



INVESTMENT POLICY STATEMENT

The Kitsap Community Foundation (“the Foundation”) is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and is classified as a public charity. The Foundation was established to work in partnership with donors to strengthen communities in Kitsap County and surrounding areas. Its vision is a community with a vibrant culture of philanthropy that maximizes the work of thriving nonprofits. Because the Foundation expects to operate in perpetuity, wise stewardship of the funds entrusted to it is essential to the Foundation’s mission.

The Foundation manages its endowed and operational assets, as well as custodial funds, according to guidelines established by the Board of Directors (“the Board”). This Investment Policy is set forth so that the Board, the Investment Committee, and any investment consultant or investment manager can clearly understand the nature, purpose and goals of the Foundation. It is to be used as a guideline to assist the Board, the Investment Committee, any future investment consultant and any investment manager. It should not be considered a legal document or contractual obligation.

The Board and the Investment Committee acknowledge the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted in Washington effective July 1, 2009, and affirm that all action taken with respect to investment and spending of the Foundation’s assets will be in accordance with its provisions.

All managers, including Outside Investment Managers, shall be provided a copy of and shall agree to adhere to this Policy as a condition of continued service on behalf of the Foundation.

1. Introduction.

- 1.1 The Kitsap Community Foundation currently manages separate, commingled pools of assets with different objectives and time horizons. This Investment Policy is intended to establish the roles and responsibilities of all parties involved with these pools, objectives of the different pools, investment guidelines, investment manager selection criteria and reporting requirements.
- 1.2 The management and oversight of all assets held by the Foundation will be done with care, skill, prudence, and diligence under the prevailing circumstances that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like aims. The Board, members of the Investment Committee, and any contracted third parties, shall discharge their duties solely in the interest of the Foundation. Any potential conflicts of interest with this sole interest shall be immediately disclosed to both the Board and the Investment Committee.

2. Roles and Responsibilities.

2.1 The Board of Directors shall:

- 2.1.1 Approve the members of the Investment Committee. The Treasurer of the Foundation shall serve as Chair of the Investment Committee. The Chair of the Board and the President and CEO of the Foundation shall be ex-officio members of the committee. Other committee members may be community members who are not members of the



Board. All members of the committee, with the exception of the President and CEO, are voting members.

- 2.1.2 Approve the Investment Policy and all amendments thereto.
- 2.1.3 Review an annual report prepared by the Investment Committee analyzing each asset pool's performance relative to the Investment Pool Objectives as well as compliance with the Asset Allocation Guidelines. This report will also analyze each third party manager (as may be contracted) on the same basis.
- 2.1.4 Approve the engagement of any third party investment manager based on recommendations by the Investment Committee.

2.2 The Investment Committee shall:

- 2.2.1 Develop the Investment Policy, including performance objectives and guidelines for each asset class. Investment performance will be monitored against these guidelines
- 2.2.2 Develop recommendations for asset classes, their target allocations and allowable range, and for annual spending percentages.
- 2.2.3 Review the investments quarterly to ensure that policy guidelines continue to be met. The Committee shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks. The Committee shall also monitor portfolio characteristics and portfolio performance attribution. The information for these reviews may come from staff, outside advisors, the custodian, and the Foundation's investment managers.
- 2.2.4 Take appropriate action if investment objectives are not being met or if policies and guidelines are not being followed. Reviews of portfolios managed by external managers will focus on:
 - Compliance with the Foundation Investment Policies, Investment Objectives, Investment Guidelines Statement and the Investment Manager Reporting Requirements.
- 2.2.5 Review externally managed portfolios, focusing on material changes in the managers' organizations, such as investment philosophy or process, personnel changes, acquisitions or losses of major accounts, etc. External managers will be responsible for keeping the Foundation advised of any material changes in personnel, process, investment strategy, or other pertinent information potentially affecting performance.
- 2.2.6 Administer the Foundation's investments in a cost-effective manner. These costs include, but are not limited to: management, consulting and custodial fees, transaction costs and other administrative costs chargeable to the Foundation.
- 2.2.7 Be responsible for selecting a qualified custodian as defined by the ability to handle investments, transactions, and strategies authorized by this policy. For mutual and other commingled funds, responsibility for selecting a qualified custodian resides with the investment manager of that mutual or commingled fund.



