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# NAPA VALLEY

## COMMUNITY FOUNDATION

### Investment Policy

The mission of the Napa Valley Community Foundation (NVCF) is to mobilize resources, promote philanthropy and provide leadership on vital community issues in Napa County. To accomplish this mission, we invite individuals, families, charitable organizations and businesses to contribute to various charitable funds that are managed by NVCF, or to establish new charitable funds at NVCF. We have full legal control over all donated assets and all charitable funds. However, the charitable funds we manage are often closely associated with a living donor (for example, donor advised funds) and we have found it beneficial to offer our donors a degree of choice with respect to how their donated assets are invested by NVCF, so that their philanthropic objectives (chiefly, the time horizon for grant distributions) match up with an appropriate investment strategy. The net result is, the NVCF Investment Policy speaks to the monies that we use for operating purposes, and it speaks to the monies that we and our donors use for grantmaking purposes. In some cases and for some charitable funds, our goal is liquidity with minimal risk. In other cases and for other charitable funds, our goal is maintaining long-term purchasing power. This Investment Policy is intended to provide guidance for NVCF’s investment advisors and investment managers in light of the diverse investment objectives we seek on behalf of ourselves, our donors and the many charitable funds we manage.

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#### II. DEFINITION OF TERMS

The Napa Valley Community Foundation, as part of its stewardship efforts, employs Investment Advisors and Investment Managers. The roles of each professional are important to the long term success of NVCF.

- Investment advisors. Investment advisors are individuals or organizations employed by NVCF to manage assets and provide investment advice. It is NVCF’s expectation that these individuals and organizations be responsible for managing asset allocation, selecting appropriate investment managers or an appropriate investment manager program, and reporting to NVCF. It is generally assumed that the investment advisors will use separate account managers, mutual funds and exchange traded funds to achieve NVCF’s stated investment objectives. Investment advisors are also sometimes referred to as financial advisors or investment counselors.

- Investment managers. Investment managers are individuals and organizations that manage investments and offer their services often through separate accounts, mutual funds and exchange traded funds. In most cases, NVCF would expect the investment advisors it has hired to manage the asset allocation and select the appropriate investment managers based on NVCF's investment objectives and policies. Investment managers provide both active and passive management services and those services can be provided in a number of vehicles. Sometimes these individuals and organizations are referred to as money managers.
- Custodian. A custodian is an organization that is responsible for safekeeping, maintaining and recordkeeping of investment assets.
- Charitable funds. Funds which are established within NVCF by donors, organizations or the Board of Directors. Examples include: donor advised funds, Community Impact Funds, field-of-interest funds and the NVCF Operating Endowment. Sometimes charitable funds are referred to as charitable accounts. One way to avoid confusion with the generic term "funds," is to think of charitable funds like different products, with various degrees of donor involvement, various areas of focus and various timetables for charitable distributions.

### **III. PURPOSE**

These investment policies were established to facilitate a clear understanding by the Board of Directors, the Finance Committee and any appointed investment advisors or investment managers of the nature, purpose and goals of the investments of NVCF. As directed by the Board of Directors, the Finance Committee will regularly review these policies and each advisor's/manager's adherence to them, and conduct a formal review of these policies every year. It is expected that the Committee and the investment advisors/managers will propose revisions to these policies any time such policies may potentially impede NVCF in meeting its investment objectives. The specific investment objectives of NVCF are detailed below in Section V.

NVCF provides support through grant making and services to a wide variety of nonprofit organizations benefiting Napa County. The Board and staff have the fiduciary responsibility to meet current needs while preserving certain assets of NVCF for long-term purposes.

The types of funds included in this policy are:

1. Operating Funds
2. Grantmaking Funds

Monies may be pooled together in a manner providing maximum investment efficiency, unless otherwise approved by the Finance Committee in response to a request from a donor.

### **IV. POLICY STATEMENT**

The assets of NVCF will be invested to maximize return and generate cash flow, liquidity and growth consistent with the objectives and risk tolerance of the Operating and Grantmaking Funds.

