,

3. Leverage is routinely monitored at both the individual manager and the aggregate hedge fund portfolio levels;

and

4. Ongoing, comprehensive due diligence is performed on each individual hedge fund manager by either the fund of funds manager or the Investment Advisor.

***Socially Responsible Investing (SRI)***

The Foundation's SRI Portfolio will consist of a blend of 100% pooled mutual funds from established Socially Responsible Investment Manager families. All the investment assets in the SRI Portfolio shall be included within, and managed in accordance with, the IPS asset allocation guidelines for endowed funds.

Filters utilized by the fund managers are held to be generally accepted screens that both seek to exclude corporations that are contrary to many donors' values and proactively include companies that are viewed to add quality and fairness to the workplace. Common screens used in the investment pools may include the following:

Exclusionary Screens: Alcohol, Nuclear Power, Firearms, Tobacco, Military Weapons, Abortifacients, Ethics, Gambling, and Adult Entertainment.

Qualitative Screens: Environment, Diversity, Overseas Operations, Community Relations, Employee Relations, and Product Quality and Safety.

# Appendix C

## Glossary of Investment Terms

**Annualized Return** – The compounded average annual return for periods greater than one year.

**Asset** – Cash, stocks, bonds, real estate, or other holdings of the foundation. Generally, assets are invested to provide spendable dollars to be used for grantmaking.

**Asset Allocation** – The distribution of a pool of assets among various asset classes including but not limited to domestic and foreign equities, mutual funds, or bonds, cash, real estate, venture capital, etc.

**Audit** – An independent examination of the accounting records and other evidence relating to the Foundation to support the expression of an impartial expert opinion about the reliability of our financial statements.

**Bargain Sale** – The sale of securities, real estate, tangible personal property, or other assets to a charity for less than their current value. The donor receives a charitable deduction for the difference between the appraised value and bargain price. The charity sells the property and retains the difference between the price it paid and the price for which the asset was sold.

**Basis Point** – One hundredth of a percentage point (0.01%) used frequently to measure changes in yields or fixed income securities.

**Benchmark Portfolio** – A portfolio against which the investment performance of an asset pool can be compared for the purpose of determining investment skill.

**Board of Directors (Board of Trustees)** – The policymaking and governing body of a nonprofit corporation or trust.

**Cash** – The most common type of gift made to most nonprofit organizations. Includes cash, checks, and credit card gifts.

**Component Fund** – An individual fund considered by the Internal Revenue Service (IRS) to be part of the exempt assets of a community foundation. The foundation's governing board must have total control over all assets of a component fund.

**Composite Benchmark** – a standardized measure of performance used to compare against the actual return of the Portfolio, which is based upon the specific investments held in the Portfolio and the percentages thereof at specified time periods.

**Cost Basis** – The original cost of an asset, such as stock, before appreciation or depreciation.

**Custodian** – A bank or other financial institution that has custody of stock certificates and other assets of a mutual fund, individual, corporation, or institution. Custodians hold assets in safekeeping, collect income on securities in custody, settle transactions, invest cash overnight, handle corporate accounting, and provide accounting reports.

**Designated Fund** – A type of restricted fund help by a community foundation in which the donor specified in advance the fund beneficiaries. See Donor Designated Fund.

**Diversification** – An attempt to minimize risk by distribution assets among various asset classes or among managers within the same asset class who have different investment styles. Can also apply to improving the strength of the organization by having more diversity among the people serving on the board and in various capacities in the organization-at-large, and by attracting gifts from a diverse donor-base.

**Dividend** – A distribution of cash by a corporation to its stockholders.

**Donor** – The individual or organization that makes a grant or contribution.

**Donor-Advised Fund** – A fund held by a community foundation (or other organization) where the donor, or a person or committee appointed by the donor, may recommend eligible charitable recipients for grants from the fund. The community foundation's governing body must be free to accept or reject the recommendations.

**Donor Designed Fund** – A fund held by a community foundation where the donor has specified that the fund's proceeds be used for the benefit of one or more specific public charities or purposes. Once again, the community foundation's governing body must have the power to redirect resources in the fund if it determines that the donor's restriction is unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served. See Variance Power.

**Due Diligence –** In grant making, this speaks to the practices one applies to reviewing grant requests prior to approving them. It generally includes establishing the charitable status of the grantee, the charitable purpose of the grant, and the financial and organizational capacity of the organization to undertake the proposed activities, as well as the determination that the donor does not incur any benefits in exchange for their grant.

