OAK PARK/RIVER FOREST COMMUNITY FOUNDATION

INVESTMENT POLICY STATEMENT

EFFECTIVE DATE: April 14, 2015

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INVESTMENT POLICIES

I. General

a. **Purpose of this Investment Policy Statement**: The purpose of this Investment Policy is to provide guidance to the Board of Directors of the Oak Park-River Forest Community Foundation ("Foundation") and its Finance & Investment Committee ("Committee") in the investment and management of the Foundation's funds, including gifts received from donors for specific purposes and with specified grantmaking requirements, and agency accounts created to provide distributions to specifically named organizations, designated for investment ("Investment Funds").

b. **Overall Investment Objective**: There are three types of accounts managed by the Foundation. Those that are short-term in nature (pass-through accounts), those that are restricted for a specific purpose, and those that have a perpetual time-horizon. The Foundation seeks to achieve the annual spending policy objective for each account, while maintaining the future purchasing power of the distributions in light of inflation at an acceptable level of risk to achieve the objectives of each account within the Investment Funds. The guidance provided herein is provided for the accounts with a perpetual time-horizon. Those accounts that are short-term in nature or are restricted for a specific purpose, may be invested to accomplish the stated time-horizon objectives for each of those accounts.

   Guidelines to achieve the investment objective are to:

   1. use a prudent investment, total return approach (capital appreciation and dividend/income);
   2. implement a long-term time horizon, expecting the Foundation and its Investment Funds to exist in perpetuity; and
   3. apply, when appropriate, the Uniform Prudent Management of Institutional Funds Act as adopted into Illinois Law in June, 2009.

c. **Spending Policy Objective**: The amount available for spending each year is calculated from a rolling average of the past three (3) year's year-end market value of the portfolio of each fund. The amount to be spent in the coming year is calculated by January 30 of each year. The spending rate is determined by the Investment Committee and then reported to the Board of Directors. Barring extraordinary changes in the economic and investment environments, the spending rate will be between 4% and 6%.

II. Investment Risk Considerations: The greatest risk the Investment Funds face is the probability of not meeting the Spending Policy Objectives over the long-term time horizon. Minimizing this probability is a leading objective. Therefore, the Committee and the Investment Advisor and/or Investment Manager must consider the following risks in all aspects of decision making with regard to the Investment Funds.

a. **Risk of Erosion of Spending Power**: Probability of a significant decline in principal.
b. **Liquidity Risk**: Probability of a significant decline in assets available for distribution.
c. **Volatility Risk**: Probability of a significant change in the Investment Funds' asset value.

III. Asset Allocation

a. **Strategic and Target Allocations**: To achieve its objective, and in conjunction with the Investment Advisor/Manager, the Committee has established a long-term strategic asset allocation. The target asset allocation is specified with the strategic range in the attached addendum. Individual accounts are permitted to vary from the stated target allocation based on a donor or agency request, so long as the entity understands the rationale for the recommended target and the potential impact on deviating from the recommended amount. Definitions for the three Asset Categories are:

    1. **Return-Seeking Assets**: Assets that are expected to generate more growth but also more volatility than cash or bonds. This category may include, but not be limited to, exposure to US, developed international, emerging markets and frontier markets stocks; large-cap, mid-cap, and small-cap stocks; and high yield bonds (US, non-US, corporate, Treasury, and sovereign).
    2. **Risk-Mitigating Assets**: Assets that are expected to provide stability and income, serving to counterbalance the higher volatility of return-seeking assets. This category may include, but not be limited to, exposure to high credit quality, short and intermediate duration bonds (US, non-US, corporate, Treasury, Sovereign, and inflation-protected).
    3. **Diversifying Assets**: Assets that are expected to provide diversification against both return-seeking and risk-mitigating assets. This category may include, but not be limited to, exposure to Real Assets (real estate investment trusts, commodity futures and stocks of commodity-producing companies) and diversified hedge funds, including funds of funds.

b. Diversification: It is the policy of the Foundation to maintain investment portfolios that emphasize prudent diversification in security types, classes, issuers and obligors, industries, maturity dates, and objectives of the Investment Funds.

