

# **Harrison County Community Foundation, Inc.**

## **Finance Committee**

### **Purpose and Policies**

**Adopted March 1, 2004**

#### **SECTION I PURPOSE**

- A. The purpose of this committee is to provide financial guidance to the Board of Directors of the Harrison County Community Foundation (HCCF). This responsibility includes, but may not be limited to, the development and maintenance of a budget process and the development and maintenance of Spending and Investment policies.**
- B. The recommendations of this committee for each of the above stated areas of responsibility are subject to the approval of the Board of Directors.**
- C. Each element shall be addressed in separate policy and procedure statements.**

#### **SECTION II BUDGET POLICY**

- A. The Finance Committee shall prepare an annual operating budget for the Foundation. This budget shall be subject to approval of the Board of Directors of the Foundation and shall include all reasonable income and expenses anticipated by the Board.**
- B. This Operating Budget shall be prepared for presentation to the Board of Directors for approval, not later than the monthly board of directors meeting in December each year.**
- C. The budget shall be reviewed by the Finance Committee at least on a quarterly basis. Comparative analysis of the budget with actual expenses shall be reported to the Board of Directors. Interim adjustments may be made, subject to approval by the Board of Directors.**
- D. Required adjustments, based on portfolio performance and funds availability shall be recommended to the Board of Directors for approval.**
- E. Within the board approved budget and considering variables such as service contract, product availability, lowest price, or past service, the executive director may arrange for goods or services of a routine nature not to exceed \$5,000. Multi-year relationships are**

authorized but no goods or services arrangement shall exceed three (3) years without review and may include seeking new comparative pricing.

**F. Goods and services for the Foundation expected to cost more than \$5,000 will be recommended to the Board of Directors by the appropriate committee through competitive bids or comparative pricing by at least two vendors. The committees may consider variables such as service contract, product availability, lowest price, or past service. Multi-year relationships may be approved but no goods or services contract period shall exceed five (5) years without review and may include seeking new comparative bids or quotes.**

**G. Directors & Officers insurance will be held at \$5 million in coverage. The basis for calculating liability insurance coverage will be approximately 4% (4 percent) of the combined total assets. Liability insurance will increase in \$25 million combined total asset increments.**

### **SECTION III SPENDING POLICY**

**A. The objective of the Foundation's spending policy is to allocate total earnings between current spending and reinvestment for future earnings, and to provide a predictable and growing stream of income to accomplish the Foundation's goals and purposes. Achievement of these dual objectives shall ensure that the fund preserves real purchasing power in perpetuity while providing support to eligible activities.**

**B. The spend-able return from Restricted Endowment Funds and Endowed Donor Advised Funds shall be five percent (5%), and Scholarship Endowment Funds shall be four percent (4%) of the funds fair market value, based on a rolling average from the previous twelve (12) quarters. Available income not spent during the year will be carried forward and available for future spending, unless the board of directors approves a written request from an endowment donor or advisor to add any unspent distributable amount to the principle. The Unrestricted assets held with an investment firm or on deposit in a checking account shall not be included for calculating spend-able assets. The Unrestricted Funds held with an investment firm excluding the Building Fund investments may be used to provide matching funds to donor gifts into HCCF endowments.**

**C. Notwithstanding B above, the Foundation may, from to time, vote to approve funding for grants, projects or programs requiring funds greater than allowed by this Spending Policy. Requests to support such grants, projects or programs will be made to the Board of Directors of the Harrison County Community Foundation Supporting Organization, Inc.**

### **SECTION IV INVESTMENT POLICY**

## **OBJECTIVES**

**A. The Foundation's assets must be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity would use in the conduct of an enterprise of a like character and with like purposes. The investment objective shall be to fund the Foundation's Spending Policy while meeting the following long term goals:**

- (1) Preservation of the real purchasing power of the principal;**
- (2) Provide a growing stream of income that keeps pace with the rate of inflation to be used to sustain the operations and grant making capacity of the Foundation. Such income may be derived not only from dividends and interest, but also from realized capital appreciation. The specific objective is to achieve an average annual return equal to the Consumer Price Index plus 5% for the aggregate investments subject to this Investment Policy Statement.**

