



## INVESTMENT POLICY STATEMENT CRAFTON HILLS COLLEGE FOUNDATION

Date: 12/7/2017

Name of Investment Manager: Merrill Lynch

Investment Manager Representatives: Raul Aballi, Ben Voelker, Robert Panetti

Foundation Contact: Foundation CFO

### **I. Membership**

The Investment Committee shall consist of four or more voting members appointed by the Foundation President and approved by the Foundation Board. Membership shall be reviewed by the Board each June during the Annual Meeting. The Chair of the Investment Committee shall be the Chief Financial Officer of the Foundation Board. Committee members should have investment, business, or endowment management expertise sufficient to evaluate the risks associated with the Committee's purpose. A quorum of any meeting of the Investment Committee shall consist of a majority of its voting members.

### **II. Investment Objective**

The Foundation's objective for its portfolio is an "above market return" (as defined *infra*, Section V, Part A) by:

- An increase in the income return of the portfolio realized from prudently investing the portfolio's capital;
- An increase in the capital value of the portfolio;
- Diversified investing in a number of issues, issuers and issue types that afford a high degree of liquidity to permit the Foundation to fund its ongoing cash requirements; and
- Short and intermediate-to-long term bond ladders.

### **III. Investment Committee**

#### **A. Responsibilities and Duties**

The members of the Investment/Finance Committee shall have the following responsibilities and duties:

- To make a reasonable effort to verify relevant facts on which decisions concerning the investment and management of assets are based.
- To attend regular meetings of the Investment/Finance Committee.
- To attend regular meetings between the Investment/Finance Committee and Investment Managers to monitor their performance and conduct appropriate reviews and investigations of the reports and advice provided by Investment Managers.

#### **IV. Investment Managers**

##### **A. Responsibilities and Duties**

The Investment Managers retained by the Foundation shall have the following responsibilities and duties:

- To assist in the development and implementation of an investment policy and an asset allocation strategy;
- To provide regular performance measurement reports and assist the Foundation in interpreting the results reported;
- To communicate and share information and views of the composition and mix of the portfolio with other Investment Managers engaged by the Foundation; and
- Such other duties as may be mutually agreed upon.

##### **B. Fiduciary Responsibilities**

The Investment Manager shall manage the portfolio in a manner consistent with the investment objectives, guidelines and constraints outlined in this policy statement and in accordance with applicable laws and “Prudent Investor” standards. The Investment Manager shall at all times be registered as an investment advisor under the Investment Advisers Act of 1940 (where applicable), or a federally-regulated bank; and shall acknowledge in writing that he is a fiduciary with respect to the assets managed.

In managing and investing Foundation funds, the following factors, if relevant, must be considered:

1. General economic conditions;
2. The possible effect of inflation or deflation;
3. The expected tax consequences, if any, of investment decisions or strategies;
4. The role that each investment or course of action plays within the overall investment portfolio of the fund;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Foundation;
7. The needs of the Foundation and the fund to make distributions and to preserve capital; and
8. An asset’s special relationship or special value, if any, to the charitable purposes of the Foundation.

##### **C. Security Selection/Asset Allocation**

- The Investment Manager shall have, within the restrictions contained in this policy statement, the discretion to determine the portfolio’s individual security selections;
- The Investment Manager shall maintain the overall asset allocation of the portfolio, insofar as is prudent, as set forth *infra*, Section III. The portfolio is not to be invested in any one asset class. The allowable investment shifts between the

asset classes, above and below the target allocations, are also set forth *infra* in Section III; and

- The Investment Manager shall have the discretion to determine that the asset allocation of the portfolio he manages shall differ from the overall target asset allocation of the Foundation’s portfolio as a whole, provided that the Investment Committee in consultation with the Investment Manager may periodically require that the portfolio be adjusted to more closely conform to the target allocations.

**D. Proxy Voting**

The Investment Manager is responsible and empowered to exercise all rights, including voting rights, as are acquired through the purchase of securities, where practical. The Investment Manager shall vote proxies according to their established Proxy Voting Guidelines.

**V. Asset Allocation Strategy**

The mix of assets in the portfolio, save for special circumstances, shall be maintained as follows (percentages are of the market value of the portfolio):

<b>Portfolio Asset Allocation</b>			
Asset Class/ Investment Style	Market Value		
	Minimum	Target	Maximum
Domestic and International Equities	55%	65%	75%
Investment Grade Fixed Income	25%	35%	45%
Cash and Cash Equivalents	0%	0%	10%

Deviations from this asset allocation guideline may be authorized in writing by the Board. The maximum percentage designated for the “Cash and Cash Equivalents” category is intended to apply after the initial start-up of any portfolio. Except in unusual situations, start-up should not be longer than three months.