In order to achieve these goals, NVCF will select investment advisors/managers but may also self-manage as defined below. The Board will review performance and monitor fees charged by investment advisors/managers on a regular basis.

## **V. INVESTMENT GUIDELINES**

NVCF investments will adhere to the guidelines as stated in this policy. All policies, guidelines and objectives will be in force until modified in writing by NVCF. All transactions will be entered into on the basis of prudent execution.

### **A. Operating Funds**

#### **1. Short Term Operating Funds**

Short-Term Operating Funds refer to investments that provide for NVCF's short term cash flow and liquidity needs.

Short-Term Operating Funds shall be used exclusively to meet the working capital and short-term liquidity requirements of NVCF, which include the need to cover operating costs, pay vendors and, in certain cases, distribute grants recommended by donors that are invested in Grantmaking Funds.

The amount of capital allocated to the Short-Term Operating Funds will vary according to the needs of NVCF.

Short-Term Operating Funds investments shall consist of Cash and Cash Equivalent investments and be defined as those of eighteen months maturity or less with minimal market or credit risk. Examples of suitable investments would include Money Market Funds, Certificates of Deposit, US Treasury Bills, and short term US Government Agency Obligations.

The asset allocation of NVCF's Operating Funds shall be:

<b>Cash and Cash Equivalents</b>	<b>100%</b>
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#### **2. Long Term Operating Funds**

Long Term Operating Funds refer to the NVCF Operating Endowment. The NVCF Operating Endowment shall be invested as per section B(3), below.

### **B. Grantmaking Funds**

Grantmaking Funds refer to investments that support the grantmaking objectives of NVCF and its donors.

1. **SHORT TERM FUNDS.** Grantmaking time horizon: 0 to 18 months. Goal: liquidity and preservation of principal. Short Term Grantmaking Funds shall be invested in Cash and Cash Equivalent investments and be defined as those of eighteen months maturity or less with minimal market or credit risk. Examples of suitable investments would include Money Market Funds, Certificates of Deposit, US Treasury Bills and short term US Government Agency

Obligations, and conservatively managed bond funds that are primarily invested in AAA rated securities. The asset allocation of NVCF's Short Term Funds shall be:

**Cash and Cash Equivalents 100%**

2. INTERMEDIATE TERM FUNDS. Grantmaking time horizon: 18 months to 5 years. Goal: income generation primarily from bonds and capital appreciation primarily from equities. Intermediate Term Grantmaking Funds shall be U.S. dollar-denominated and rated by a nationally recognized investment rating agency with consideration given to asset diversification based on pool size as another consideration to minimizing risk. Intermediate Term Fund diversification shall include publicly traded investments in US and Non-US equities.

Suitable Investments for each asset class within the Intermediate Term Portfolio are outlined in the table below, along with the maximum percentage that each investment sub-class can comprise of the entire portfolio. All investments must be highly liquid to allow for timely entry and exit from the investment. Any investments or percentages that fall outside this list can be approved through the NVCF Finance Committee.

<b>Asset Class</b>	<b>Suitable Investments</b>	<b>Max%</b>
Cash & Cash Equivalents	(Same as listed in Short Term Portfolio)	25%
Fixed Income	Investment Grade Bonds	80%
	Foreign Bonds	15%
	High Yield Bonds	15%
Equities	Large Cap Equities	120% of the weight of these assets in the ACWI benchmark
	Small or Mid Cap Equities	
	REITS	
	Developed Market Equities	
	Emerging Market Equities	
Alternative Investments	Commodities	10%
	Hedge Funds	10%

The individual money managers selected are responsible for creating a portfolio diversified by industry as well as by company. More specifically, no one stock shall comprise more than 10% of the value of any manager's portfolio, unless prior approval is provided in writing by the Finance Committee, with approval of the Board of Directors.

