

Model Endowment Investment & Spending Policies
Prepared for the Development Committee
<NFP-NAME>

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Contents

Notes and Observations	3
Investment Policy for <NFP-Name> (“the Exempt Organization”).....	5
Purpose:.....	5
Financial Assets of the Exempt Organization.....	5
Investment and Management Objectives and Guidelines.....	6
Diversification.....	7
Board of Directors Responsibilities: Managing and Investing the Exempt Organization's Financial Assets	8
Delegation of Management and Investment Authority to an External Agent	9
Endowment Fund Spending.....	10
Investment Policy Reviews.....	10
Additional (Optional) Provisions.....	10
Investment philosophy asset allocation guidelines, prohibited investments, and risk and return expectations;	10
Specific allocation caps.....	11
Board and Committee Responsibilities.....	12
Responsibilities of investment managers and custodians	14
Restrictions imposed on the types of permitted investments for non-financial reasons.....	16
Criteria for selecting and evaluating investment managers;	16
Criteria/benchmarks that will be used to evaluate the investment performance	16
General Notes Regarding Spending Policies	17
Endowment Spending Policy For <NFP-Name> (the "Exempt Organization")	17
Purpose.....	17
Appropriating Endowment Funds for Expenditure.....	17
Documenting Spending Deliberations	19
Rockefeller Foundation: Investment Committee Charter	19
Composition.....	20
Meetings.....	20
Purpose.....	21
Responsibilities	21

Notes and Observations

This model policy is an example to stimulate ideation and discussion. It should not be adopted, in whole or in part, without legal review.

Materials that appear in italic Helvetica (this typeface) represent amplification of the provisions' meaning, or examples of its application. These are not part of the Investment Policy - but may be important discussion points.

Highlighted provisions are derived from UPMIFA (Uniform Prudent Management of Institutional Funds Act) UPMIFA, now adopted by forty-seven states, is the legal standard by which prudent investment practices are measured.

The boards of directors of exempt organizations have a fiduciary responsibility to protect the assets of the exempt organization and ensure that the exempt organization's operations and activities use the assets to further the exempt organization's mission. Part of that responsibility includes prudent use of the organization's financial assets (including real property interests) to maintain value, produce income, and avoid extraordinary risks. Thus, prudent investment policy may imply maintenance of

- operating cash reserves to meet the exempt organization's immediate cash needs,*
- investment reserves that improve yield on otherwise idle funds that exceed the organization's immediate liquidity needs,*
- restricted, endowment, or permanent reserves whose income is available to serve the organization's needs – but whose corpus may be entailed temporarily or permanently, and*
- fixed assets that, while unrestricted, may be difficult to liquidate quickly.*

An exempt organization may wish to provide separate investment policies for each of these purposes AND adopt consistent approaches to allocate financial between them.

Prudence implies acknowledgement that most investments take time to grow, but liquidity is an essential investment parameter. Investing all of an exempt organization's liquid assets in long-term investments doesn't allow the exempt organization access to cash, if needed in the short term.

Before your exempt organization invests, develop a sound approach to investing assets by

- identifying the exempt organization's reasons for creating investment reserves.*
- defining the exempt organization's investment objectives for each class of reserves – including objectives for liquid, reserved, and permanent funds,*
- identifying the exempt organization's risk tolerance, and then*
- adopting an investment and allocation policy or policies that address each consideration.¹*

¹ Some exempt organizations include the allocation policy in their Investment Policy. Others state it in a separate protocol document. Cambyses model policy includes allocation provisions under "Additional (Optional) Provisions" but we usually suggest they be an integral part of the Investment Policy. Speak with legal counsel to determine which option best serves your organization's needs.

The board's fiduciary oversight responsibility for exempt organization's assets may require re-directing investments that are not performing well, or replacing managers that do not perform well – or who ignore the organization's investment strictures. Generally, however, the role of the board is to

- *authorize the portfolio's risk profile and asset allocation*
- *re-evaluate the goals and performance of investments as the goals and needs of the organization evolve,*
- *and authorize/evaluate the day-to-day management of investments (by either an Investment Committee, an Investment Advisor, or both).*

Boards often delegate responsibility for the exempt organization's investments (but must retain oversight responsibility) to a committee, an outside professional fund manager, or to itself as a full board. Those responsibilities include monitoring and managing the performance of invested funds/assets and maintaining a portfolio profile consistent with the organization's risk preferences.

Committee and delegation "best practices" presuppose the existence of a strong Investment Policy Statement that is consistently enforced, reviewed, and anticipates contingencies such as:

- *The funds' risk tolerance, controls and parameters that measure it,*
- *The Funds' investment guidelines,*
- *A Fund asset allocation framework,*
- *Benchmarks and fund performance criteria,*
- *The exempt organization's spending prerogatives and needs*

Many recent Investment statements also include ESG, sustainability, and diversity provisions. (This development is recent – and, as yet, not fully mature. Our model does not include examples of this type of provision.)

Often, Board delegation takes the form of a formal Investment Committee Charter. (We reproduce, below, with minimal redactions, the Investment Committee Charter for the Rockefeller Foundation (Which can be viewed on their website at <https://www.rbf.org/about/investment-committee-charter>).

Note: The Rockefeller Foundation's Committee Charter is embedded in the Foundation's Bylaws. Since the Charter may change frequently (necessitating equally frequent Bylaw amendments) it is often addressed only by reference in the Bylaws ("We have a Committee, it has a separate charter. Here is where you'll find it.") – and stated in a separate and more easily amended document. Talk to legal counsel about which format is preferable for your organization.