**VI. Rebalancing**

At times, as a result of capital appreciation, depreciation and trading activity, the portfolio’s investment allocation can materially deviate from the asset allocation set forth in Section III above. The Investment Committee may then request rebalancing by the Investment Manager, if the Investment Committee deems it prudent to do so. The Investment Committee, in consultation with the Investment Manager, shall decide the timing and most prudent strategy to rebalance the portfolio. The Investment Committee, if it deems appropriate to achieve a rebalancing of the portfolio, may also shift assets to another Investment Manager.

**VII. Performance Objectives**

**A. Style Index**

The investment goal for the portfolio is to invest the portfolio consistent with “Prudent Investor” standards and to earn a return at or higher than “market return,” which will be measured against the following benchmark index or mix of indexes:

**39% MSCI All Country World Net Total Return Index**  
**26% MSCI Developed US Net Total Return Index**  
**35% Barclay’s Capital US Universal Index**

The portfolio’s return is expected to exceed the average annual return of the applicable benchmark index on a risk-adjusted basis over a three- to five-year rolling time period and over a rolling twelve-month period against applicable benchmark indexes.

## **B. Secondary Performance Targets**

- Inflation shall be measured relative to the U.S. All Urban Consumers Price Index (“CPI”); the portfolio’s return (after adjusting for inflation) shall *at a minimum be a return equal to the CPI*; and
- The portfolio should outpace the style index return and real return target, each measured on a compound average annual return basis after the deduction of investment management fees on a rolling twelve-month basis and over a three- to five-year period.

## **VIII. Selection Criteria for Investment Managers**

The Foundation will utilize a multi-manager structure of complementary investment styles, investment vehicles and asset classes to invest the Foundation’s portfolio. Investment Managers will be selected by the Investment Committee based upon the following criteria:

- Past performance considered relative to other Investment Managers having similar investment objectives. Consideration shall be given to both consistency of performance and the level of risk taken to achieve results;
- The investment style and discipline of the Investment Manager;
- How well such Investment Manager’s investment philosophy and program complements the overall portfolio of the Foundation;
- Level of experience, personnel turnover, financial resources and staffing levels of the Investment Manager’s firm;
- Reasonable fees, relative to investment style and expected risk and return;
- Ability and willingness to service the Foundation on a customized basis;
- All mutual funds in all portfolios are be registered Investment Companies as defined under the Investment Company Act of 1940. The Investment Companies need not be classified as “diversified” Investment Companies (as defined in the Investment company Act of 1940); and
- The likelihood of future investment success, relative to other Investment Managers.

## **IX. Investment Guidelines**

The following guidelines apply to all of the Foundation's Investment Managers:

### **A. Permitted Domestic Securities**

The securities purchased shall be registered with the Securities and Exchange Commission and traded on a recognized U.S. stock exchange or over-the-counter market.

***Equity securities include:*** common stocks, preferred stocks, exchange traded funds (ETFs), real estate securities (defined below) and securities convertible into common stock of U.S.-based companies.

***Convertible securities include:*** securities that are convertible into the common stock of U.S. or non-U.S.-based corporations. This would include convertible bonds and convertible preferred stock. All convertible securities purchased outside of a commingled vehicle such as a mutual fund, ETF, or closed-end fund must be U.S. dollar denominated securities. Individual convertible securities should be rated "A" (or its equivalent) or higher at the time of purchase, by a nationally recognized statistical rating agency. For the purpose of asset allocation, convertible securities shall be considered equities.

***Fixed Income Securities Include:*** Domestic fixed and variable rate bonds and notes issued by the U.S. Government and its agencies, U.S.-based corporations, Yankee bonds and notes (bonds or notes issued by non-U.S. based corporations and governments but traded in the U.S., securitized mortgages (e.g., GNMA's, FNMA's, FHLMA's), collateralized mortgage obligations, asset-backed securities, taxable municipal bonds and preferred stock. Fixed income securities held outside of a commingled vehicle such as a mutual fund, ETF, or closed-end fund shall be rated "A"<sup>1</sup> (or its equivalent) or higher at the time of purchase, by a nationally recognized statistical rating agency. Should a security be downgraded below the minimum permitted credit quality, as defined above by a nationally recognized statistical rating agency, the Investment Manager will retain the option to hold or sell the security. The entire fixed income portfolio should have a minimum average rating of "A" with a weighted average duration that does not exceed ten years.