The Intermediate Term Portfolio shall use the following blended benchmark to compare to the NVCF investment manager's performance after all fees are deducted:

<b>Index Fund</b>	<b>Asset Class</b>	<b>Index Composition</b>
Barclays Capital Aggregate Bond Index	Fixed Income	60%
MSCI ACWI Index	Equity	40%

The Finance Committee will not have an explicit benchmark for the alternatives category; therefore, they will consult existing benchmarks on alternative asset strategies to assess manager performance on a regular basis.

The asset allocation of NVCF's Intermediate Term Portfolio shall be:

<u>Asset Class</u>	<u>Range</u>
<b>Cash/Cash Equivalents + Fixed Income</b>	<b>40% to 80%</b>
<b>Equity</b>	<b>20% to 60%</b>
<b>Alternative Investments</b>	<b>0% to 10%</b>

The Intermediate Term asset allocation above shall be subject to periodic review by the Finance Committee. The Committee may adjust this asset allocation with respect to equities (i.e., by changing the balance between U.S. and Non-U.S. Equities) as economic conditions warrant. If the allocation deviates by more than 5% from the ranges above, the investment advisor must rebalance or notify NVCF within a reasonable time period.

3. LONG TERM FUNDS. Grantmaking time horizon: 5 to 10 years or longer. Goal: long-term growth of principal in excess of inflation and expenses, with sufficient income and liquidity to support our annual Endowment Spending policy. It is recognized that longer maturity fixed income investments and equities carry greater interest rate and market risk than other asset categories. Interim volatility and fluctuations in portfolio values will be viewed with appropriate long-term perspective.

Assets contributed to NVCF that are intended to create a permanent endowment, whether donated by a living person or through a will or estate plan, shall be invested in either the Intermediate Term or the Long Term Funds at the donor's discretion, if living, or at the Finance Committee's discretion in the case of a bequest, unless otherwise directed by the trust documents in no fewer than three months at 1/3 per month and no more than six months of receipt, with the aim of staging dollars into the market over time.

NVCF will hold a percentage of endowment funds in the Short-Term Fund equal to approximately 5 years of the estimated grant budget as calculated by the Endowment Spending Policy.

Suitable Investments for each asset class within the Long Term Portfolio are outlined in the table below, along with the maximum percentage that each investment sub-class can comprise of the entire portfolio. All investments must be highly liquid to allow for timely entry and exit from the investment. Any investments or percentages that fall outside this list can be approved through the NVCF Finance Committee.

<b>Asset Class</b>	<b>Suitable Investments</b>	<b>Max%</b>
Cash & Cash Equivalents	(Same as listed in Short Term Portfolio)	15%
Fixed Income	Investment Grade Bonds	40%
	Foreign Bonds	15%
	High Yield Bonds	15%
Equities	Large Cap Equities Small or Mid Cap Equities REITS Developed Market Equities Emerging Market Equities	130% of the weight of these assets in the ACWI benchmark
Alternative Investments	Commodities	10%
	Hedge Funds	10%

The specific portfolio management decisions, including security selection, size and quality, number of holdings, emphasis on income levels, and portfolio turnover shall be left to the investment managers' discretion.

The individual managers selected are responsible for creating a portfolio diversified by industry as well as by company. More specifically, no one stock shall comprise more than 10% of the value of any manager's portfolio, unless prior approval is provided in writing by the Finance Committee, with approval of the Board of Directors.

The Long Term Portfolio shall use the following blended benchmark to compare to the NVCF investment manager's performance after all fees are deducted:

<b>Index Fund</b>	<b>Asset Class</b>	<b>Index Composition</b>
Barclays Capital Aggregate Bond Index	Fixed Income	25%
MSCI ACWI Index	Equity	75%

The Finance Committee will not have an explicit benchmark for the alternatives category; therefore, they will consult existing benchmarks on alternative asset strategies to assess manager performance on a regular basis.

