

# **Arlington Community Foundation**

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## Investment Policy Statement

[Adopted June 21, 2023]

The managed assets of The Arlington Community Foundation (“Organization” or “ACF”) will consist of three investment pools and a cash option (the “Funds”). It is the intention of the Board of Trustees (the “Board”) that the Finance Committee of the Organization (the “Finance Committee”) ensure that the Fund will be managed toward the objectives of the Organization, while simultaneously meeting the objectives set forth in this Investment Policy Statement.

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## Governance

This Investment Policy Statement (“IPS”) serves as a strategic guide in the planning and implementation of an investment program for the Organization and governs the investments associated with the ACF investment pools.

### I. Purpose and Scope

This IPS should establish a clear delineation of the expectations of the Board with respect to the Finance Committee’s and the Investment Advisor’s oversight and management of the Fund.

This IPS is intended to:

- Define the investment assets to be governed by the IPS and allocation of duties among the Board, Finance Committee and the Investment Advisor with respect to such assets;
- Establish reasonable objectives for return and risk expectations, incorporating the following constraints: current time horizon; liquidity constraints; and any other unique circumstances regarding the Funds;
- Establish the appropriate target allocation and the parameters around restricted security types and asset classes;
- Establish an appropriate portfolio benchmark for the evaluation of investment performance and risk management;
- Establish expectations for investment and money managers, securities guidelines, and for the monitoring of the selected managers;
- Provide a basis for risk management and the evaluation of the investment performance of the Funds’ assets at the manager level;
- Encourage effective communication between all parties involved in the oversight, management and operations of the Funds.
- Establish the Board’s and the Finance Committee’s expectations regarding reports to be delivered by the Investment Advisor and the frequency of meetings with the Investment Advisor.

Further, this IPS is intended to provide investment objectives that are sufficiently specific to be meaningful, but adequately flexible to be practicable. The objectives in this IPS are designed to establish an attitude and philosophy to guide the Board and the Finance Committee toward the desired policies and performance in oversight of the Organization’s assets.

## II. Definition of Duties

Position	General Responsibility	Specific Tasks
<b>Board of Trustees</b>	Oversees corporate policy and investment process	<ul style="list-style-type: none"> <li>- Establish the Investment Policy Statement for the Foundation</li> <li>- Appoints Finance Committee</li> <li>- Periodic review of the Investment Policy Statement</li> <li>- Authorizes and approves changes to the Investment Policy Statement</li> <li>- Monitor investment results on a periodic basis and formally review investment results at least once each fiscal year</li> </ul>
<b>Finance Committee</b>	Coordinates investment activities, institutional direction, and strategic initiatives	<ul style="list-style-type: none"> <li>- Implement and manage the Investment Policy Statement</li> <li>- Designate and monitor investment managers and plan administrators</li> <li>- Review, change and implement the donor investment options</li> <li>- Monitor investment related fees and expenses</li> <li>- Monitor investment results on a periodic basis and formally review investment results at least once each fiscal year</li> <li>- Select the investment options for accounts managed by the Foundation</li> <li>- Review the investment policy statement at least once each fiscal year</li> <li>- Provide periodic reports to the board and make recommendations for changes to the Investment Policy Statement</li> </ul>
<b>Investment Advisor</b>	Supports the Board and Finance Committee in the development and execution of investment strategy	<ul style="list-style-type: none"> <li>- Complies with the investment policy, guidelines, restriction</li> <li>- Constructs / revises the investment policy and guidelines</li> <li>- Recommends asset classes and asset allocation ranges / targets</li> <li>- Seeks return within acceptable risk parameters</li> <li>- Provides capital markets / asset class information as needed</li> <li>- Rebalances the Fund, as appropriate</li> <li>- Generates desired performance reports</li> <li>- Supports Finance Committee requests</li> <li>- Retains / dismisses investment and money managers for the Fund</li> </ul>
<b>Custodian Bank</b>	Safeguards specified financial assets	<ul style="list-style-type: none"> <li>- Controls access to assets</li> <li>- Settles trades efficiently</li> <li>- Collects investment income and principal</li> <li>- Collects and disseminates fund statements</li> <li>- Provide book of record, audit, and tax information</li> </ul>

Except as otherwise delegated by the Board, only the Board shall make all determinations relating to grants of funds.

