



## **ST. CROIX VALLEY FOUNDATION**

### **STATEMENT OF INVESTMENT OBJECTIVES**

#### **1. INVESTMENT PHILOSOPHY**

The Foundation's Investment Philosophy is summarized as follows:

- Preserve Capital.
- Strive for total returns that at least equal the Foundation's spending policy plus the rate of inflation
- Earn the highest possible return given the risk tolerance as established by the board of directors of the Foundation.

#### **2. RISK TOLERANCE**

The Foundation is unwilling to undertake investment strategies that might jeopardize the ability to deliver grants to the St. Croix Valley Area Community. However, the mission of funding the needs of the St. Croix Valley is long-term in scope. Understanding that risk is present in all types of securities and investment styles, The Foundation recognizes that some risk is necessary to produce the long-term investment results that will be sufficient to meet the Foundation's financial needs. The Fund's prospect for the future, its current financial condition and several other factors suggest collectively that the Fund can tolerate some interim fluctuations in market value and rates of return in order to achieve its long-term objectives. Therefore, the Fund will be managed in accordance with a long-term perspective. Expectations of risk and return will be based on the long-term averages for the markets in which the Fund invests.

### **3. RESPONSIBILITIES**

#### ***MUTUAL FUND AND PROFESSIONAL MONEY MANAGERS***

Each mutual fund and professional money manager selected by the Foundation shall assume responsibility for providing a full range of money management services. Those services normally shall include, but shall not be limited to exercising discretionary authority with respect to all investment decisions for all cash and securities placed under their management, subject to the parameters contained in their specific investment policy statement.

#### ***ST. CROIX VALLEY FOUNDATION***

##### **Finance & Investment Committee**

The Foundation's board of Directors has delegated to the Finance & Investment Committee the authority to oversee the conduct of this investment policy statement. As such, the Committee shall be responsible for making and implementing all financial and administrative decisions concerning the investment policy statement, as may be delegated to it from time to time by the Board, subject to periodic review by the Board. Responsibilities include, but are not limited to, establishing performance goals, identifying appropriate asset mix guidelines, reviewing the results of the investments on a quarterly basis, and selecting, monitoring and, if necessary, replacing mutual fund or professional money managers.

The Committee recognizes that its role is supervisory, not advisory, and that discretion is delegated to managers as long as they adhere to general guidelines established by the Foundation. The President of the Foundation has been authorized to implement the decisions of the Committee, to serve as the Committee's primary liaison with the various service providers and to give specific instructions to the various service providers. The Committee and its agents, in carrying out their responsibilities, shall act in accordance with this investment policy statement and all applicable laws and regulations.

##### **Mutual Fund and Professional Money Managers**

The Committee is authorized to select one or more mutual fund or professional money management organizations to make the day to day decisions regarding the investment of the investment portfolios according to this investment policy statement. The Committee shall have the right to terminate and replace such mutual funds and professional money managers whenever it determines that it is in the best interest of the Foundation to do so.

##### **Board of Directors**

The Foundation's Board of Directors shall be responsible for the establishment, oversight and review of this investment policy statement; selecting an appropriate strategic allocation for the portfolios; determining projected financial needs; establishing

reasonable investment objectives; and developing sound and consistent investment policy guidelines that the Committee can use in formulating investment decisions.

### ***INVESTMENT CONSULTANT***

Any entity serving in the capacity of an investment consultant to the Foundation shall assume responsibility for providing a full range of investment consulting services. Those services shall include, but shall not be limited to, serving as an advisor to the Committee and helping to educate the Committee with respect to all aspects of the investment process, as well as functioning as an investment information resource. Specifically, the consultant shall assist the Committee on issues related to investment policy, asset allocation, mutual fund and professional money manager evaluation and monitoring the portfolios. Any investment advice provided by the investment consultant will be consistent with the objectives and parameters set forth in this investment policy statement.

## **4. DONOR INVESTMENT PORTFOLIO OPTIONS**

While most funds will be invested in the Long Term Balanced Portfolio with the asset allocation determined by the board of directors of the Foundation, qualified donors may choose a different blend of asset allocations from among the four funds described below. This option requires a minimum fund balance of \$100,000.

In addition to the fund options described above, donors who prefer to work through a personal investment advisor may choose to participate in the Foundation's Investment Partners Program which is also described below.

In order to meet the near-term liquidity needs as well as the long-term mission of the program, the Foundation will employ the following four strategies:

## **5. SCVCF INVESTMENT PORTFOLIO FUNDS**

### ***5.1. SHORT TERM PORTFOLIO***

Short-term portfolio investments will be kept in cash or cash equivalents and are earmarked for near-term needs.

### ***5.2. LONG TERM BALANCED PORTFOLIO***

#### **Policy Asset Mix**

Diversification of assets will be employed to ensure that adverse results from one security or security class will not have an unduly detrimental effect on the entire portfolio. Diversification is interpreted to include diversification by type, by characteristic, and by the number of investments as well as by investment style of management organization.

