

# Community Foundation of the Lowcountry, Inc.

## INVESTMENT POLICY STATEMENT

Approved: May 2023

### CONTENTS

#### OVERVIEW

#### DEFINITION OF DUTIES

#### OBJECTIVES

#### PERFORMANCE MEASUREMENT

#### GUIDELINES & RESTRICTIONS

#### ACKNOWLEDGEMENT

# INVESTMENT POLICY STATEMENT

## OVERVIEW

### PURPOSE

This Investment Policy Statement (IPS) was adopted by Community Foundation of the Lowcountry, Inc. (hereinafter, the "**Foundation**") to direct the prudent oversight of its investment portfolio (hereinafter, the "**Portfolio**") in a manner consistent with the investment objectives stated herein. The Portfolio is comprised of multiple investment pools, which are in turn comprised of multiple funds managed by the Foundation.

The purpose of the Portfolio is to accumulate pools of assets sufficient to build capital for future use with the corresponding obligation to support current and future needs of the organization. While shorter-term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term spending needs with preservation of the "real" (inflation-adjusted) value of assets, is crucial to the long-term success of the Portfolio.

### SCOPE

This Policy applies to all assets that are included in the Foundation's investment portfolio for which the Finance and Investment Committee (the "**Committee**") has discretionary investment authority.

This Investment Policy Statement shall be used by the Committee in its duty to oversee (in managing, monitoring and reporting) the investment portfolio. Additionally, this policy shall be used as a guideline by the Foundation's Investment Consultant (the "**Consultant**"), Investment Managers and Master Trustee (or Custodian), where applicable.

### FIDUCIARY DUTY

In seeking to attain the investment objectives set forth in this Policy Statement, the Investment Committee, Consultant and Investment Managers shall exercise prudence and appropriate care in accordance with the South Carolina Uniform Prudent Management of Institutional Funds Act (UPMIFA). South Carolina Code of Laws, Sections 34-6-10 through 100, enacted in 2008 (#0289 of 2008), which includes the following statement of the governing fiduciary duty: "Subject to the intent of a donor expressed in a gift instrument, an institution, in managing and investing an institutional fund, will consider the charitable purposes of the institution and the purposes of the institutional fund. In addition to complying with the duty of loyalty imposed by law other than this chapter, each person responsible for managing and investing an institutional fund will manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances." All investment actions and decisions must be based solely in the interest of the Portfolio. Fiduciaries must provide full and fair disclosure to the Committee of all material facts regarding any potential conflicts of interests.

# INVESTMENT POLICY STATEMENT

## DEFINITION OF DUTIES

### BOARD OF DIRECTORS

The Board of Directors (the “**Board**”) has the ultimate fiduciary responsibility for the Portfolio. The Board must ensure that appropriate policies governing the management of the Portfolio are in place and that these policies are being effectively implemented. To implement these responsibilities, the Board sets and approves the Investment Policy Statement and delegates responsibility to the Committee for implementation and ongoing monitoring.

### FINANCE AND INVESTMENT COMMITTEE

The Committee is responsible for establishing this Investment Policy Statement for approval by the Board. This responsibility includes approving investment strategy; oversight of the investment consultant, investment managers and custodians; monitoring performance of the Portfolios on a regular basis (at least quarterly) and maintaining sufficient knowledge about the portfolio, its investment consultant and underlying managers, to be reasonably assured of their compliance with the Investment Policy Statement.

### VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

The Vice President for Finance and Administration (the “**Vice President**”) has daily responsibility for oversight of the Portfolio and will consult with the Committee and/or Board on all material matters relating to the investment of the Portfolio. The Vice President will serve as primary contact for the Foundation’s investment consultant, investment managers and custodian.

### INVESTMENT CONSULTANT

The Consultant is responsible for assisting the Committee and Vice President in all aspects of managing and overseeing the Portfolio. The Consultant is the primary source of investment research/education and investment manager information.

On an ongoing basis the Consultant will:

1. Provide proactive recommendations.
2. Supply the Committee with reports (e.g., asset allocation studies, investment research and education) or information as reasonably requested.
3. Monitor each investment manager/fund.
4. Provide the Committee with quarterly performance reports; and
5. Assist the Committee periodically with a review of the Investment Policy Statement, including an assessment of the current asset allocation and investment objectives.