## **RISK TOLERANCE**

**B. The perpetual nature of the Foundation's existence and its long term investment objective permit the Foundation to assume a reasonable level of risk. Reasonable consistency of return on an annual basis is important to assure the Foundation's ability to sustain a level of operation that shall provide for its continued growth.**

## ***INVESTMENT APPROACH***

### **INVESTMENT MANAGER SELECTION/RETENTION CRITERIA**

**C. The investment objectives of the Foundation shall best be achieved by engaging the services of a professional investment manager, or managers, as deemed appropriate, to advise and direct investments. These managers shall have discretion in the selection of securities within the parameters of this policy.**

**D. Investment manager(s) is/are expected to act in an ethical manner and with integrity in all phases of the investment process. Investment managers shall comply with the Code of Ethics and the Standards of Professional Conduct as established by the Association for Investment Management and Research (AIMR).**

**Selection of managers will be made using the following criteria:**

- Past performance, considered relative to other investments having the same investment objective. Consideration shall be given to both performance rankings over various time frames and consistency of performance.**
- Length of time the fund has been in existence and length of time it has been under the direction of the current manager(s) and whether or not there have been material changes in the manager's organization, personnel, or compensation.**

- **Historical volatility and downside risk of each proposed manager.**
- **How well each proposed manager complements other managers in the portfolio.**
- **The current economic environment and how manager has performed historically in such an environment.**
- **Delegation to an investment management consultant or outsourcing firm to take on the fiduciary responsibility of managing the investment manager search, replace and monitor process is permissible. The Finance Committee shall report to the Board any providers that are recommended for this purpose.**

**E. Risk Aversion.** The Committee recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Fund's objectives. However, the investment managers will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives as compared with an appropriate benchmark.

### **INVESTMENT GUIDELINES**

**F. Portfolio assets may be invested in a mix of common stocks, preferred stocks, investment grade corporate bonds, non-investment grade debt securities, convertible bonds, money market funds, U. S. Treasury and Government Agency obligations, commercial paper, International Government debt obligations and other International debt securities, bank certificates of deposit, and in common trust funds and mutual funds that invest in any of the above mentioned instruments. Comingled pooled fund and mutual fund vehicles will be governed by their own respective guidelines. Assets meeting the above criteria are listed in Appendix A: Allowable Assets. See Appendix D for Asset Allocation. Restrictions apply as follows:**

- (1) The Finance Committee shall establish broad asset allocation guidelines. Equities should comprise 40 to 75 percent of the portfolio.**
- (2) The purpose of the Foundation's equity investment portfolio is to provide capital appreciation, and secondarily to provide a reasonable current income. The equity portfolios shall consist of marketable securities that may be purchased on recognized exchanges in the U.S. In any case, the following restrictions apply:**
  - (a) The equity securities of any one corporate issuer should not exceed 10 percent of the equity portion, based on market value, of any manager's portfolio.**
  - (b) The equity securities of any single corporation and its related entities should not exceed 10 percent of the total issued and outstanding shares of such corporation.**
  - (c) No more than 20 percent of the portfolio should be invested in any one industry.**
- (3) Under the Pension Protection Act of 2006 (PPA), the private foundation excess business holdings rule apply to donor-advised funds as if they were private foundations. That is, the holdings of a donor-advised fund in a business enterprise, together with the**

holdings of persons who are disqualified persons with respect to that fund, may not exceed any of the following:

(a) 20 percent of the voting stock of an incorporated business.

(b) 20 percent of the profits interest of a partnership or joint venture or the beneficial interest of a trust or similar entity.

(c) Any interest in a sole proprietorship.

(d) Donor-advised funds receiving gifts of interests in a business enterprise have five years from the receipt of the interest 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.

(4) The Foundation's fixed income portfolio's primary objective is to provide current income while protecting principal through a mix of high quality investment grade bonds BBB or higher by a nationally recognized statistical rating organization, and mutual funds that can invest in high quality bonds, higher yielding bonds, and foreign debt securities.