The Finance Committee will be responsible for adopting a recommendation for the Funds' investment strategy and overall management, as set forth in this IPS. The Investment Advisor will be responsible for the recommendation of an investment strategy, and, once adopted, the management and implementation of the selected strategy.

The Board and Finance Committee recognize that this IPS requires periodic reexamination and, if necessary, revision, if it is to continue to effectively produce the intended strategic results. If it is determined that this IPS needs to be amended, it is the mutual responsibility of the Investment Advisor and the Finance Committee to initiate written communication to effect such change. Any changes should be recommended by the Finance Committee and approved by the Board of Trustees.

### **III. Investment Goals & Philosophy**

The Organization has periodically reviewed and confirmed its investment goals and philosophy, which are set forth below:

- Clear and systematic decision making processes deliver more consistent performance over time;
- The bias of the investable assets is toward being substantially fully invested over time;
- That equity investments will provide greater long-term returns than fixed income investments, although with greater short-term volatility;
- That it is prudent to diversify the Fund across the major asset classes;
- That investment managers with active mandates can reduce portfolio risk and potentially add value through security selection strategies;
- That passive management can be appropriate in certain asset classes, and that a portion of the Fund may be invested in passive mandates;
- That it may be appropriate to select more than one investment manager in any one asset or sub-asset class, provided that such managers can offer asset class or style diversification; and,
- That it is prudent to consider the Organization's 501(c)(3) tax status (including the applicability of UBIT).

## **Objectives and Constraints**

### **IV. Statement of Goals**

The Arlington Community Foundation ("Foundation") receives contributions both as unrestricted funds that can be used to support of the Foundation's programs, initiatives and operations, and as restricted funds that can be granted out by the Foundation as the fund agreement with the donor or agency fund holder provides. Regardless of fund type, the Board of Trustees is ultimately responsible to maintain the highest standards and investment protocols to maximize the investment performance for the Foundation and its donors.

### **V. Spending Policy**

The Arlington Community Foundation's spending policy defines the percentage of an endowment that may be spent annually. It has three primary objectives:

- Preserve the purchasing power of the gift/principal over the long-term (i.e. the original gift plus inflation).

- Provide consistent grantmaking dollars during good and bad economic times (i.e. smooth fluctuations that result from market ups and downs).
- Balance the community's short- and long-term needs for a perpetual stream of grantmaking dollars.

The amount to be spent in the coming fiscal year is calculated as of March 31 portfolio values and is reviewed and approved as part of the budgeting process by the Foundation's Board of Trustees annually based on the recommendation of the Finance Committee. The calculation is as follows:

1. A 12-quarter rolling average of the market value of the assets is determined.
2. The total amount to be spent for grants, scholarship and administration will be 5% of the market value of the assets as determined in #1 above.
3. That percentage, currently set at 5%, will be reviewed on an annual basis and adjusted as needed to achieve the goals outlined in the spending policy. The factors to be considered in this assessment are outlined below

Annual review of the spending rate will be conducted in conjunction with the review of the investment policy statement. The goal is to ensure the Arlington Community Foundation is not inappropriately accumulating assets, nor experiencing accelerated principal erosion. In making annual recommendations to the Board of Trustees, the Finance Committee considers factors such as general economic conditions, the possible effects of inflation or deflation, and the expected return of the portfolio over long periods of time.

All new funds subject to the spending policy must have at least 3 quarters of market value history as of March 31 for the Foundation to make the distributable income calculation and begin making distributions.

Inflation will be measured using the Consumer Price Index (CPI) published by the Bureau of Labor Statistics

## **VI. Investment Options**

The Finance Committee is responsible for selecting the investment options for all funds managed by the Organization excepting those donor-advised, donor-designated, scholarship or agency funds with active donors or designated advisors. A donor or agency fund holder may recommend investment options for each fund a donor establishes. The investment options recommended should take into account the grant making and distribution plan for that particular fund.

