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Statement of Investment Objectives and Policies

Revised March 2011

I. DESCRIPTION OF THE FOUNDATION

The Community Foundation of Tompkins County, Inc. (the "Foundation") manages and administers its Foundation investment funds, raised from the donations of private citizens and organizations. The funds support grant making to charities, primarily within the community, and the operating expenses of the Foundation.

The Foundation is a publicly supported charitable organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation was formed in 2000 to encourage and develop local philanthropy for a broad range of community efforts that enhance the quality of life, embrace diversity, and promote a humane, participatory, environmentally sustainable and just society. Although the Foundation is not restricted from making grants to qualified charities wherever located, its principal mission is to benefit charities within Tompkins County, New York.

II. LONG-TERM GOALS

The long-term goals of the Foundation 's investment policy will be:

1. To protect the purchasing power of the assets of the Foundation and strive to maximize the total return to the extent possible accommodating appropriate liquidity and without assuming excessive risk;
2. To provide a relatively predictable, stable and inflation adjusted payout stream for grant making and operations;
3. To maintain a balance between spending and protecting the real (i.e., inflation adjusted) value of the Foundation's assets.

4. To support a competitive and relatively stable investment income payout stream for donor advised

funds.

III. PURPOSE OF STATEMENT

This Statement of Investment Objectives and Policies (the "Statement") is intended to:

A. Outline the investment-related responsibilities of the Board of Directors (the “Board”), the Financial Administration Committee, the Foundation staff and the providers of investment services retained to assist with the management of the Foundation.

B. Establish formal investment guidelines incorporating prudent risk parameters, appropriate asset guidelines and realistic return goals.

C. Provide a framework for regular constructive communication between the Board, the Committee, the staff and the Foundation's providers of investment services.

D. Create standards of investment performance by which the Investment Managers/Advisors agree to be measured over a reasonable time period.

IV. Investment Management Standards of Conduct

The following standards will be met in the management of the Foundation’s assets:

1. Subject to the intent of a donor expressed in any gift instrument, the Board, in managing and investing designated Foundation assets shall consider the purposes of the Foundation and the purposes of the funds.
2. In addition to complying with the duty of loyalty imposed by law, each person responsible for managing and investing designated Foundation assets shall manage and invest in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. A person who has special skills or expertise, or is selected in reliance upon the person’s representation that the person has special skills or expertise, has a duty to use those skills or that expertise in managing and investing designated Foundation assets.
3. In managing and investing designated Foundation assets, the Board and Investment Advisor may only incur costs that are appropriate and reasonable in relation to the assets, the purposes of the Foundation , and the skills available to the Foundation .
4. The Board and Investment Advisor shall make every reasonable effort to verify the facts relevant to the management and investment of designated Foundation assets.
5. Except as otherwise provided by a gift instrument, the following apply:
   1. In managing and investing designated Foundation assets, the following factors, if relevant, must will be considered:
      1. General economic conditions;
      2. The possible effect of inflation or deflation;
      3. Any expected tax consequences, if any, of investment decisions or strategies;
      4. The role each investment or course of action plays within the overall investment portfolio of designated Foundation assets;
      5. The expected total return from income and the appreciation of investments;
      6. The needs of the Foundation and designated Foundation assets to make distributions and preserve capital;
      7. Other resources of the Foundation:
      8. Any specific asset’s special value, or special relationship, if any, to the purposes of designated Foundation assets.
   2. Management and investment decisions about an individual asset must be made, not in isolation, but rather in the context of designated Foundation assets’ portfolio of investments as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the Foundation investments and the Foundation.
   3. The Board and the Investment Advisor shall diversify the investments of the Foundation investments unless the Board determines that, due to special circumstances, the purposes of the Foundation investments are better served without diversification. The Board shall review a decision not to diversify as frequently as circumstances require, but at least annually.
   4. Within a reasonable time after receiving property, the Foundation shall make and carry out decisions concerning the retention or disposition of the property or to rebalance a portfolio, in order to bring the portfolio into compliance with the purposes, terms, and distribution requirements of the Foundation investments.