(5) The portfolios need not maintain a cash balance among the assets, except as may be dictated for investment or operational reasons. All capital gains, interest, and dividends paid can be reinvested.

G. In any separately managed accounts customized for HCCF, short sales, commodities transactions, purchasing securities on margin, and the writing, purchasing or selling of naked options are NOT ALLOWED.

H. The Finance Committee shall meet quarterly to review the investment results. The Investment Advisor shall keep the Finance Committee apprised of any material changes in the Investment Advisor's outlook, recommended investment changes, and tactics. In advance of the quarterly meeting, the investment manager shall provide a report evaluating the current investment holdings along with the performance of the portfolio as measured against standard benchmarks. Specific total rate of return goals are expected to be met on a cumulative basis over a 3-5 year time period and shall be evaluated accordingly. Capital values do fluctuate over shorter periods and the Finance Committee recognizes that the possibility of capital loss does exist. However, historical asset class return data suggests that the risk of principal loss over a holding period of at least 3-5 years can be minimized with the long-term investment mix employed under this Investment Policy Statement. For the purposes of planning, the time horizon for investments is to be in excess of 10 years.

I. The Finance Committee meets quarterly to review investment results and understands the assets of the Harrison County Community Foundation are designed with a long-term outlook. However, markets can change rapidly and it is the goal of the Finance Committee

**to be proactive in addressing the portfolios during times of market distress. If the portfolio of the Harrison County Community Foundation experiences a risk of loss greater than the 95<sup>th</sup> percentile of expected returns in a given month or further, then the Finance Committee will call the Investment Manager for an inter-quarter meeting and/or conference call to assess the market environment, how it impacts the portfolio, and whether a change is needed to reduce the long-term impact on the sustainability and success of the Foundation. \*Currently, the asset allocation of the Harrison County Community Foundation has an expected return of 7.0% (gross of fees) and a risk of loss expectation of -10%. If the Harrison County Community Foundation were to experience performance beyond the -10% in any month or longer, a follow-up with the Investment Manager is warranted.**

*\*As the asset allocation or the Capital Market Assumptions of the Harrison County Community Foundation adjusts, the expected return and risk of loss expectations will adjust too. All expected return and risk of loss expectations are derived using the Investment Manager's Capital Market Assumptions*

**J. The assets of Harrison County Community Foundation shall be managed in concert with assets of the Harrison County Community Foundation Supporting Organization and Harrison County Community Fund. If assets are added to any of the organizations between Finance Committee quarterly meetings, the assets shall be invested according to the last approved asset allocation.**

**K. Except as a donor's gift instrument otherwise requires, and consistent with Indiana's adoption of the Uniform Prudent Management of Institutional Funds Act, the following factors must be considered, if relevant, in managing and investing the investment portfolio, including the requirements for any specific institutional funds:**

- (1) General economic conditions**
- (2) Possible effect of inflation or deflation**
- (3) Expected tax consequences, if any, of investment decisions or strategies**
- (4) Role that each investment or course of action plays within the Foundation's overall investment portfolio**
- (5) Expected total return from income and the appreciation of investments**
- (6) Other resources of the Foundation;**
- (7) Needs of the Foundation and a given institutional fund to make distributions and to preserve capital**
- (8) Asset's special relationship or special value, if any, to the purpose of the Foundation.**

Adopted March 1, 2004  
Amended October 2, 2006 Section V  
Amended December 4, 2006 Section III  
Amended October 1, 2007 Section V  
Amended November 5, 2007 Section III  
Amended December 3, 2007 Section IV  
Amended February 4, 2008 Section V (J)  
Amended May 5, 2008 Section II (E) Section V (I-1)  
Amended August 4, 2008 Section IV (A-2), (D), (F-4), (H), (I), Appendix C  
Amended December 7, 2009 Section II (B), Section IV (G), Appendix C  
Amended May 3, 2010 Section II (E)  
Amended January 7, 2013 Section I, Section IV (D6, F, G), Appendix A, Appendix B (4), Appendix C  
Amended March 4, 2013 Section IV (I)  
Amended August 4, 2014 Section II (G)  
Amended June 6, 2016, Section V Deleted  
Amended November 6, 2017 Appendix C  
Amended May 7, 2018 Appendix B, C, D  
Amended March 4, 2019 Section III (B)  
Amended May 6, 2019 Appendix A, B, D  
Amended February 3, 2020 Section III (B) & Section IV (K)