Participation in the recommendation of an investment option is open to the donor or its designated advisor, or the agency fund holder, as applicable. Changes to a fund's investment option can be requested by the donor or its designated advisor, or the agency fund holder, as applicable, on an as needed basis. The recommendation for a change to the investment option must be in writing, signed by the donor or its designated advisor, or a duly authorized person on the behalf of the agency fund holder, as applicable. Electronic requests for investment option change will be accepted as well.

### Long-Term Option(80/20):

The asset allocation for this investment option is approximately 80 percent equities, and 20 percent fixed income. The objective is to grow the principal while providing some current income. This investment option is best suited for funds with a long-term investment horizon. There is greater exposure to equity market risk than interest rate risk.

### Medium-Term Option (50/50):

The asset allocation for this investment option is approximately 50 percent equities and 50 percent fixed income. The objective is to provide a balance between current income and growth of principal. This investment option is best suited for a fund that desires an income stream and growth of principal through some exposure to the equity market. There is exposure to both equity market risk and interest rate risk.

### Short-Term Option (25/75):

The asset allocation for this investment option is approximately 25% equities and 75% fixed income. The objective is to provide income with modest growth of principal. This investment is best suited for a fund that desires an income stream and modest growth through limited exposure to the equity markets. This is exposure to both equity market risk and interest rate risk.

### Cash Option:

The allocation for this investment option will be 100% cash or short-term investment equivalents, including but not limited to: money market funds, bank sweep vehicles, etc.

## **VII. Return Objectives**

The return objective of each investment option will be based around the strategic asset allocation and prevailing long term market expectations.

<u>Option</u>	<u>Allocation Target (%)</u>	<u>Long Term Return Objective (%)</u>
<b>Long Term</b>		
Total Equity	<b>80</b>	8
Total Fixed Income	<b>20</b>	
<b>Medium Term</b>		
Total Equity	<b>50</b>	6
Total Fixed Income	<b>50</b>	
<b>Short Term</b>		
Total Equity	<b>25</b>	5
Total Fixed Income	<b>75</b>	

## **VIII. Risk Tolerance**

The Finance Committee is expected to ensure the Funds are diversified in order to minimize the risk of large losses and to manage volatility of asset classes and investment styles by overseeing the work of the Investment Advisor. The Investment Advisor is expected to invest Fund assets in accordance with the standard of care set forth in the investment management agreement between such Investment Advisor and the Fund and to seek reasonable diversification where possible.

The Organization recognizes that, over the long term, the risk of owning equities has been and is expected to continue to be rewarded with a relatively greater return than what has been historically available from fixed income investments. The role of fixed income investments is to reduce the volatility of the overall portfolio, while providing a predictable stream of income. The Organization expects the Finance Committee to follow these accepted investment principles in oversight of the assets of the Fund.

## **IX. Time Horizon**

The Time horizon for each fund option are as follows:

The Long-Term option will have a time horizon of at least 5 years into perpetuity.

The Medium-Term option will have a time horizon of three to five years.

The Short-Term option will have a time horizon of three years or less.

The Cash option will have a variable time horizon.

## **X. Liquidity Requirements**

Generally, the Board expects that the Finance Committee will determine the Organization's anticipated spending needs and the amount that should be held in a cash reserve and excluded from investable assets.

## **XI. Unique Circumstances**

Unless restrictions are provided for in the fund agreement, monies in a fund may be used to support the Organization's programs, initiatives, and operations. Where any monies are accepted with restrictions, to the best of the Organization's ability, the fund will be administered in accordance with those restrictions.

## Portfolio Parameters

### **XII. Strategic Asset Allocations and Benchmarks**

The Finance Committee believes that the most significant decision to affect the ability of the Fund to meet its objectives is asset allocation. With that in mind and based on the investment objectives and risk tolerances stated herein, the following asset mix targets and ranges are considered appropriate for each fund.