- 2.2.8 Provide overall monitoring of Investment Managers and ensure that Investment Managers conform to the terms of their contracts and that their performance monitoring systems are sufficient to provide Management with timely, accurate and useful information.
- 2.2.9 Meet at least twice a year. The fall meeting will be scheduled in November to review investment performance during the fiscal year ended September 30 and to review the Investment Policy, the Investment Manager's performance, and the annual report to the Board. The agenda for a May meeting will include the review of investment performance and the Foundation's Endowment Spending Policy. Each Committee member is expected to review quarterly investment reports and report to the Committee, via email in the absence of a quarterly meeting, their assessment of performance relative to the policy guidelines.

2.3 Staff and Treasurer shall:

- 2.3.1 Implement the investment plan as directed by the Investment Committee.
- 2.3.2 Rebalance the pools to maintain the proper diversification within the ranges approved by the Investment Committee and in accordance with the guidelines.
- 2.3.3 Execute any documents necessary to facilitate implementation of this policy, including but not limited to contracts with advisors and investment managers for providing services.
- 2.3.4 Provide for the collection and investment of contributions and investment income, and the payment of expenditures for the management of the Endowment.

3. Investment Pool Description/Objectives.

The Foundation manages two separate pools of assets: a Long-Term Pool and a Short-Term Pool.

- 3.1 The Long-Term Pool's investment objective is to assure a long-term rate of growth sufficient to offset normal inflation, expected administrative and investment management fees, plus reasonable, regular distributions as described in the Endowment Spending Policy.
 - 3.1.1 **Performance Goal.** The time weighted total return (before contributions and withdrawals) shall approximate the average return of appropriate capital market indices, weighted by the asset allocation target percentages, net of all investment fees and expenses, without increasing the short-term risk characteristics, over rolling five-year periods.
- 3.2 The funds held in the Short-Term Pool are intended to be disbursed within one year. The objective of this pool is to preserve capital until funds are disbursed.
 - 3.2.1 **Performance Goal.** Attain low-risk, money market returns.

4. Investment Guidelines.



Inherent in the guidelines for each “Pool” is that the risk profile of each pool, and the resultant short-term volatility as measured by standard deviation of return, shall not exceed the short-term volatility of the target allocation weighted return of each pools’ index.

- 4.1 **Asset Allocation.** It is the policy of the investment program to invest according to an asset allocation strategy that is designed to meet the Performance Goals. The strategy will be based on a number of factors, including:
- The projected spending needs plus expenses;
 - The maintenance of sufficient liquidity to meet spending requirements;
 - Historical and expected long-term capital market risk and return behaviors; and
 - The relationship between current and projected assets of the fund and its spending requirements.

4.1.1 **Target Allocation and Allowable Ranges**

<u>Asset Class</u>	<u>Target Wt.</u>	<u>Min. Wt.</u>	<u>Max Wt.</u>	<u>Benchmarks</u>
<i>Long-Term Pool</i>				
Total Portfolio				45% S&P 500 Index 15% MSCI All World Country Index 40% Barclays Cap Intern Gov’t Credit Index
Equities	60%	40%	80%	70% S&P 500 Index 30% MSCI All World Country Index
Large Cap Equity		15%	40%	Lipper Large Cap Core Index S&P 500 Index
Mid Cap Equity		0%	15%	S&P Mid Cap 400 Index
Small Cap Equity		0%	15%	Russell 2000 Value Index
International		0%	30%	MSCI EAFE Index MSCI All World Index
Fixed Income	40%	20%	60%	Barclays Cap Intern Gov’t Credit Index
Alternative Investments	0%	0%	17%	DJ UBS Commodity Trust Index (for Commodities)
Real Estate	0%	0%	6%	Lipper Global Real Estate Fund Index
Cash/Cash Equivalents	0%	0%	10%	Lipper Money Market Index
<i>Short Term Pool</i>				
Cash/Cash Equivalents	100%	100%	100%	Lipper Money Market Index