F. This Statement Of Investment Objectives and Policies sets forth guidelines on investments and delegation of management and investment functions in accord with Prudent Investor standards and the standards of the New York Prudent Management of Institutional Funds Act (NYPMIFA).

V. FINANCIAL ADMINISTRATION COMMITTEE

The Board has established a Financial Administration Committee (the "Committee"). While the Board bears the overall fiduciary responsibility for the Foundation, the Committee shall recommend to the Board the specific investment policy for the Foundation and shall be responsible for its day-to-day guidance, monitoring oversight and allocation of assets.

A. RESPONSIBILITIES

The specific duties and responsibilities of the Committee shall be to:

1. Recommend investment objectives and policies to the Board of Directors as outlined in this statement;
2. Recommend investment service providers for the Foundation and monitor performance;
3. Provide the Board with information regarding fund investment structure and performance against established objectives and policies;
4. Monitor the investments with regard to the Foundation's fiduciary considerations;
5. Establish performance benchmarks against which the Investment Manager will be measured.
6. Recommend specific asset allocation percentage targets;
7. Periodically review and recommend withdrawal policy to the Board for grant making and operating costs;
8. Recommend removal of investment service providers as warranted by investment performance;
9. Negotiate and recommend to the Board compensation arrangements for investment service providers;
10. Receive, review and retain the reports of the investment service providers and other external reports on the financial condition of the Foundation, including receipts disbursements and investment performance on a quarterly basis.
11. Review this statement periodically to ensure that it continues to be appropriate given capital market conditions and the needs of the Foundation.

B. COMMITTEE OPERATION

1. The Committee shall meet as required, but not less than four times each year.

2. The actions of the Committee shall be recorded in formal minutes.

3. The Committee may adopt procedures necessary to conduct its affairs.

4. The staff of the Foundation is authorized to carry out all administrative functions required by Committee action.

5. The Committee will review this policy every January

VI. INVESTMENT CONSIDERATIONS

1. Liquidity

Except for investment purposes and spending requirements, the fund requires no sizable liquid reserves. Investing in marketable securities will enable the fund to raise cash on short notice as necessary.

2. Time Horizon

Funds will be invested on a long-term time horizon expecting that funds will be available for investment for at least 5 years or more.

3. Laws and Regulation

The Foundation will comply with the Rule as expressed in section 11-2.3 of the NY Estates, Powers and Trusts Law (EPTL), which provides in relevant part that a fiduciary shall exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio, taking into account the purposes and terms and provisions of the governing instrument.

4. Tax Considerations

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Consequently, tax considerations are not a meaningful constraint, other than the fact that securities with tax-exempt features will be avoided.

5. Other

Other investments may be considered by the Committee when necessary. These may result from gifts to the Foundation or recommendations for alternative asset classes.

VII. ASSET ALLOCATION AND REBALANCING GUIDELINES

1. Risk Tolerance

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (i.e. volatility of return) is associated with higher return.

The Committee takes into consideration risk tolerance on asset allocation.

1. Expected Market Returns and Volatility

While past performance is not necessarily indicative of future results, one should expect volatility to increase as capitalization is reduced. Adequate diversification, however, will likely reduce the volatility of the overall portfolio. Nevertheless, short-term fluctuations in portfolio value should be expected.

1. Asset Allocation

The Financial Administration Committee will recommend to the Board specific percentage asset allocation targets for investment funds. The major asset categories will be: Equity (domestic and international), Fixed Income, Cash, Real Return , and Other Assets. Change in the asset allocation guidelines can be proposed at any time to the Board by the Committee.

After a review of long-term historical capital market performance, the Financial Administration Committee has selected the following initial target asset allocation. Based on historical performance, this mix is expected to produce suitable patterns of performance, with fluctuations levels, which it deems acceptable, over time.

The Committee understands and agrees that the Investment Manager may from time to time vary the actual percentages where in its discretion it deems the variation desirable to achieve the goals in this Investment Policy Statement. However, variation of total equities (target 65%) total fixed income (target 24%) and real return assets (11%) should be maintained within plus/minus 5 percentage points.