# Harrison County Community Foundation

## Finance Committee – Purpose and Policy

### APPENDIX A

#### ALLOWABLE ASSETS

##### 1. Cash Equivalents

- Cash
- Money Market Mutual Funds
- Ultra Short Bond Mutual Funds

##### 2. Fixed Income Securities

- Certificates of Deposit
- Short Term Bonds, Mutual Funds, and Exchange-traded funds
- Intermediate Term Bonds, Mutual Funds, and Exchange-traded funds
- US Treasuries Inflation Protected Bonds, Mutual Funds, and Exchange-traded funds
- International Bonds, Mutual Funds, and Exchange-traded funds

##### 3. Equity Securities

- U.S. Large Cap Securities, Mutual Funds, and Exchange-traded funds
- International Large Cap Securities, Mutual Funds, and Exchange-traded funds
- Real Estate Investment Trusts, Mutual Funds, and Exchange-traded funds
- U.S. Small Cap Securities, Mutual Funds, and Exchange-traded funds
- International Small Cap Securities, Mutual Funds, and Exchange-traded funds
- Energy/Natural Resources Mutual Funds, and Exchange-traded funds

# **Harrison County Community Foundation**

## **Finance Committee - Asset Class Descriptions**

### **APPENDIX B**

#### **Cash**

The portion of total assets that the organization decides to keep in cash. This portion does not include the cash held by managers or funds.

#### **Money Market**

Money market securities include Treasury bills, repurchase agreements, banker's acceptances, commercial paper, and negotiable certificates of deposit and mutual funds that invest primarily in these securities. Eligible money market mutual funds include funds that transact at a fixed asset value and funds designated as Prime. Prime money market mutual funds sell and redeem shares based on the current market value of the securities in their underlying portfolios (transact at a "floating" net asset value).

#### **Ultra-Short Bond**

U.S. fixed income securities that are primarily rated investment grade with a duration typically less than one year.

#### **Certificates of Deposit**

Time deposits with fixed maturities and fixed interest rates offered by banks.

#### **Short Term Bond**

Fixed income securities that are primarily rated investment grade with a duration of 1-5 years. This category may include individual bonds and derivatives with a primary focus on domestic bonds and derivatives. The portfolio can be invested via individual bonds, mutual funds or exchange traded funds.

#### **Intermediate Term Bond**

Fixed income securities that are primarily rated investment grade with a duration of 5-10 years. This category may include individual bonds and derivatives. The primary focus should be domestic bonds or related derivatives but international bonds or derivatives may also be incorporated. The portfolio can be invested via individual bonds, mutual funds or exchange-traded funds.

#### **U.S. Treasuries Inflation Protected Bond**

Fixed income securities linked to inflation. The portfolio can be invested via individual bonds, mutual funds or exchange-traded funds.

**International Bond**

Fixed income securities that are rated investment grade and domiciled in developed markets. This category may include individual bonds and derivatives. The primary focus should be international bonds or related derivatives but domestic bonds or derivatives may also be incorporated. The portfolio can be invested via individual bonds, mutual funds or exchange-traded funds.

**U.S. Equity Securities**

Publicly traded securities of U.S. companies, regardless of market capitalization or style, including common stocks, mutual funds and exchange-traded funds.

**U.S. Large Cap Securities**

Publicly traded securities of U.S. companies with a market capitalization of more than \$10 billion, regardless of style. The majority of holdings are of U.S. listed companies but companies domiciled outside the U.S. may be incorporated by some mutual funds.

**Real Estate Investment Trusts**

Real Estate Investment Trusts, including mutual funds, and exchange-traded funds that invest primarily in real estate investment trusts of various types, including real estate operating companies. Global real estate portfolios may invest primarily in non-U.S. real estate securities, as well as U.S. real estate securities.