4.2 **Asset Classes.**



- 4.2.1 **Equity Securities.** The purpose of Foundation equity investments, both domestic and international, is to provide long-term capital appreciation with the recognition that this asset class carries with it the assumption of greater market volatility and higher risk of loss than is assumed with fixed income or cash equivalent investments. This component includes domestic and international common stocks, American Depository Receipts (ADRs), preferred stocks, and convertible stocks traded on the world's stock exchanges or over-the-counter markets.

Public equity securities shall generally be restricted to a broadly diversified portfolio of readily marketable securities of corporations that are traded on the major stock exchanges, including NASDAQ. Equity holdings must generally represent companies meeting a minimum market capitalization requirement of \$100 million with reasonable market liquidity. Decisions as to individual security selection, number of industries and holdings, current income levels and turnover are left to broad manager discretion subject to the standards of fiduciary prudence. However, no single economic sector (as defined by Standard and Poors) shall represent more than 30% of the Fund's total target equity allocation, nor more than double the S&P 500 sector weighting (whichever is smaller), and no single security shall represent more than 5% of the Fund's total market value. International stocks (not including ADRs) shall not represent more than 30% of the (target) market value of equities.

Investment Managers, including the Investment Committee, are prohibited from borrowing money or pledging assets, or trading uncovered options, commodities or currencies without the advance approval of the Board of Directors. Managers are also restricted from investing in private placements, hedge funds, and restricted stock unless otherwise permitted by the Board. It is expected that no assets will be invested in securities whose issuers are or are reasonably expected to become insolvent, or who otherwise have filed a petition under any state or federal bankruptcy or similar statute.

Within the above guidelines and restrictions, Managers will have complete discretion over the timing and selection of equity securities.

- 4.2.2 **Fixed Income Securities.** The purpose of fixed income investments is to provide diversification, and a predictable and dependable source of cash flow. It is expected that fixed income investments will not be totally dedicated to the long-term bond market, but will be flexibly allocated among maturities of different lengths. Fixed income instruments should reduce the overall volatility of the Fund's assets, and provide a deflation hedge. This component includes, but is not limited to, U.S. Treasury and government agency bonds, U.S. or international corporate debt, mortgages and asset-backed securities.

Investments in fixed income securities should be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums. These investments will be subject to the following limitations:

- The weighted average duration of the fixed income portfolio should be within 15% of the duration of the index to which the portfolio is benchmarked;
- Investments of a single issuer, with the exception of the U.S. Government may not exceed 5% of the total market value of the Fund;



- No more than 5% of the corporate debt securities in the fixed income portfolio may be rated below investment grade, with investment grade defined as securities with a BBB rating or better.

Within the above guidelines and restrictions, the Manager(s) has complete discretion over the timing and selection of fixed income securities.

- 4.2.3 **Cash and Equivalents.** The Investment Manager may invest in the highest quality commercial paper, repurchase agreements, Treasury Bills, certificates of deposit (with maturities of 90 days or less and limited to \$100,000 per institution to preserve FDIC insurance protection), and money market funds to provide income, liquidity for expense payments, and preservation of the Fund's principal value. Commercial paper assets must be rated at least A1 or P-1 (by Moody's or S&P). No more than 5% of the Fund's total market value may be invested in the obligations of a single issuer, with the exception of the U.S. Government and its agencies.

Un-invested cash reserves shall be kept to a minimum. Short-term, cash equivalent securities are usually not considered an appropriate investment vehicle for investment. However, such vehicles are appropriate as depository for income distributions from longer term investments, or as needed for temporary placement of funds directed for future investment to the longer term capital markets. Also, such investments are the standard for contributions to the current fund or for current operating cash.