# INVESTMENT POLICY STATEMENT

## **INVESTMENT MANAGERS**

Investment managers have the responsibility for managing the underlying assets consistent with their stated approach and within the guidelines of this Investment Policy Statement. Investment managers will report investment results and meet with the Committee, staff and/or Consultant as requested.

## **CUSTODIAN**

The custodian's primary function will be safekeeping of the Portfolio's assets. The custodian will reconcile account positions and activity with the investment managers, account for the collection of interest and dividends, account for security transactions, and prepare periodic (e.g., monthly) account statements.

# INVESTMENT POLICY STATEMENT

## OBJECTIVES

The overall, long-term investment goal of the Portfolio is to achieve an annualized total return (net of fees and expenses), through appreciation and income, greater than the spending rate plus inflation (as measured by the Consumer Price Index), thus protecting the purchasing power of the assets.

## STRATEGY

The Board and Committee understand the long-term nature of the Portfolio and believe that investing in assets with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities, including real assets (real estate and natural resources). Real assets provide the added benefit of inflation protection.

Fixed income and diversifying strategies will be used to lower short-term volatility and to provide stability, especially during periods of deflation and negative equity markets. Cash is not a strategic asset of the portfolio, but is a residual to the investment process and used to meet short-term liquidity needs.

## OUTSIDE ADVISOR FUNDS

These funds refer to those long-term assets managed by selected investment management firms outside of the Portfolio. The Committee maintains all fiduciary responsibilities for these assets and for assuring adherence to the Foundation's "Policy for Use of Outside Advisors." The outside advisors for these funds are expected to operate under the Foundation's Investment Policy Statement and guidelines specific to the fund in question. Prior to acceptance, the Consultant will perform due diligence on all Outside Advisors as specified in the "Policy for Use of Outside Advisors" and will recommend initial acceptance or rejection of this outside advisor to the Committee. The Consultant will perform ongoing due diligence on all Outside Advisors.

## SPENDING POLICY

The endowment spending rate is based upon a "total return" approach, which utilizes both income and capital appreciation to be withdrawn for spending. The maximum allowable spending amount (over and above investment and administrative fees) shall be 4.5% of the previous twenty quarter moving average of the individual fund's market value. The formula shall be applied to the 20 quarters ending the fourth quarter of fiscal year, to provide the spending amount for the next fiscal year. Where the fund has not been in existence for 20 quarters, the actual number of quarters that the fund has been in existence will be used as the divisor. The Board must approve the distribution rate each year.

What becomes spendable each year stays spendable. It remains invested with the rest of the fund, and if not distributed, it continues to be considered as part of the fund's total market value for purposes of the calculation of spendable in future years.

# INVESTMENT POLICY STATEMENT

Additionally, new contributions to the funds may be designated as either spendable or non-spendable, as long as less than 50% of the total market value is spendable. In other words, the fund must always be more than 50% non-spendable dollars.

For non-endowed funds, the fund balance is 100% spendable with the following caveat: the required fund minimum (subject to change as the “Fund Minimums and Annual Fee Schedule” policy changes), along with a sufficient amount to cover administrative fees, must remain in the fund at all times to keep it viable. A letter from the fund advisor indicating an intention to close the fund must accompany any distribution request that would drop the fund balance below the required minimum.

## **ASSET ALLOCATION**

Asset allocation will likely be the key determinant of the Portfolio’s return over the long term. Therefore, diversification of investments across multiple markets that are not similarly affected by economic, political, or social developments is highly desirable. A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories shall be based on the impact to the total Portfolio over the long-term, rather than judging asset categories on a stand-alone basis.

The target asset allocation should provide an expected total return equal to or greater than the primary objective of the Portfolio, while avoiding undue risk concentrations in any single asset class or category, thus reducing risk at the overall portfolio level.

### **Long Term Growth Pool + American Funds**

The Long Term Growth Pool including the American Funds seeks long-term capital appreciation. The target asset allocation is 65% equity, 25% fixed income, 10% real assets. The pool offers investors broad domestic and international market exposure, investing in large cap and small cap securities in developed and emerging market countries. The pool is an appropriate strategy for investors who seek capital appreciation. The pool is designed for funds with a long-term time horizon (greater than five years).

### **Moderate Growth Pool**

The moderate growth pool seeks long-term capital appreciation; current income is a secondary focus. The pool’s target asset allocation is 45% equity, 45% fixed income and 10% real assets. The moderate growth pool offers investors broad domestic and international market exposure, investing in large cap and small cap securities in developed and emerging market countries. The moderate growth pool is an appropriate strategy for investors who seek capital appreciation with moderate risk. The moderate growth pool is designed for investors with a three to five-year time horizon.