The asset allocation of NVCF's Long Term Portfolio shall be:

<b><u>Asset Class</u></b>	<b><u>Range</u></b>
<b>Cash/Cash Equivalents + Fixed Income</b>	<b>0% to 50%</b>
<b>Equity</b>	<b>50% to 100%</b>
<b>Alternative Investments</b>	<b>0% to 10%</b>

The asset allocation above shall be subject to periodic review by the Finance Committee. The Committee may adjust this asset allocation as economic conditions warrant. If the allocation deviates by more than 5% from the ranges above, the investment advisor must rebalance or notify NVCF within a reasonable time period.

## VI. INVESTMENT ELIGIBILITY

### A. Approved Investments

1. Common and preferred stocks (by Mutual Funds, separate account managers and Exchange Traded Funds)
2. Direct obligations of the U.S. Government and its agencies
3. Convertible securities (by mutual funds, separate account managers and Exchange Traded Funds)
4. Corporate Bonds or notes of investment grade (by mutual funds, separate account managers and Exchange Traded Funds; securities shall be on average A rated within the portfolio)
5. Liquid/Short Term Cash Equivalents
6. Money Market Funds
7. Certificates of Deposit (from federally insured banks or savings and loans only)
8. Commercial Paper
9. Commodities
10. REITs
11. Other investments with prior approval

### B. Prohibited Investments

1. Short sales
2. Margin purchase or other use of lending or borrowing
3. Private placements
4. Security loans
5. Leveraged derivatives
6. Warrants
7. Auction Rate Securities or Asset Backed Commercial Paper

NVCF recognizes that there are a growing number of investment strategies that incorporate the use of short sales, margin purchases and commodities (through future contracts). NVCF expects that all investment activities related to short sales, margin purchases and commodities will be approved by NVCF. All short sales, margin purchases and commodities strategies shall be implemented in Mutual Funds or Exchange Traded Funds.

Other categories of investments that are eligible for investment only with prior approval from the Finance Committee include:

1. Unregistered or restricted stock.

Investment in unregistered or restricted stock by investment managers is prohibited. Donations of such stock to NVCF may be retained under the direction of the Finance Committee.

2. Options or futures.

From time to time, investment managers may make investments using option or futures contracts in order to enhance or protect NVCF portfolio. These investments are expected to be limited to minor holdings and/or for short time duration.

3. Other Exclusions. Investment advisors shall not invest in closed-end mutual fund, or funds that carry a front or back-end load. NVCF expects to be invested in institutional shares only and to pay only expense ratios on mutual fund investments. Written permission from the Treasurer is required to deviate from these exclusions.

## **VII. ADMINISTRATION**

### **A. Board of Directors**

The Board of Directors of NVCF is solely responsible for the overall investment policy. The Board must approve any changes, updates or modifications to the policy.

The Board will authorize the implementation of investment recommendations made by the Finance Committee. Periodic performance reviews will be presented to the Board, along with recommendations for changing investments if necessary.

The Board will allocate capital to the Operating and Grantmaking Funds based upon recommendations made by the Finance Committee. Community Foundation donors with fund balances in excess of \$50,000 can request that their fund be invested in a manner that supports their charitable goals and the grantmaking time horizon of their fund. Specifically, donors can request that their fund be invested in up to two Grantmaking Funds (i.e., Short Term, Intermediate Term, Long Term). However, if they recommend an investment in more than one of the Grantmaking Funds, one of the choices must be the Short Term Fund. Such recommendations will be advisory only and not binding on NVCF, and NVCF expressly reserves its right to change investments at any time.

### **B. Finance Committee**

The Finance Committee will be responsible for the investment advisor and investment manager selection process. NVCF

The Finance Committee shall meet quarterly to review the performance of individual managers and advisors and to monitor NVCF's assets and investment policies. All investment advisors/managers must prepare and submit quarterly investment reports for the Finance Committee and make annual presentations to the Committee. Continued engagement by NVCF is at the sole discretion of the Board of Directors with advice from the Finance Committee. NVCF shall have full authority and discretion over the investment and reinvestment of its assets in accordance with NVCF's investment policies.