c. **Stability**: Within the asset classes and categories described above, the Investment Advisor and/or Manager will seek exposure to investments with greater consistency of total return (income and appreciation).

d. **Type of Investments**: Exposure to the above asset classes may be gained through individually managed accounts (separately managed accounts; SMAs) or through investments in mutual fund or other collective investment vehicles. The investment vehicles may engage in either active or passive management styles, including but not limited to exchange-traded funds (ETFs).

e. **Rebalancing**: Inevitably, the Investment Funds will drift from the long-term strategic targets through the normal and imperfectly correlated returns of the various asset categories and classes. This will be remedied in accordance with the internal rebalancing rules of the selected investment firm. Furthermore, cash-flows (contributions, withdrawals, distributions) generally should be used to revert toward the target asset allocation, whenever possible. Exceptions to periodic rebalancing may be appropriate or necessary for assets that either are intended to be held as part of a buy-and-hold strategy or are otherwise subject to structural constraints on liquidity, e.g., annual withdrawal or distribution amounts, etc. Additionally, on a periodic basis, at least semi-annually, the Investment Committee should informally determine whether the allocations need to be strategically or tactically re-allocated, and should review and assess the asset allocation targets with the Investment Advisor/Manager. The Investment Committee will formally review the Asset Allocation during its annual review of this Investment Policy.

IV. Impact Investing

a. Definition: "Impact investments are **investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return**. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances." – GIIN (Global Impact Investing Network).

b. Use: The Finance & Investment Committee will consider opportunities to invest not more than 10% of the unrestricted marketable assets within the purview of the Community Foundation. The assets so invested will be taken from the general asset allocation of the Foundation assets as appropriate based upon the character of the investment. For example, some investments may be characterized as equity investments; others may be characterized as loans.

c. Governance: A subcommittee of the Finance & Investment Committee will be created called the Impact Investment Committee. That Committee will contain individuals who have an understanding of impact investing. They may or may not be members of the Community Foundation Board of Directors. The Impact Investment Committee will report to the Finance & Investment Committee and will have its sole purpose of reviewing, recommending, and monitoring any impact investments made by the Community Foundation.

V. Roles and Responsibilities

a. **Finance & Investment Committee**: The Board of Directors of the Foundation has appointed a Finance & Investment Committee per its By-Laws. Per Article 8, Section 8.5 of the Foundation's By-Laws, the Committee has fiduciary responsibility to develop, monitor, and ensure the implementation of financial and investment policies; recommend to the Board the selection of investment advisors and/or investment managers; delegate the management and investment of the Investment Funds, as prudent to do so, to the selected investment advisors and/or investment managers; prescribe asset allocations; and establish investment objectives and monitor investment performance against those objectives.

b. **Investment Advisor and/or Investment Manager**: The Investment Advisor and/or Investment Manager will be retained to oversee (if Advisor) or directly manage (if Manager) the execution of this Policy to achieve the stated objectives. The Investment Manager may be granted full investment discretion regarding the purchase and sale of individual securities or investments within their investment style and consistent with the objectives and directions of the Investment Committee, and within the strategic asset allocation range as articulated in the attached addendum. It is in the discretion of the investment Committee whether to enter into a separate account relationship with a particular Investment Manager or to purchase an interest in a fund vehicle offered by the Investment Manager, based upon the offer of the Investment Manager and other applicable factors. The Foundation will sign an Investment Management Agreement with every duly authorized investment manager.

c. **Foundation Staff**: Foundation Staff will be responsible for providing support, information, and recommendations to the Committee with respect to its responsibilities, including

VI. <u>Investment Restrictions</u>

a. **Concentrations**:

1. No more than 10% of the market value of a portfolio may be invested in a single issuer (equities and fixed income combined) except those of the U.S. Government or its agencies.
2. No investment may be made in the securities of any one issuer if, after purchase, the sum of the values of the equity and fixed income securities of that issuer owned by the Investment Funds would represent more than 5% of the outstanding equity securities and fixed income obligations of that issuer.

b. **Receipt of Gifts of Marketable Securities**

1. It is the policy of the Foundation to invest cash gifts immediately into an interest earning investment until such time as the donor's investment goals can be determined, and to sell a

gift of marketable securities, upon confirmation of ownership transferring to the Foundation, for cash as soon as practicable.