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| --- | --- | --- | --- |
|  | Min | Target | Max |
| Equities | 60% | 65% | 70% |
| Large Cap\* | 32.4% | 37.4% | 42.5% |
| Mid Cap\* | 1.5% | 6.5% | 11.5% |
| Small & Micro Cap\* | 4.7% | 9.7% | 14.7% |
| International\* | 6.4% | 11.4% | 16.0% |
| Fixed Income | 19% | 24.0% | 29% |
| Real Return Assets | 6% | 11.0% | 16% |
|  |  |  |  |
| \*Percentage of Equity |  |  |  |

The allocation targets will be maintained by using cash inflows or outflows to rebalance the funds among asset classes and investment service providers.

See appendix A for SRI investment account information.

VIII. PORTFOLIO GUIDELINES

In order to provide the Investment Manager with the ability to invest in various types of assets, the Manager is further guided by the following definitions and delineations of activities:

A. Equities – The purpose of the Foundation’s equity investment portfolio is to provide total return. Domestic or foreign issues traded on the principal stock exchanges may be purchased and traded. It is expected that the equities will on balance achieve returns commensurate with the risk assumed.

1. The equity securities of any one corporate issuer or within any one mutual fund should not exceed 5% of the equity portion, based on market value, of any manager's portfolio and;

2. For these purposes, regulated investment companies (mutual funds) shall be considered and evaluated based on the underlying holdings as to their asset classes and concentration. Moreover, mutual funds shall not be considered derivative securities unless their underlying holdings contain or rely heavily on such holdings for their performance.

B. Fixed Income Securities – The objective of the Foundation’s fixed income investments is to produce current income and cushion the fund against excessive stock market volatility. The fixed income portion of the portfolio will be diversified among bond issuers, but will maintain an investment grade quality as defined by Standard & Poor’s, Fitch’s and Moody’s. The portfolio will attempt to match the duration of the overall market and may be invested in government, agency or corporate bonds.

C. Real Return Assets – The real return assets class is expected to provide a rate of return above the rate of inflation. These investments will help maintain the purchasing power of the Foundation’s assets over time.

D. Cash and Cash Equivalents – All cash wherever and whenever possible should be invested in interest-bearing securities. However, the Investment Manager may utilize cash equivalents. Cash reserves and short-term investments are to be maintained to meet liquidity needs of the Foundation, to guard against any liquidity problem in the market, and to enable the fund to take advantage of worthwhile investment opportunities. Any cash position in the portfolios will be included in the calculation of total return.

E. Other Assets - Other investments may be considered by the Committee when the need occurs. These may result from gifts to the Foundation or recommendations for alternative assets classes. Examples of other possible investments include real estate that may be donated to the Foundation, program related investments, and socially responsible investments.

F. Prohibited Securities

Any investment strategy, security, scheme, or money-making enterprise that does not meet the Prudent Investor Rule (need to define this term if we use it or delete if we do not have a sufficient definition) is prohibited. The Foundation will not engage in the following types of securities transactions:

Purchasing and selling commodities or commodity contracts, except through a mutual fund.

Selling securities short.

Purchasing securities on margin.

Writing, purchasing, or selling naked options.

Derivative securities, except (a) mutual funds as provided above and (b) hedging transactions, limited to exposure, for principal protection.

***Guidelines to prevent violation of the excess business holding rules for assets held in donor advised funds***

Gifts for Donor Advised Funds

Notwithstanding any other provision hereof, the Foundation shall not accept any gift of an

interest in a business enterprise for a donor advised fund ("DAF") that would subject the Foundation to tax under section 4943 of the Internal Revenue Code, concerning "excess

business holdings."

The Foundation shall not accept any proposed gift that would result in the DAF holding, together with the holdings of persons who are disqualified persons with respect to that fund a 20% or greater interest in a business or in an entity.

Any interest in an entity in which any interest is owned by a donor or advisor

to the DAF, by a family member of any such person, or by an entity in which any of

the foregoing persons has an interest shall be referred to the Foundation's counsel for an opinion on the possible application of Code section 4943.

