



## Statement of Investment Policy

### I. Description of the Foundation

Eastern Carolina Community Foundation (the "Foundation") is a collection of donations from private citizens and organizations that, in aggregate, form a fund. The fund supports grant making to selected charities 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. Its purpose is to be a vehicle to receive and accept gifts to be administered for charitable purposes primarily in the seven counties served by the Foundation: Chesterfield, Darlington, Dillon, Florence, Marion, Marlboro, and Williamsburg in South Carolina.

### II. Introduction

Because the Foundation will operate in perpetuity for benevolent purposes, prudent stewardship of the permanent endowment and charitable remainder trust funds entrusted to it is essential to the Foundation's mission. To assure its accountability to donors, beneficiaries and the community, the Board of Trustees has adopted this Statement of Investment Policy for those types of funds.

### III. Purpose

The general purpose of this statement is to outline a philosophy and discipline which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical. It defines and assigns the responsibilities of all involved parties and establishes a clear understanding for all involved parties of the investment guidelines, goals, and objectives of fund assets.

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. This standard also requires the exercise of reasonable care and caution and is to be applied to investments not in isolation, but in the context of the investment portfolio as a whole and as a part of an overall investment strategy that should incorporate risk and return objectives reasonably suitable to the Foundation. The Board of Trustees, members of the Finance and 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 and Finance Committee.

### IV. Objectives

The primary objective of the investments of the Foundation will be to provide for consistent long-term growth of principal and income without undue exposure to risk. The investment objective is to achieve a total return including appreciation which will satisfy the current financial needs of the various funds, protect and increase their long term inflation adjusted value, and minimize short run volatility. The Foundation recognizes that the assets are exposed to risk and may be subject to fluctuations in market value from year-to-year. This volatile performance is acceptable, as long as it is consistent with the benchmark performance of each asset class fund or index fund and of the portfolio as a whole over time.

## **V. Investment Philosophy**

### **A. Introduction**

The Foundation has two primary investment pools – “Endowed Funds” and “Non-Endowed Funds.” Endowed Funds include (i) Donor Advised Funds, (ii) Field of Interest Funds, and (iii) Designated Funds. Non-Endowed Funds include (i) Pass Through Funds, (ii) Unrestricted Funds and (iii) Giving Circles. The investment of the Endowed Funds pool will be guided by the philosophy governing long term investment guidelines and the Non-Endowed Funds will be guided by the philosophy governing short term investment guidelines. Both pools shall be constructed and invested in such a way as to achieve their return objectives while minimizing volatility and, where applicable, insuring capital preservation, to the degree possible. This is best accomplished through the use of a well-diversified asset allocation strategy.

The short term needs of the Foundation as dictated by grant making needs, project opportunities or different donors’ express wishes require the Foundation also have a philosophy with regard to the investment of funds for use within short time periods. This philosophy is to seek maximum protection and preservation of capital while keeping the funds available for immediate use with minimal to no transactional costs associated with obtaining said funds.

### **B. Short Term Investment Guidelines**

The Non-Endowed Funds represent the Foundation’s commitment to supporting a wide variety of program activities and grantmaking. The projects to be supported from this pool includes those that have finite and short-term funding schedules, such as holding funds for specific donor identified projects of other not-for-profit organizations and charitable pass-through funds. Funds created through memorial contributions will be invested in the Non-Endowed pool unless or until a fund agreement is executed. For the purpose of this policy, a short-term investment period will be defined as three years or less. Any fund that is expected to exist for three years or less will generally not be invested in the Endowed Funds pool as these funds may not have the ability to recover from the volatility of returns of the equity investments employed in the Endowed Fund pool.

For these reasons, the Foundation has established a separate Short-Term Investment Pool that is managed to achieve the objective of minimizing loss of principal. Assets in the short-term pool will be invested in cash and cash equivalents in accounts and funds insured to the maximum extent allowable, by either the FDIC or the SIPC or federally guaranteed investments. Three possible alternatives are provided for investment of Non-Endowed fund assets.

1. Investment in separate insured bank or brokerage money market funds or CDs. Laddered CDs may be used when a project’s time frame is known.
2. Investment in the Foundation’s money market account.
3. Investment in the Foundation’s checking account when the balance of the fund is below the minimum required amount for the money market.

### **C. Long Term Investment Guidelines**

There is significant evidence that long-term investors do not benefit from attempting to earn excess returns through short term asset class forecasts or market timing. As a result, the Foundation has adopted a strategic long-term index fund or asset allocation for each individual investment fund within its Endowed Funds pool. Over time, each individual investment fund will remain invested in percentages that are targeted to those called for in the strategic allocation.

Within each applicable index or asset class, the Foundation seeks to earn the highest expected rate of return for the level of risk that the Foundation is willing to take (after investment expenses). Investments will be well diversified. Such diversification should increase the probability over time that the Foundation will achieve its investment goals and reduce volatility.