2. Retention of Securities: Should a donor request the Foundation to retain donated securities, Foundation Staff and the Committee will review the securities and terms of retention prior to accepting. Should the Foundation deem the retention prudent and appropriate to accept, the Committee will review the asset holding on no less frequently than annually to determine whether it remains a prudent asset to hold. If at any time the retention of the securities becomes imprudent, for whatever reason, the Foundation will dispose of the asset within a reasonable time.

c. Excess Business Holdings

The Pension Protection Act of 2006 (PPA) applies the private foundation excess business holdings rules to Donor Advised Funds (DAFs). As such, holdings of a business enterprise owned by DAFs and persons who are disqualified persons with respect to that fund, must be combined and, together, must not exceed:

1. 20% of the voting stock of an incorporated business
2. 20% of the provides interest of a partnership or joint ventures or the beneficial interest of a trust or similar entity

DAFs receiving gifts of interests in a business enterprise after the date of the PPA's enactment (August 17, 2006) will have five years to divest holdings that are above the permitted amount, with the possibility of an additional five years if approved by the Secretary of the Treasury. The PPA and all of the definitions contained within are hereby incorporated into and made a part hereof this Investment Policy Statement.

VII. <u>Performance Evaluation and Benchmarks</u>

a. **Performance Reporting:**

1. While performance is measured on both a short-term and a long-term basis, because of the long-term time horizon adopted by the Foundation and its Investment Funds,, the focus and emphasis of performance evaluation is on longer time periods, generally three to five year periods, or a market cycle, whichever is greater. The Investment Committee and the Foundation Staff will monitor Investment Managers on an ongoing basis to ensure consistency of investment philosophy, implementation, organizational structure, and performance.
2. The Investment Advisor/Managers is expected to provide monthly statements and quarterly performance reports including the following items:
    a. Performance against the selected benchmarks as well as broad categories;

b. Portfolio characteristics, summarized by key investment factors;
c. Portfolio holdings in total, where possible; and
d. Valuation.

b. **Benchmarks:** Benchmarks are clearly stated to match each asset category selected within the attached Addendum. Review of the benchmarks in line with the asset classes and categories they represent will be conducted by the Investment Committee annually.

VIII. <u>Conflicts of Interest</u>

The Investment Committee members annually sign the Code of Conduct Form for the Foundation. In that form, members must disclose any relationships they may have that could create an actual or perceived conflict of interest with any of the vendors, including Investment Advisor or Investment Managers.

IX. <u>Confidentiality</u>

Members of the Investment Committee, Foundation Staff, Investment Advisors and Investment Managers involved with the Investment Funds are expected to maintain the confidentiality of information obtained by virtue of their positions. Information obtained solely by virtue of one's position is not to be used for personal financial purposes, or to be shared external to the individuals within the same positions.

Oak Park-River Forest Community Foundation
Investment Policy Statement Addendum
Adopted April 15, 2015

Long-Term Strategic Asset Allocation Targets:

Asset Category	Target Asset Allocation Exposure	Allowable Range	Benchmark
Return-Seeking Assets (Equity)	**65%**	**55% – 75%**	
U.S. Large Cap			
U.S. Mid Cap			
U.S. Small Cap			
Developed International			
Emerging Markets			
High Yield Bonds			
Risk-Mitigating Assets (Bonds)	**25%**	**15% – 35%**	
U.S. Fixed Income			
Non-U.S. Fixed Income			
Corporate			
Global Fixed Income			
Cash & Short Term			
Diversifying Assets (Alternative Investments	**10%**	**0% – 20%**	
Hedge Funds			
Private Equity			
Real Estate/REITs			
Commodities			
Program Related Investments			
Total	**100%**		