#### **Long-Term Option:**

#### **Primary Evaluative Index(es)**

#### **Total Portfolio**

1. 80% MSCI ACWI Net / 20% Bloomberg Barclays US Aggregate
2. Style Blended Benchmark

<b><u>Asset Class</u></b>	<b><u>Strategic Long-term Target (%)</u></b>	<b><u>Range (%)</u></b>
<b>Total Equity</b>	<b>80</b>	<b>70-90</b>
U.S. Equity	50	30-60
Developed International	19	10-30
International Emerging Markets	8	0-15
Publicly Traded Real Estate (REITs)	3	0-10
<b>Total Fixed Income</b>	<b>20</b>	<b>10-30</b>
US Core Fixed Income	8	5-20
Non-Core US Fixed Income	8	5-20
International	4	0-12
<b>Cash or Cash Equivalents</b>	<b>0</b>	<b>0-10</b>

#### **Medium-Term Fund:**

#### **Primary Evaluative Index(es)**

#### **Total Portfolio**

1. 50% MSCI ACWI Net / 50% Bloomberg Barclays US Aggregate
2. Style Blended Benchmark

<b><u>Asset Class</u></b>	<b><u>Strategic Long-term Target(%)</u></b>	<b><u>Range (%)</u></b>
<b>Total Equity</b>	<b>50</b>	<b>40-60</b>
U.S. Equity	33	20-45
Developed International	10	0-20

International Emerging Markets	5	0-10
Publicly Traded Real Estate (REITs)	2	0-10
<b>Total Fixed Income</b>	<b>50</b>	<b>40-60</b>
US Core Fixed Income	45	25-55
Non-Core US Fixed Income	0	0-20
International	5	0-10
<b>Cash or Cash Equivalents</b>	<b>0</b>	<b>0-15</b>

**Short-Term Fund:**

**Primary Evaluative Index(es)**

**Total Portfolio**

1. 25% MSCI ACWI Net / 75% Bloomberg Barclays US Aggregate
2. Style Blended Benchmark

<b><u>Asset Class</u></b>	<b><u>Strategic Long-term Target (%)</u></b>	<b><u>Range (%)</u></b>
<b>Total Equity</b>	<b>25</b>	<b>15-35</b>
U.S. Equity	20	10-35
Developed International	3	0-15
International Emerging Markets	2	0-10
<b>Total Fixed Income</b>	<b>75</b>	<b>65-85</b>
US Core Fixed Income	65	55-75
Non-Core US fixed Income	0	0-10
International	10	0-15
<b>Cash or Cash Equivalents</b>	<b>0</b>	<b>0-15</b>

Cash Option: The benchmark for the cash option, shall be the US 90 Day T-bill index.

It is the responsibility of the Investment Advisor to monitor asset allocations and to make adjustments in their Portfolios, as necessary, to achieve on-going allocation consistency with the guidelines for the Portfolio set forth in this IPS. It is the responsibility of the Finance Committee to monitor asset target allocations with respect to the Fund as a whole to maintain compliance with the objectives set forth in this IPS.

### **XIII. Selection and Retention Criteria for Investments**

The Finance Committee will appoint Investment Advisor following a systematic search for those with demonstrated skill in the discipline desired. Investment Advisor will have discretion to manage their respective Portfolios in accordance with the style for which they are employed, subject to the restrictions and limitations in this IPS.

Investment funds and managers will be chosen and retained by the Investment Advisor using criteria including, but not limited to, the following:

- The investment style and discipline of the proposed Investment Manager
- Past performance, considered relative to benchmarks having the same investment objective – consideration shall be given to both rankings over various time frames and consistency of performance
- The historical volatility and down-side risk of each proposed investment
- The size of the organization as measured by the amount of assets under management with respect to the investment style under consideration
- Experience of the organization as measured by the tenure of the professionals with respect to the investment style under consideration

The Investment Advisor will monitor managers for consistent investment process, performance, and risk including but not limited to key personnel and operational risks.

With regard to managers with active mandates, their selection and retention within the portfolio will be predicated on whether or not they fulfill the purpose for which they were selected. If the purpose is:

- risk management, the manager will be evaluated as to how well downside protection is provided and at what cost to upside participation;
- security selection, the manager will be evaluated relative to an appropriate benchmark.

The Investment Advisor will monitor active managers and mandates to determine whether or not value is added relative to the intention or to a passive mandate. If the Investment Advisor determine that it is not, a passive investment vehicle will be selected for that part of the allocation.