### **Passive Option**

The Foundation offers a passive option for those investors who seek broad market exposure at a reduced investment management expense. The current option is an exchange-traded fund (ETF) with an asset allocation of 60% global equity and 40% fixed income.

# INVESTMENT POLICY STATEMENT

Investments will generally fall into one of three broad asset categories. Each category serves a specific role within the portfolio. An allocation to all three categories can provide diversification to major market risk factors and provides a simple framework to review the exposures within the portfolio.

## **GLOBAL EQUITY**

Intended to be the primary source of long-term growth for the portfolio, as equities historically have produced high real rates of return. While having higher expected returns, they also have higher volatilities. Sub-categories include both public and private equities, as well as hedged equity mandates.

## **GLOBAL FIXED INCOME/CREDIT**

Intended to offset the volatility of equities, particularly during market downturns, as well as provide deflation protection. These investments are comprised primarily of fixed income (debt) securities and can be further categorized as interest rate sensitive and credit sensitive. Sub-categories include both public and private debt.

## **REAL ASSETS**

Intended to insulate the portfolio from inflation shocks and to provide a source of non-correlating returns with other asset categories. Includes both public and private investments in real estate, natural resources (e.g., energy, agriculture, timber, commodities), and infrastructure (e.g., power generation, mid-stream energy Master Limited Partnerships “MLPs”).

# INVESTMENT POLICY STATEMENT

To achieve these goals, the asset allocation will be set with the following target percentages and within the following ranges:

## Long Term Growth Pool + American Funds

BROAD ASSET CATEGORY	TARGET	TARGET RANGE
<b>GLOBAL EQUITY</b>	<b>65%</b>	<b>45% - 75%</b>
U.S. Equities	31%	
International Equities - Developed	15%	
Emerging Markets	6%	
Private Equity*	13%	
<b>GLOBAL FIXED INCOME &amp; CREDIT</b>	<b>25%</b>	<b>10% - 40%</b>
Core/Core Plus Fixed Income	23%	
Private Debt/Special Situations*	2%	
<b>REAL ASSETS</b>	<b>10%</b>	<b>0% - 20%</b>
Natural Resources – Commodities/Infrastructure	3%	
Public Real Estate (REITs)	2%	
Private Real Estate*	2%	
Private Natural Resources*	3%	

\*The Foundation's long-term, strategic target to private capital is 20% for the Long Term Growth Pool.

## Moderate Growth Pool

BROAD ASSET CATEGORY	TARGET	TARGET RANGE
<b>GLOBAL EQUITY</b>	<b>45%</b>	<b>30% - 60%</b>
U.S. Equities	22%	
International Equities - Developed	17%	
Emerging Markets	6%	
<b>GLOBAL FIXED INCOME &amp; CREDIT</b>	<b>45%</b>	<b>30% - 60%</b>
<b>REAL ASSETS</b>	<b>10%</b>	<b>0% - 20%</b>
Natural Resources – Commodities/Infrastructure	5%	
Public Real Estate (REITs)	5%	



# INVESTMENT POLICY STATEMENT

## ACTIVE AND PASSIVE MANAGEMENT

The asset allocation will be implemented using both active and passive investment managers. Highly efficient areas of the capital markets will be managed using index funds and enhanced index/portable alpha strategies.

## REBALANCING

The Vice President will monitor the asset allocation structure of the Portfolio and attempt to stay within the ranges allowed for each asset category. If the portfolio moves outside of the ranges the Vice President, with advice from the Consultant, will develop a plan of action to rebalance. In many cases the additions of new money or withdrawals for spending will be used to rebalance in a cost-effective manner.

## LIQUIDITY

A goal of the Portfolio is to maintain a balance between investment goals and liquidity needs. Liquidity is necessary to meet the spending policy payout requirements and any extraordinary events. In many instances, the most appropriate investment option is one that comes with liquidity constraints.

Hedge funds and other funds may be considered “semi-liquid” due to lock-up periods, redemption restrictions, and in some cases, illiquidity of the underlying investments. Examples of “illiquid” investments include private equity, private debt, private real estate, and natural resources.

The tradeoff between appropriateness and liquidity will be considered throughout the portfolio construction process.