The long-term guidelines of the Foundation’s investment and spending policy will be:

- To protect the assets of the Foundation and strive to maximize the total return to the extent possible without assuming excessive risk;
- To provide a relatively predictable, stable and inflation adjusted payout stream for grant making and operations;
- To maintain a balance between spending and protecting the real (i.e. inflation adjusted) value of the Foundation’s assets;
- A target asset mix of 50% to 70% in equities and 30% to 50% in fixed income. The Committee anticipates meeting this target mix by use of index and asset class funds as opposed to individual securities.

Generally, only passively managed asset class mutual funds or index funds shall be chosen. This strategy is employed to capture the return behavior of an entire asset class. This approach is based upon the major tenets of Modern Portfolio Theory which states that markets are “efficient” and that investors’ returns are determined principally by asset allocation decisions, not market timing or selection of specific securities. The Committee will not rely on economic forecasts, employ strategies which shift allocations between stocks, bonds and cash or search for “undiscovered” stocks. Asset classes with historically demonstrated low correlation and different risk/return profiles are combined together in an attempt to both lower the volatility of the overall portfolio and enhance returns.

The asset allocation of the Endowed Funds should reflect the long-term objectives and portfolio constraints of the Foundation. Management of the Foundation’s portfolio should focus on satisfying these objectives through the optimal allocation to Equities and Fixed Income. Fixed Income should be used to satisfy current income requirements and control total portfolio volatility. Equities should generate capital and income growth to preserve and enhance the purchasing power of the portfolio.

The nature of the assets involved and the long-term objectives of the Foundation suggest utilizing a total return approach to investment management. Specifically, the fund should conform to the following asset allocation guidelines:

#### Total Portfolio Asset Allocation

<u>Asset Class</u>	<u>Range</u>	<u>% of Equity</u>
Fixed Income	30% - 50%	(with approximately 5% cash or cash equivalents)
Equities	50% - 70%	
Domestic		70% - 85%
International		15% - 30%

#### **D. Rebalancing**

From time to time, market conditions are likely to cause the portfolio’s investment in various asset classes to vary from the established allocation guidelines. Each asset class in which the portfolio is invested shall be reviewed on a quarterly basis and may be rebalanced back to the recommended weighting when appropriate. Rebalancing will be advised if either the weighting of an individual asset class varies by 25%, plus or minus, of its recommended weighting, or if the major components (domestic equity, international equity, total equity and total fixed income) vary by 500 basis points, plus or minus, from those components’ recommended weighting. Moreover, when necessary, cash flows will be deployed or withdrawals will be made in a manner consistent with rebalancing the asset allocation.

## **E. Investment Restrictions**

Portfolio assets may not be used for the following purposes:

- Short Sales
- Purchases of letter stock, private placements (including 144A securities), or direct payments
- Leveraged transactions
- Commodities transactions
- Puts, calls, straddles, or other option strategies
- Purchases of real estate, oil and gas properties, or other natural resource related properties
- Investments in tax-exempt securities
- Investments in limited partnerships except for open ended mutual funds registered as limited partnerships
- Investments in futures, use of margin, or investments in any derivatives not explicitly permitted in this policy statement
- Any other security transaction not specifically authorized in this policy statement, unless approved, in writing, by the Investment Committee. Requests by investment managers to execute transactions that are not currently authorized in this policy should be made prior to executing such transactions
- Any type of investment that generates Unrelated Business Income Tax.
- Direct loans or extension of lines of credit to any interested party
- Real estate properties other than those which may come to the Foundation as a Board-approved donation.

Exception: In case of a bequest from a donor to the Foundation, alternate investment classes may be held with the intention to liquidate as soon as deemed prudent by the Directors.

## **VI. Spending Policy**

Each year, the Committee will recommend for adoption by the Board a limit on the amount that the Foundation may spend from the endowment in that year. This payout will be used to meet both grant making and administrative needs. Some administrative needs will be met through fees collected in accordance with the Foundation's applicable fee schedule.

To meet the payout level determined each year, the Foundation may utilize both traditional interest and dividends generated by its various funds as well as capital appreciation. Where prudent and not inconsistent with the Foundation's bylaws, trust documents, and fund agreements, the Foundation may use a portion of the principal of certain funds (such as new funds with little or no capital appreciation) to meet the established payout or to fund special projects as determined by the Board or as designated by the donor of such funds. This spending strategy reflects the total return approach to investing and disbursing funds described above.

Based on that spending policy, the investment committee will determine the asset value that may be distributed and may draw it from any part of the total return. The annual cash payout of all funds, except those funds containing illiquid assets (such as certain real estate or other property) will be 3.0% to 6.0% of the average market value, using a 16-quarter trailing average. For funds less than four years old, the market value will be the average of all quarterly market values to date. This payout will be used to meet both grant making and administrative needs. The payout rate for any given year will be established by the Board at its January meeting and may be adjusted to reflect special funding needs and/or financial market conditions. The Board believes that the adoption of a total return investment and spending policy is appropriate for the long-term operation of the Foundation.

## **VII. Grants of New Funds**

It is the policy of the Foundation not to distribute any portion of an Endowed Fund which has been accepted by the Foundation under a new endowment agreement until December 31 of the year of contribution.

*Approved 09/15/09 by Board of Trustees.*