Within the above guidelines and restrictions, Managers have complete discretion over the timing and selection of cash equivalent securities.

- 4.2.4 **Restrictions.** The Investment Committee is authorized, with prior approval of the Board, to waive or modify any of the restrictions in these guidelines in appropriate circumstance. Any such waiver or modification will be made only after a thorough review of the Manager and the investment strategy involved.

4.3 Excess Business Holdings for Donor Advised Funds

The Pension Protection Act of 2006 ("PPA") precludes donor advised funds ("DAFs") from holding more than a minor interest in a business when the donor, fund advisor, or a related party ("disqualified person") also holds an interest in the business. This is known as the "excess business holdings" rule. Generally, the excess business holdings rule states that a DAF and persons who are disqualified persons with respect to the DAF may not together hold more than a twenty-percent interest in a business enterprise (generally, a corporation, partnership, joint venture, trust or other actively conducted business).

DAFs receiving gifts of interests in a business enterprise after the effective date of the PPA (August 17, 2006) will have five years to divest holdings that are above the permitted amount. The Foundation will identify any potential gift to a DAF that would qualify as an excess business holding and will notify the prospective donor of the PPA requirements prior to the contribution. The Foundation will monitor any such holding and will dispose of any excess business holding prior to the five-year time limit (or within ten years if the Treasury Department grants an additional five-year holding period), as required by law.

5. Third-Party Investment Managers



With the approval of the Board, the Investment Committee shall have authority to engage, replace and dismiss third-party investment managers.

A donor who establishes a fund with \$250,000 or more may request that the fund be managed by an investment manager of their choice. Additionally, a group of donors who wish to set up funds at the Foundation with total combined assets of at least \$250,000, may request that their funds be managed by an investment manager of their choice. The Investment Committee will review the qualifications of the proposed investment manager and make a recommendation to the Board.

5.1 Minimum Selection Criteria. Investment managers retained by the Foundation shall meet the following minimum criteria:

- Be an SEC Registered Investment Advisor
- Have been in business with the same company for a minimum of five (5) years.
- Have demonstrated experience working with not for profit organizations.
- Provide composite historic returns (net of all fees and expenses) of all assets under management for a minimum of the past five years, detailing
 - Time weighted 5-, 3-, and 1-year composite return
 - Time weighted 5-, 3-, and 1-year equity return
 - Time weighted 5-, 3-, and 1-year fixed income returns
 - Sector weighting of current composite equity portfolio
 - Capitalization profile of current equity composite portfolio
 - Quality profile of current (taxable) fixed income composite portfolio
 - Maturity profile of current (taxable) fixed income composite portfolio
- Provide current assets under management
- Describe structure of firm and responsibilities of specific individuals that would work on Foundation account
- Provide fee structure

5.2 Reporting

5.2.1 Quarterly. Third-party investment managers shall provide quarterly written reports containing at a minimum:

- An account statement showing each security held (name/description), cost basis, current market value, and summarizing values by asset class and within equities by economic sector.
- A statement of all purchases and sales (including matured or called fixed income securities) over the previous quarter.
- A statement of income received over the past quarter.
- A statement of realized gains and losses over the current fiscal year to date.
- Performance Analysis showing beginning assets, ending assets, gain or loss, contributions, withdrawals, gain or loss before contributions and withdrawals, and fees paid (not included in withdrawals). Time weighted total return calculation (net of fees) for total account and by asset class, total return for comparative indices. The periods covered shall be preceding quarter and trailing twelve months, and trailing three years.
- A narrative report including but not limited to:
 - Major changes in the Investment Manager's investment outlook, investment strategy, investment process, or portfolio structure;



- Significant changes in ownership, organizational structure, financial condition or senior personnel;
- All pertinent issues which the Investment Manager deems to be of significant interest or material importance.

5.2.2 **As Needed.** Third party investment managers shall meet directly with the Investment Committee on an as needed basis, but not less than once per year.