**Endowment –** Assets owned and invested by a nonprofit from which generally only the income can be used for operations, donations, or grants. The principal amount of gifts and bequests that are accepted are subject to a requirement that the principal be maintained intact and invested to create a source of income. Donors may require that the principal remain intact in perpetuity, or for a defined period of time or until sufficient assets have been accumulated to achieve a designated purpose.

**Equities** – Also called equity securities or corporate stocks. An instrument that signifies an ownership position, or equity, in a corporation, and represents a claim on its proportionate share in the corporation's assets and profits. An equity holder's claim is subordinated to creditor's claims, and the equity holder will only enjoy distributions from earnings after these higher priority claims are satisfied.

**Fiduciary Duty (Responsibility)** – The legal responsibility for investing money or acting wisely on behalf of a beneficiary. More broadly, for foundation boards such responsibility must be legally exercised on behalf of the donors and the governing documents of the foundation.

**Field of Interest Fund** – A fund held by a community foundation that is used for a specific charitable purpose such as education or health research (i.e. a Geographic Field of Interest Fund serves a specific geographic area).

**Fixed Income Security** – A security that pays a fixed rate if interest. This usually refers to government, corporate, mortgage and municipal bonds.

**Fund** – An entity established for the purpose of accounting for resources used for specific activities or objectives in accordance with special regulations, restrictions, or limitations. Community foundation assets are held in many named component funds established by donors or the foundation for specific unrestricted purposes.

**Growth Oriented Securities** – In general two basic categories of securities are owned: 1) companies with consistent above average historical and prospective earnings growth, and 2) those expected to generate above average near term earnings increase based upon company, industry, or economic factors. Managers in this style are willing to pay above market multiples for the superior growth rate and profitability they anticipate. Hence P/E ratios tend to be greater than the market and dividend yields tend to be less than the S&P 500.

**Guardian** – An individual appointed by the court to manage the rights and/or property of a minor person incapable of taking care of his or her own affairs.

**Hedging** – A strategy used to offset investment risk. A perfect hedge is one eliminating the possibility of loss or gain. Selling short, put options, and futures transactions may be used for hedging purposes.

**Impact Investing --** Impact investing is a subset of socially responsible investing, but while the definition of socially responsible investing encompasses avoidance of harm, impact investing actively seeks to make a positive impact – investing, for example, in non-profits that benefit the community or in clean technology enterprises. (See Program-Related Investment (PRI) and Mission-Related Investment (MRI).)

**Income, Earned** – The interest and dividends returned from an investment. See Return, Rate of.

**Investment Advisor** – A counselor or consultant whose principal business is advising, analyzing or supervising investment managed by others. This differs from an investment manager who is responsible for the investments in a portfolio.

**Investment Manager** – An advisor who manages the investments of others. In general a manager with more than $25 million must register with the Securities and Exchanges Commission (SEC).

**Jeopardy Investment** – An investment that is found to have jeopardized a foundation's purposes. The result of a jeopardy investment may be penalty taxes imposed on a foundation and its managers. While certain types of investments are subject to careful examination, no single type is automatically a jeopardy investment. Generally, a jeopardy investment is made when a foundation's managers have "failed to exercise ordinary business care and prudence."

**Liquidity** – Refers to the ease and quickness of converting assets to cash - also called marketability.

**Market-Oriented Equities** – In this equity style, managers do not have a strong preference for either value or growth stocks. Their portfolio characteristics tend to adhere closer to market averages over a business cycle.

**Mission-Related Investment (MRI) –** An investment made by foundations and other mission-based organizations to further their philanthropic goals. Mission investments cover two distinct categories of investments: Market-rate mission investments, also known as "mission-related investments," are part of a foundation's endowment and have a positive social or environmental impact while contributing to the foundation's long-term financial stability and growth. Below-market mission investments, also known as "program-related investments," are designed to achieve specific program objectives while they may earn a below-market financial return.

**Mutual Fund** – A fund managed by an investment company that raises money from individuals and invests it in stocks, bonds, options, commodities, or money market securities. An investment in a mutual fund is represented by shares or units. The value of the units depends on the value of assets owned by the mutual fund, less expenses incurred by the fund.

**Net Asset Value** – The current fair market of each unit in a mutual fund, as determined by the total value of the fund's investments plus other assets, less liabilities. This total value is divided by the number of units outstanding to arrive at NAV per unit.

**Net of Fee** – The rate of return reported on a portfolio after the removal of a money manager, investment manager or advisor's fee.