IX. INVESTMENT AGENTS OF THE FOUNDATION

A. INVESTMENT PROGRAM

In order to accomplish the goals and objectives of this STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES, the Financial Administration Committee will negotiate a contract with investment agent(s) with specific elements for the terms of the engagement. It is important that the Committee engage a qualified and competent investment professional to manage the Foundation’s assets. It shall be the Committee’s responsibility to interview advisors (firms) who have at least five years experience and track record and who have demonstrated skill in managing similar assets for which such advisor is being considered. The Committee will consider the following factors when selecting an advisor: investment strategy, investment program cost, personnel, performance, research capabilities, organizational stability and other qualitative factors that may impact their ability to achieve the desired investment results. In selecting, continuing or terminating an investment agent , the Committee shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, including assessing the agent’s independence including any conflicts of interest such agent has or may have.

The investment agent’s actions concerning the investment management of the Foundation assets will be consistent with the investment objectives, policies, guidelines and constraints as established in this Statement Of Investment Objectives and Policies.

Investment agents must assume the following responsibilities:

1. . To acknowledge in writing acceptance of the objectives, guidelines and performance benchmarks as defined in this Statement of Investment Objectives and Policies, and to invest the assets of the Foundation accordingly. In serving as advisor, the investment agent owes a duty to the Foundation and the invested assets to exercise reasonable care, skill and caution to comply with the scope and terms of the delegation.

2. To exercise full discretionary authority for funds under management as to all buy, hold, and sell decisions for each security under management, subject to the guidelines as defined in this Statement.

3. To rebalance the asset classes in the portfolio as deemed appropriate by the investment agent to comply with Board policy.

4. To recommend changes in this Statement based upon material and sustained changes to capital markets.

5. To select a safe and reputable location for the custody of the Foundation assets.

B. REPORTING

1. Investment agents shall produce a statement at the end of each quarter displaying:

* the cost, market values, and percentage distributions for each portfolio asset class.
* the time-weighted, net of fees, total return for the trailing calendar 1, 3, 5, and 10 years
* year-to-date performance
* the performance of the relevant benchmark indexes.

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C. REVIEW MEETINGS

The Committee will meet with the investment agent not less than twice per year, but typically on a quarter basis. The primary agenda will include:

1. A review of performance and asset allocation including measures of performance against benchmarks defined by the Financial Administration Committee.
2. A commentary on investment results in light of the appropriate standards of performance.
3. A synopsis of the key investment decisions made by the Agent, the underlying rationale, and how those decisions could affect future results.
4. A discussion of the Agent's outlook, what specific investment decisions this outlook may trigger, and how these decisions could affect future results.

D. COMMUNICATION

Each Investment Agent is responsible for maintaining communication with a designee of the Committee on all material matters pertaining to investment policies and the management of the Foundation's assets. In particular, each Investment Agent will:

1. Provide timely notice of any material changes in its investment outlook, strategy, and portfolio structure.

2. Provide timely notice of material changes in its firm ownership, organizational structure, financial condition, senior staffing and management that could substantially affect the ability of the agent to manage the assets of the Foundation, where permissible by law.

3. Provide timely notice of involvement in any litigation or regulatory investigation relating to the organization's investment activities that could affect the ability of the agent to manage the assets of the Foundation.

X. PERFORMANCE EXPECTATIONS

A. DEFINING PERFORMANCE

1. Three-year cumulative return meets or exceeds benchmark index;
2. Percentile ranking of portfolio's three-year return against peer group is above 50;
3. Percentile ranking of portfolio's three-year cumulative return is in the top quintile.

B. DEFINING FUND MANAGEMENT ORGANIZATION CHANGES

1. Turnover of portfolio manager(s) or other personnel significant to the portfolio management process;
2. Ownership change;
3. Involvement in relevant regulatory investigation or litigation.

# XI. Guidelines For Transactions And Cost Management

A. As a general guideline that should apply to all assets managed, it is the responsibility of the

Committee and their designates to make every effort to reduce and limit total portfolio investment costs. These costs may include soft dollars, commissions and other transaction fees, custody fees, consulting fees and investment management fees.

Policy Adoption

This STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES was reviewed, approved and adopted by the Board of Directors of the Community Foundation of Tompkins County at its meeting on April 11, 2011 and is included in the minutes thereof.

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