**U.S. Small Cap Securities**

Publicly traded securities of U.S. companies with a market capitalization ranging from \$300 million to about \$2 billion, regardless of style. The majority of holdings are of U.S. listed companies but companies domiciled outside the U.S. may be incorporated by some mutual funds.

**International Securities**

Publicly traded securities of non-U.S. companies regardless of market capitalization or style, including common stocks, mutual funds and exchange-traded funds. The majority of holdings are domiciled in developed markets; however, holdings domiciled in emerging markets may be incorporated.

**International Large Cap Securities**

Publicly traded securities of non-U.S. companies with a market capitalization of more than \$10 billion, regardless of style, including common stocks, mutual funds, and exchange-traded funds. The majority of holdings are domiciled in developed markets; however, holdings domiciled in emerging markets may be incorporated.

**International Small Cap Securities**

Publicly traded securities of non-U.S. companies with a market capitalization ranging from \$300 million to \$2 billion regardless of style, including common stocks, mutual funds, and exchange traded funds. The majority of holdings are domiciled in developed markets; however, holdings domiciled in emerging markets may be incorporated.

**Energy/Natural Resources**

Equity mutual funds and exchange-traded funds that invest primarily in equity securities of U.S. or non-U.S. companies who conduct business primarily in energy-related industries and/or who focus more broadly on commodity-based industries such as energy, chemicals, minerals, and forest products.

# Harrison County Community Foundation

## Finance Committee - Purpose and Policy

### APPENDIX C

#### DEFINITIONS

1. *Finance Committee* (herein referred to as the "Committee") shall refer to the group of individuals established by the Board of Directors to administer and oversee the Fund and will report to the Board through the Finance Committee.

2. *Fiduciary* shall mean any individual or group of individuals that exercise discretionary authority or control over the fund management or any authority or control over management, disposition or administration of the Foundation Fund's assets.

3. *Investment Manager* shall mean any individual, or group of individuals, contracted to manage the investments of all or part of -the Funds' assets.

4. *Investment Management Consultant or Investment Outsourcer* shall mean any individual or organization contracted to provide advisory services, including: advice; investment objectives and/or asset allocation; rebalancing; manager searches, which may include hiring, monitoring and terminating; and performance monitoring.

5. *Securities* shall refer to the marketable investment securities that are defined as acceptable in this statement.

6. *Investment Horizon* shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this policy statement is to be in excess of 10 years.

# HARRISON COUNTY COMMUNITY FOUNDATION

## Finance Committee – Purpose and Policy

### APPENDIX D

#### ASSET ALLOCATION

<u>Category</u>	<u>Holdings</u>	<u>Range</u>	<u>Current Target</u>
Safety	Cash	0.50 – 1.50%	1.00%
Income Assets	Short Term Bonds	2.80 – 5.20%	4.00%
	Intermediate Term Bonds	5.95 – 11.05%	8.50%
	Inflation Protected Bond	2.80 – 5.20%	4.00%
	International Bond	3.85 – 7.15%	5.50%
Growth Assets	Large-Cap Value	11.90 – 22.10%	17.00%
	Large-Cap Growth	7.70 – 14.30%	11.00%
	International Large-Cap Value	4.90 – 9.10%	7.00%
	International Large-Cap Growth	3.50 – 6.50%	5.00%
	Real Estate	4.90 – 9.10%	7.00%
Aggressive Assets	Small-Cap Value	7.70 – 14.30%	11.00%
	Small-Cap Growth	3.50 – 6.50%	5.00%
	International Small Cap	4.20 – 7.80%	6.00%
	Energy/Natural Resources	5.60 – 10.40%	8.00%

The Investment Manager is responsible for rebalancing the portfolio, applying the methodology approved by the Finance Committee. Currently each Fund is reviewed approximately every two weeks to search for the optimal time to rebalance and using 30% rebalancing bands based on the predefined asset class targets. Any change in methodology will be communicated to Harrison County Community Foundation in writing contemporaneously.