### **XIV. Types of Securities**

The Board and Finance Committee recognize that risk and volatility is present with all types of investments and, in performing their respective fiduciary duties for the Organization, they should avoid high levels of relative risk in every asset class. To this end, the Finance Committee should ensure that the Fund manages risk appropriately through diversification by asset class, sector, industry and issuer limits, maturity limits and, to the extent possible, management style. If mutual funds are utilized, their investment objectives should be consistent with this IPS.

#### Restricted Investments:

The limitations and restrictions in this section shall be implemented and monitored by the Finance Committee with respect to the Fund as a whole and by each Investment Advisor with respect to their

Portfolio. With the exception of being within pooled investment vehicles, direct exposure to the following strategies and types of securities is prohibited:

- oil and gas wells;
- interest only securities;
- warrants;
- principal only securities;
- margin trading; and,
- inverse floating rate securities.

## **XV. Portfolio Rebalancing**

The purpose of the rebalancing is to help control risk and maintain asset allocation within the ranges set forth in this IPS. The Finance Committee will be responsible for keeping the Fund as a whole, and Investment Advisor will be responsible for keeping their Portfolio, within the established tolerance levels around the targeted strategic asset allocation. While it is at the Investment Advisor(s) discretion as to the frequency with which they rebalance their Portfolio to the targeted levels, it is understood that asset weight drift that exceeds the tolerance thresholds will be promptly corrected.

# **Risk Management**

## **XVI. Control Procedures**

### Review and Evaluation of Investment Objectives

The achievement of the investment objectives in this IPS shall be reviewed at least on an annual basis by the Finance Committee, and reported to the Board of Trustees. This review will focus on the continued feasibility of achieving the objectives and the continued appropriateness of this IPS. It is not expected that this IPS will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in the IPS.

### Review and Evaluation of Investment Advisor:

The Finance Committee will meet periodically with the Investment Advisor(s) or their representative(s). Additionally, with or without the Investment Advisor(s), the appropriate committees will review investment results on an established basis.

These reviews will focus on:

- The Investment Advisor's adherence to this IPS;
- Comparison of the Investment Advisor's results to the benchmark established for their Portfolio;
- Material changes in the Investment Advisor's investment philosophy or changes in personnel managing the Fund.

Termination of an Investment Advisor should be considered under the following circumstances:

- Deviation from this IPS.

- Deviation substantially from the Investment Advisor(s)' investment disciplines and process.

## **XVII. Performance Objectives**

Each Investment Pool's investment performance will be reviewed on a quarterly basis, with long-term emphasis placed on results achieved over a full market cycle (typically three-to-five year period). This IPS will be reviewed annually and adjusted, if necessary, after consultation with the Finance Committee. Investment Advisor progress will be measured against this IPS and for consistency with the total return objectives for the Advisor's Portfolio; performance will be reflected net of management fees.

With regard to performance benchmarking, the Fund and each Investment Pool will be measured against a blended index of the component parts used to measure the equity, fixed income, and alternative asset allocations, as/if applicable. This blend will be weighted by the targeted strategic allocation proposed for the Fund and each Portfolio, as outlined in this IPS.

## **Client Service**

### **XVIII. Communication**

The Investment Advisor is responsible for frequent and open communication with the Finance Committee on all material matters pertaining to the investment of the Fund.

The Investment Advisor will promptly notify the Finance Committee of changes in market conditions which may materially impact the Fund. The Finance Committee will notify the Investment Advisor promptly of any changes in the Fund or this IPS.

### **XIX. Reporting**

The Investment Advisor will provide comparative performance evaluation reports on a quarterly basis. In addition, the Custodian will provide quarter-end regular accounting of transactions, Fund holdings, yields, current market values, summary of cash flows, and calculations of the Fund's total rate of return.

The Investment Advisor and/or Custodian will forward to the Chief Executive Officer, as they become available, monthly reports containing Fund activity and asset holdings at book and market values. Quarterly, the Investment Advisor should submit tactical and strategic updates regarding the Fund's management for performance evaluation purposes.