- ❖ For purposes of asset allocation, the Foundation currently divides the Long Term Balanced Portfolio into four asset categories: domestic equities, international equities, domestic fixed income, and cash. Based on the long-term mission and overall risk tolerance of the Foundation, the Committee chose the following policy asset mix for the long-term portfolio:

	<b>Target</b>	<b>Minimum</b>	<b>Maximum</b>
Domestic Equity	55%	45%	65%
International Equity	10%	5%	15%
Domestic Fixed Income	34%	24%	44%
Cash (Term < 1 yr)	1%	0%	5%

- **Equity.** Domestic Equities will represent 45% to 65% of the market value of the total long-term portfolio, with a targeted average of 55%. International Equities will represent 5% to 15% of the market value of the total long-term portfolio, with a targeted average of 10%. Equities authorized for purchase include common and preferred stocks, warrants, ADRs, REITs, MLPs, and convertible bonds. Most mutual funds allow the manager broad authority as to investments and often include the authority to use techniques such as short selling, index futures and options, foreign currency contracts, synthetic securities and other types of investments. The use of Stock Options, Short Sales or Margin Transactions will not be used in the management of individual issues and a mutual fund broadly using these techniques will not be pursued.
- **Fixed Income.** Bonds will represent 24% to 44% of the market value of the total long-term portfolio, with a targeted average of 34%. The objective is to earn a competitive yield with moderate risk to investment capital by investing in assets which have a maturity range from one to thirty years. The investments normally used will be U.S. government or agency bonds, corporate bonds, bank certificates, taxable municipal bonds and/or mutual funds which invest in those types of assets. Bonds may be held to maturity or sold if appropriate. All bonds when purchased are to be an A quality or better as rated by Moody's, Standard & Poors or other major rating services. BAA-1 general obligation bonds and other non-rated bonds may be considered if the investment appears unusually attractive and appropriate. It is understood that income type mutual funds or similar type pooled investment vehicles in the Fixed Income Portfolio with the purpose of having the general maturity range stated above and mutual funds or similar type pooled investment vehicles which invest in lower quality bonds and debentures may be used.
- **Cash.** Cash will represent up to 5% of the total long-term portfolio, with a targeted average of 1%. The maximum allocation of 5% recognizes that 5%

of endowed funds may be distributed at any time. Cash includes investments with maturities of less than 1 year.

### **5.3. FIXED INCOME PORTFOLIO**

Bonds will represent 100% of the market value of the total Fixed Income portfolio. The objective is to earn a competitive yield with moderate risk to investment capital by investing in assets which have a maturity range from one to thirty years. The investments normally used will be U.S. government or agency bonds, corporate bonds, bank certificates, taxable municipal bonds and/or mutual funds which invest in those types of assets. Bonds may be held to maturity or sold if appropriate. All bonds, when purchased, are to be an A quality or better as rated by Moody's, Standard & Poors or other major rating services. BAA-1 general obligation bonds and other non-rated bonds may be considered if the investment appears unusually attractive and appropriate. It is understood that income-type mutual funds or similar type pooled investment vehicles in the Fixed Income Portfolio, with the purpose of having the general maturity range stated above and mutual funds or similar type pooled investment vehicles which invest in lower quality bonds and debentures, may be used.

### **5.4. EQUITY PORTFOLIO**

Equities will represent 100% of the market value of the Equity Fund portfolio. Diversification of assets will be employed to ensure that adverse results from one security or security class will not have an unduly detrimental effect on the entire portfolio. Diversification is interpreted to include diversification by type, by characteristic and by the number of investments as well as by investment style of management organization.

For purposes of asset allocation, the Foundation currently divides the Equity Portfolio into two asset categories: domestic equities and international equities. Based on the long-term mission and overall risk tolerance of the Foundation, the Committee chose the following policy asset mix for the long-term portfolio:

	<b>Target</b>	<b>Minimum</b>	<b>Maximum</b>
Domestic Equities	55%	45%	65%
International Equities	10%	5%	15%

Domestic Equities will represent 75% to 93% of the market value of the total long-term portfolio, with a targeted average of 85%. International Equities will represent 7% to 25% of the market value of the total long-term portfolio, with a targeted average of 15%. Equities authorized for purchase include common and preferred stocks, warrants, ADRs, REITs, MLPs, and convertible bonds. Most mutual funds allow the manager broad authority as to investments and often include the authority to use techniques such as short selling, index futures and options, foreign currency contracts, synthetic securities and other types of investments. The use of Stock Options, Short Sales or Margin Transactions will

not be used in the management of individual issues and a mutual fund broadly using these techniques will not be pursued.

## 6. ASSET REBALANCING OF INVESTMENT PORTFOLIOS

The Foundation has established a policy toward maintaining the Long Term Balanced Portfolio and the Equity Portfolio at its policy asset mix over time. Quarterly, the funds' investment allocation will be examined. To the extent that the funds' actual asset allocation deviates outside of specified ranges from the policy asset mix, assets will be redistributed among the funds' managers to achieve the desired allocation. This asset balancing applies as well to those donor funds (Donor Option Funds) that elect the option of establishing a different blend of asset mixes.