### **B. Permitted International Securities**

***Allowable international securities are:*** sponsored and un-sponsored American Depositary Receipts (ADRs) or American Depositary Shares (ADSs or other depositary securities of non-U.S. based corporations traded in the U.S., closed-end country funds, exchange-traded funds and securities convertible or exchangeable into common stocks of non-U.S. based corporations. Equities of foreign domiciled companies that are traded in the U.S. may also be purchased so long as the securities are registered (or filed) with

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<sup>1</sup> All rating categories, include qualifiers "+" and "-" for S&P and "1," "2" and "3" for Moody's. In the event of a "split rated" security, that is a security with non-equivalent rating classifications from different rating agencies, the lower of the credit quality ratings shall apply.

the Securities and Exchange Commission and traded on a recognized national exchange or over-the-counter market.

### **C. Cash and Equivalents**

Cash reserves may be utilized from time to time to provide liquidity or to implement some types of investment strategies. Cash reserves shall be held in the each Investment Managers' money market fund, short-term maturity Treasury securities, or high quality money market instruments.

### **D. Diversification Requirements**

The Investment Manager shall maintain "Prudent Investor" diversification in the portfolio.

### **E. Exclusions**

The following investments are to be excluded from the Foundation's portfolio:

- Derivative transactions;
- Speculative asset classes (*i.e.*, Private Equity, etc.)
- Short Sales;
- Purchases of letter stock, private placements (including "144A" securities), or direct payments;
- Leveraged transactions;
- Commodities transactions; outside of a CTA or '40 Act Fund (ETF/ Mutual Fund)
- Naked option strategies;
- Real estate, oil and gas properties, or other natural resources related properties with the exception of Real Estate Investment Trusts or marketable real estate securities, or natural resource and precious metal mutual funds;
- Investments in non-U.S. dollar denominated securities;
- Investments in limited partnerships, except for publicly traded Master Limited Partnerships;
- Investments in futures, use of margin, or investments in any derivatives not explicitly permitted in this policy statement;
- Investments by the Investment Managers in their own securities, affiliates or subsidiaries (excluding money market or other commingled funds as authorized by the Investment Committee); and
- Hedge Funds.

### **X. Investment Transactions**

The trading for the portfolio is directed by and is the responsibility of the Investment Manager. The size of each security transaction and the brokers or dealers to be used in such transactions shall be the responsibility of the Investment Manager. The Investment Manager is obligated to effect transactions with or through those brokers or dealers that

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12-7-17

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in the Investment Manager's view are capable of providing best net price and execution of client orders. Execution capability, price, and overall effectiveness shall be considered, along with commission rate.

#### **XI. Meetings and Communications**

- As a matter of course, the Investment Manager shall keep the Investment Committee apprised of any material changes in the Investment Manager's outlook, investment policy and tactics;
- A representative of each Investment Manager shall be available to meet with the Investment Committee at a mutually convenient time and place, to review and explain the portfolio's investment results;
- A representative of each Investment Manager shall be available on a reasonable basis for telephone communication when needed;
- Any material event that affects the ownership or capital structure of the investment management firm or any material event that affects the management of the portfolio (such as changes in senior investment personnel) must be reported promptly to the Investment Committee;
- The Investment Manager will provide regular written performance reports for each portfolio for which that Investment Manager is responsible; and
- The Investment Manager shall provide monthly statements of assets and transactions.

#### **XII. Performance Evaluation**

The Investment Committee will monitor the Investment Manager's success in achieving the investment objectives outlined in this policy statement on a regular basis, in such manner as the Investment Committee sees fit.

#### **XIII. Fixed Income Ladder**

The fixed income ladder may be managed by the Investment Committee with assistance from the Investment Managers, or the Investment Committee may elect to seek independent fixed income managers to perform this task. Should the Investment Committee continue to manage the funds as it has historically, the Investment Committee will seek independent counsel to review the investments and to ensure the investments are in keeping with the requirements of this policy. This review will be done on a semi-annual basis.

#### **XIV. Duration of the Relationship**

Either the Foundation or the Investment Manager may terminate this relationship on thirty (30) days written notice to the other.

**CRAFTON HILLS COLLEGE FOUNDATION**

By: \_\_\_\_\_ Date: \_\_\_\_\_

Name: Sam Irwin

Title: President, CHC Foundation

**MERRILL LYNCH\_**  
(Investment Manager)

By: \_\_\_\_\_ Date: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_