The goal is to maintain at least 50% of the **Long Term Growth Pool** in liquid investments, but with the following limits:

CLASSIFICATION OF ASSET	LIQUIDITY RANGE	LIQUIDITY DEFINED
Liquid	At least 50% of the portfolio	≤ Monthly with no lock-up
Semi-Liquid	No more than 35% of the portfolio	> Monthly to ≤ 3 Years
Illiquid	No more than 35% of the portfolio	> 3 Years

# INVESTMENT POLICY STATEMENT

## PERFORMANCE MEASUREMENT

### TIME HORIZON

The Committee seeks to achieve the investment objectives over a full market cycle. The Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, the Portfolio may produce significant over or under performance relative to the broad markets. For this reason, long-term investment returns will be measured net of fees over a 5-year moving period.

### PRIMARY BENCHMARK

The primary objective of the Long Term Growth Pool is to achieve a total return, net of fees, in excess of spending, administrative fees and inflation. The Primary Benchmark is the minimum return needed to achieve the portfolio's objectives.

*Total Return > Consumer Price Index (CPI) + 5.5% (4.5% Spending Rate + 1.0% Administrative Fee)*

### TARGET WEIGHTED BENCHMARK

The secondary investment objective is to achieve a total return in excess of the Target Weighted Benchmark, comprised of each asset category benchmark weighted by its target allocation. The Target Weighted Benchmark measures the contribution of any strategic biases (market capitalizations, style, countries/regions, credit quality, etc.) as well as any tactical asset allocation decisions.

### RISK PARAMETERS

The volatility (beta) is expected to be no greater than 1.20 versus the Target Weighted Benchmark.

# INVESTMENT POLICY STATEMENT

## GUIDELINES AND RESTRICTIONS

### GENERAL

In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such list is likely to be too inflexible to be suitable of the market environment in which investment decisions must be made. Therefore, the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner in which investment risk is managed, will determine whether an appropriate standard of reasonableness, care, and prudence has been met for the Foundation's investments.

The requirements stated below apply to investments in non-pooled/mutual funds, where the investment manager is able to construct a separate, discretionary account on behalf of the Portfolios. Although the Committee cannot dictate policy to pooled/mutual fund investment managers, the Committee's intent is to select and retain only pooled/mutual funds with policies similar to this Investment Policy Statement. All managers (pooled/mutual and separate), however, are expected to achieve the performance objectives.

Each traditional long-only equity and fixed income investment manager shall:

1. Have full investment discretion with regard to security selection consistent with this Investment Policy Statement.
2. Immediately notify the Foundation's Vice President for Finance & Administration and the Investment Consultant in writing of any material changes in the investment philosophy, strategy, portfolio structure, ownership, or senior personnel; and
3. Make no purchase that would cause a position in the portfolio to exceed 5% of the outstanding voting shares of the company or invest with the intent of controlling management.

# INVESTMENT POLICY STATEMENT

## INVESTMENT MANAGER EVALUATION

All investment returns shall be measured net of fees. Each investment manager will be reviewed on an ongoing basis and evaluated on the following criteria:

1. Adherence to the guidelines and objectives of this Investment Policy Statement.
2. Maintain a stable organization and retention of key personnel.
3. Avoidance of regulatory actions against the firm, its principals or employees.
4. Avoidance of significant deviation from the style and capitalization characteristics defined as “normal” for the manager.
5. Ability to exceed the return of the appropriate benchmark index and, for equity managers, produce positive alpha (risk-adjusted return).
6. Ability to meet or exceed the median performance of a peer group of managers with similar styles of investing.

Although there are no strict guidelines that will be utilized in selecting managers, the Committee will consider the criteria above, as well as, the length of time the firm has been in existence, its track record, assets under management, and the amount of assets the portfolio already has invested with the firm.

# INVESTMENT POLICY STATEMENT

## ACKNOWLEDGEMENT

We recognize the importance of adhering to the mission and strategy detailed in this policy. We agree to work to fulfill the objectives stated herein, within the guidelines and restrictions, to the best of our ability. We acknowledge that open communications are essential to fulfilling this mission, and therefore, recognize that suggestions regarding appropriate adjustments to this policy or the manner in which investment performance is reviewed are expected.

*Nicole Charles*

---

Community Foundation of the Lowcountry, Inc.

*May 22, 2023*

---

Date

*R.F. Doering*

---

Fund Evaluation Group, LLC

*May 18, 2023*

---

Date

Amended: June 2022

Amended: October 2021

Amended: September 2020

Amended: September 2019

Amended: June 2018

Amended: July 2016