## 7. ASSET CATEGORY TARGETS

The Foundation has selected asset category targets for all of its investments. The asset category target is an investable portfolio that defines the scope of potential assets within the asset category. These targets are used to evaluate investment performance and align managers within asset categories. The following asset categories have been selected by the Foundation:

Domestic Equities	Wilshire 5000
International Equities	MSCI All Country ex USA
Domestic Fixed Income	Barclays US Agg. Bond
Cash	90 Day T-Bills

## 8. INVESTMENT MANAGER STRUCTURE

The Foundation recognizes that over the long-term actively managed portfolios usually entail additional costs, and often fail to consistently outperform indices associated with the particular asset class in which the actively managed portfolios is invested. Therefore, the Foundation may elect to invest a sizeable portion of the fund's assets in index funds. Index fund managers focus their efforts on replicating the portfolio of securities held in their respective benchmarks as opposed to shifting funds across asset categories in anticipation of near-term market movement.

In order to promote compliance with the asset allocation guidelines, ensure high quality management throughout all components of the investment portfolios, and facilitate performance monitoring, the equity and fixed income portions of the portfolio will be managed separately. To further promote diversification and to reduce risk, the equity and fixed income portions of the portfolio will be placed with multiple mutual funds and/or professional money managers that have distinct investment philosophies. While this strategy shall govern the investment of the portfolio on an ongoing basis, the precise asset allocation as well as the particular configuration of mutual funds and professional money managers may change from time to time, according to the judgment of the Committee.

The Foundation requires that each manager make available an appropriate benchmark. The Foundation uses a manager's benchmark to both evaluate the manager's ability to replicate that portfolio of securities and to characterize the manager's investment style for purposes of efficiently structuring managers within the asset category.

The Foundation has requested and authorized First State Bank and Trust to sell all shares of stock donated to the foundation. Some donations, such as closely held stock or large blocks of thinly traded stocks, may require special treatment.

## **9. INVESTMENT OBJECTIVES**

The Foundation's investment objectives are expressed in terms of reward and risk expectations relative to investable benchmarks. The Foundation specifies investment objectives at three investment management levels: total fund, asset categories, and individual managers. At each level, benchmarks have been established that represent the returns and risks that could be achieved through passive management. Performance at all levels of the investment program is always expressed net of all fees and expenses. Performance of the benchmarks is reported without deducting the costs of passive management. As a result, the Foundation expects performance to be slightly below the respective benchmarks at the total fund, asset category, and manager levels due to management fees and additional costs associated with the fund's high allocation to passive management.

On a relative basis at the total fund level, the Foundation expects that its investment program will produce returns slightly below (5-10bp for large-cap equity, 75bp for small-cap equity, 50bp for international equity, 10-20bp for fixed income – all gross of fees) the returns produced by a combination of the asset category targets over a minimum evaluation period of five years. The weights used to compute that combination represent the asset categories' respective policy asset mix allocations.

At the asset category level, the Foundation expects that its investments will fall slightly below the performance of the asset category target over the five-year evaluation period. Due to a potential mix of manager styles within each asset category, the Foundation understands that individual manager returns relative to those of the asset category target may vary considerably over time. Therefore, the Foundation focuses on the aggregate performance of the managers relative to the asset category target.

At the individual manager level, the Foundation expects that each of its passive investment managers will slightly underperform their assigned benchmarks over the five-year evaluation period. The Foundation expects that each of its active investment managers will slightly outperform their assigned benchmarks over the five-year evaluation period. The Foundation insists that the managers follow the investment styles of their individual benchmarks.

**10. INVESTMENT PARTNERS PROGRAM**

Donors who elect to participate in the Foundation’s Investment Partners Program have the option to elect an alternative, non-discretionary investment option. The Foundation offers a Board-approved, long-term balanced investment option whose investment objectives, risk tolerance, and asset allocation are similar to that of the Long Term Balanced Portfolio described above. Investment managers in this program are evaluated based on the same criteria used to evaluate investment providers in the Long Term Portfolio. The Foundation’s Board of Directors and Finance and Investment Committee retain the same responsibilities in the management and oversight of this investment option as they do the other portfolio options referenced in this investment policy.

**11. PERFORMANCE AND EVALUATION**

Portfolio managers shall provide quarterly reports that contain fund performance vs. the benchmark. Annually, portfolio managers shall provide annualized standard deviation of tracking error calculations for their funds. Portfolio managers shall include in each quarterly report to the Foundation any exceptions to or deviations from the investment policy.

**12. ANNUAL REVIEW**

These guidelines will be reviewed by the Finance and Investment Committee at least annually. Exceptions to these guidelines, upon the recommendation of the Finance and Investment Committee, may be made any time following approval by the Foundation’s Board.

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

Signed: \_\_\_\_\_

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

Signed: \_\_\_\_\_