**Non-component Fund** – An individual fund that, because of restrictions by the donor, shared interests by the community foundation and other beneficiaries, or election of the foundation, is not included as part of its publicly supported status and is, therefore, treated as separate by both the foundation and the IRS.

**Non-endowed Fund** – Monies are received and distributed with 100% of the fund being potentially spendable. The fund does not operate under the Foundation's spending policy for endowed funds. Project Funds are usually non-endowed funds.

**Optimal Allocation** – A predetermined asset mix that best suits the needs and requirements of an organization.

**Performance Measurement** – The analysis of the returns earned on a pool of assets. Performance measurement uses accounting data as its inputs in order to generate rates of return.

**Proactive Grantmaking –** The process of seeking out unmet needs and tailoring the Foundation's grantmaking program to address them.

**Program-Related Investment (PRI)** – A loan or other investment made by a grantmaking organization to a profit-making or non- profit organization for a project related to the foundation's stated purpose and interests. Often, program-related investments are made from a revolving fund; the foundation generally expects to receive its money back with limited, or below-market, interest, which then will provide additional funds for loans to other organizations. A program-related investment may involve loan guarantees, purchases of stock, or other kinds of financial support.

**Quasi-Endowment (Quasi) –** Assets owned and invested by a nonprofit from which income or principal can be used for operations, donations, or grants. The principal amount of gifts and bequests that are accepted are invested to create a source of income. Similar to an Endowment, with the provision that principal may be used at the donor's discretion.

**Realized Gains/Losses** – Increases/decreases in investments attributed to the sale of investments.

**Request-for-Proposals (RFPs)** – This is a way to encourage grant applications that address a particular issue, such as drug use/abuse, environment, child welfare, etc. We would publicize to area nonprofits that we are soliciting applications in a particular area, and indicate the criteria, potential dollars available, deadlines for application, etc. This is usually a competitive process.

**Return, Rate of** – The rate of return on an asset is a measure of investment performance and should be determined on a total-return basis, i.e., including realized and unrealized changes in market value in addition to earned income (i.e., dividend and interest income). Managers may report returns before or after management advisory fees, but returns are always reported after brokerage and trading costs.

**Return, Real** – A real return is the nominal or actual return adjusted for inflation as measured by the Consumer Price Index (CPI).

**Return, Total** – A measure of an investment's return that includes both realized and unrealized changes in market value plus earned income.

**Risk** – The uncertainty associated with the future value of an investment in an asset or portfolio of assets.

**Securities, Closely Held** – Stocks and bonds not traded on public exchanges, often owned by family members or a few individuals. Same as Securities, Privately Held.

**Securities, Publicly Traded** – Stocks and bonds traded on public exchanges.

**Social Responsible Investing (SRI)** – Also referred to as Ethical Investing, Social Investing or Green Investing. This is the practice of aligning a foundation's investment policies with its mission. This may include making program-related investments and refraining from investing in corporations with products or policies inconsistent with foundation's values. (See Impact Investing)

**Spendable Fund Balance** – Amount in an endowment fund which can be spent, according to the spending policy of the foundation.

**Spending Policy** – A policy that determines what percentage of a group of assets, such as an endowment, should be spent.

**Standard Deviation** – In modern portfolio theory, the standard deviation is one of the primary measures of risk. It is an assessment of the volatility of a security or portfolio. Technically speaking, in statistics, standard deviation refers to the range of the possible outcomes around the expected outcome of a random variable.

**Total Return** – Measures the changes in portfolio value plus dividend or interest income plus realized capital gains or losses. Total return is expressed as a percentage of initial capital value, adjusted for net contributions or withdrawals.

**Unrealized Gains/Losses** – Increases/decreases in investments attributable to the fluctuations in value of the investments from one time period to another.

**Variance Power** – A distinguishing characteristic of community foundations, the variance power permits the community foundation's governing body to redirect resources in component funds if it determines that the donor's restriction is unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community or area served.

**Value-Oriented** – The security's current market price is a critical variable for this equity investment style. Some measures used are low absolute or relative P/E ratios, above-market dividend yields, price/book value, and price/sales ratios. Money managers who utilize this investment style look for the aforementioned measures as well as out-of-favor securities, industry sectors and potential turnaround candidates.

**Yield-to-Maturity** – In the fixed income markets, this is the interest rate that makes the present value of a bond's future payment equal to its current market price. The yield-to-maturity, often referred to as "yield," is inversely related to the bond's price. If the price of the bond rises (falls), the yield falls (rises).