In the selection of investment managers the following criteria should be observed. Recommendations will be made to the Board based upon the results of proposals from investment managers. The Finance Committee is also responsible for evaluating new investment options when appropriate. In order to facilitate the efficient and effective asset management of donor funds within the NVCF, it is desirable to limit the total number of investment managers and investment alternatives. In addition to those alternatives already approved by the Board of Directors and the Finance Committee, any request for approval by the NVCF of a new investment manager must be made in conjunction with a fund valued at a minimum of \$500,000. Donors must release full control of any decisions and discussions about funds which are contributed to NVCF and remain with their outside advisor. The outside advisor is not allowed to communicate directly with the original donor regarding investment and asset allocation strategy.



## 1. Selection Criteria for Investment Managers

### a. Desirable Attributes

- 1) Well-defined investment philosophy that provides a discernible edge in the gathering or processing of data.
- 2) Evidence that the philosophy has been faithfully executed over time.
- 3) Successful historical performance of returns (long-term and short-term) as compared to relevant standard benchmarks.
- 4) Reasonable assets in relation to investment philosophy.
- 5) Adaptive to changes in investment management industry.
- 6) Investment management is primary business.
- 7) Managers are experienced professionals with solid backgrounds of successful investment strategy.
- 8) Competitive fee structure.

### b. Undesirable Attributes

- 1) High personnel turnover
- 2) Disorganization
- 3) Inability to follow Foundation investment policy guidelines
- 4) Poor historical performance
- 5) Poor communication

### c. Disqualifying Attributes

- 1) Criminal conviction(s) or sanctions
- 2) Inability to meet performance reporting deadlines
- 3) Record of ineffectiveness or inexperience
- 4) Conflicts of interest

## 2. Performance Review

The Finance Committee will review the performance of investment advisors/managers on a quarterly basis (3/31, 6/30, 9/30, 12/31) using the following guidelines and report to the Board of Directors.

### a. Risk Adjusted Return

- 1) The managers selected should provide a risk adjusted return competitive with the determined market index or indices.
- 2) The performance will be measured against these indices on a quarterly and trailing twelve month (short-term) period, and over a ten-year period (long-term).

### b. Overall

The overall performance of investment managers will be based on the following:

- 1) Comparison of returns between managers.

- 2) Fees charged.
- 3) Evaluation of results compared to other community foundations of comparable size.
- 4) Working relationship between managers and NVCF.
- 5) Consistency with investment philosophy, return relative to objectives, and investment risk as measured by asset concentration, exposure to extreme economic conditions, and market volatility.

### C. Foundation Staff

The President is authorized to deposit, withdraw and transfer funds for proper administration of accounts, subject to the internal control policies of the Community Foundation, which seek to ensure appropriate separation of duties, and in some cases require another Officer in addition to the President in order to take a particular action (e.g., to sign checks of \$10,000 or more). Income and expenses associated with the pooled investment accounts will be allocated to the funds in a consistent and equal manner.

Subject to Board approval, NVCF has the discretion to spend down any expendable Fund established via bequest that falls below \$50,000.

The President will use the performance review guidelines to calculate and present a written report on investment performance to the Finance Committee. In addition, new investment options will be explored and evaluated and presented to the Finance Committee when appropriate.

## **VIII. INVESTMENT DATA**

On a monthly basis each investment advisor/manager will provide a statement that includes all activity in the investment fund. The statement will include, but is not limited to, all interest, dividends and other income earned, all transaction and investment activity, and an itemized list of all assets held and their market value.

Quarterly and annual reports are required with the same information as the monthly statement summarizing the investment activity for that time period. In addition, reports are required to show measurement against appropriate index, and an analysis of each portfolio's specific characteristics and fees charged.

Investment advisors/managers are required to inform NVCF of any material change in fundamental investment philosophy, firm ownership, organizational structure, professional personnel, account structure or conflicts of interest.

## **IX. SOCIAL RESPONSIBILITY**

NVCF recognizes the need for social responsibility and may at its discretion restrict certain investments.