Cambyses' management believes that Exempt Organizations should strive for, indeed – must achieve, diversity and sustainability goals as well as their stated exempt purposes. The Investment Committee is a good place to begin that effort. A 5-9 member Investment Committee, buttressed by strong leadership and regular-egalitarian communication, permits and encourages diversity but remains agile enough for effective decision making.

Investment Policy for <NFP-Name> (“the Exempt Organization”)

Adopted _____, 20__

Purpose:

The purpose of this policy is to set forth the standards and guidelines governing investment and management of the Exempt Organization’s financial assets. Appendices set forth standards and guidance for the expenditure of the Exempt Organization’s endowment or reserve funds and provides a model investment committee charter. This policy is intended to be consistent with the <Applicable-Law> {e.g. California Uniform Prudent Management of Institutional Funds Act (“UPMIFA”)}.

Some Investment Policies also set out investment goals, objectives, and purposes in this clause. E.g. “The Investment Policy is intended to maximize growth ... within the constraints of <NFP-Name>’s risk tolerance...”

Financial Assets of the Exempt Organization

The Exempt Organization’s financial assets consist of

(a) funds intended to be used to cover its short-term operating and program expenses (the “Operating & Program Fund”),

(b) reserve funds, which are funds to be held in reserve to support the Exempt Organization's future operations, serve as a resource during economic downturns or provide an additional source of income to support and further the Exempt Organization's mission (the “Reserve Funds”),

(c) funds which have been restricted by the donor or the Exempt Organization's Board of Directors (the "Board of Directors" or the "Board") for a specific purpose, but which do not have a restriction as to the timing of their expenditure (the “Restricted Funds”), and

(d) funds received by the Exempt Organization pursuant to a gift instrument that are not wholly expendable by the Exempt Organization on a current basis (the "Endowment Funds" and together with the “Operating & Program Fund,” the “Reserve Funds” and the "Restricted Funds," the “Funds”).

Financial assets subject to a specific donor restriction as to the investment, management, use or expenditure of such assets shall be invested, managed, used and spent in accordance with the donor's restriction.

Some exempt organizations maintain separate investment policies for restricted funds, and virtually all major exempt organizations maintain separate investment policies for their endowments.

Investment and Management Objectives and Guidelines

Operating & Program Fund: The Operating & Program Fund shall be invested with the objective of preserving its assets to cover operating expenses and realizing earnings in a way that allows for immediate liquidity to meet the Exempt Organization's ongoing programmatic and operational needs. Operating & Program Fund assets may be maintained in the checking account that the Exempt Organization uses for day-to-day operations and may be invested in other cash-equivalent investments, such as savings accounts, money market accounts, certificates of deposit with maturities appropriate for expected needs, Treasury bills and other investments that are relatively easy to liquidate. The Exempt Organization's professional staff from time to time will review the allocation (or the methodology of allocation) of Operating & Program Fund assets between the Exempt Organization's checking account and its other cash-equivalent investments, determining the appropriate allocation based on the Exempt Organization's cash-flow needs, and regularly report such allocation to the Board. The Board may direct that changes be made to such allocation and will also consider from time to time whether the Exempt Organization's Operating & Program Fund assets are sufficient to allow for the designation of a portion of such assets to the Reserve Funds.

Reserve Funds: The Reserve Funds shall be invested with the objective of preserving the long-term real purchasing power of the Funds' assets while realizing appropriate investment income. Reserve Funds' assets may be invested in certificates of deposit, Treasury bills, mutual funds, exchange traded funds, equities fixed income securities and, as to an appropriate portion, cash equivalent investments.² The asset allocation of each of the Reserve Funds shall be determined from time to time by the Board of Directors, in consultation with any managers or advisors if desired (unless it delegates such task to an external manager), which allocation shall reflect a proper balance of such Fund's investment objective, risk tolerance standard and the need for liquidity.

Restricted Funds: The Restricted Funds shall be invested with the objective of preserving and enhancing the purchasing power of the Funds' assets while ensuring that liquidity requirements can be met. Restricted Funds' assets may be invested in certificates of deposit, Treasury bills, mutual funds, exchange traded funds, equities, fixed income securities and, as to an appropriate portion, cash equivalent investments. (See Note Below) The asset allocation of each of the Restricted Funds shall be determined from time to time by the Board of Directors, in consultation with any managers or advisors if desired (unless it delegates such task to an external manager), which allocation shall reflect a proper balance of such Fund's investment objective, any risk tolerance standard and the need for liquidity.

Endowment Funds: The Endowment Funds shall be invested with the objective of preserving the long-term real purchasing power of the Funds' assets while realizing appropriate investment income. Endowment Fund assets may be invested in certificates of deposit, Treasury bills, commercial paper, bankers acceptances,

² Some Organizations include limitations, such as; "traded on a U.S. public exchange" or exclusions such as "stock not publicly traded on a U.S exchange," "preferred stock," "convertible securities," etc."

This list, as well as the list of Restricted Fund assets and list of Endowment Fund assets set forth below, is not intended to be comprehensive or exclusive of the classes of investment assets in which any specific fund may be invested. The organization's board of directors or investment committee may expand the list of permissible investment assets for a specific fund and/or eliminate one or more of the suggested classes of investments or types of investments within a class.

Note, however, that extreme risk, extremely illiquid, and leveraged assets (with the exception of real property) are almost always precluded unless the manager, board or committee demonstrates conclusively that they are prudent positions. The burden of proof must be set very high in such demonstrations.

repurchase agreements, mutual funds, exchange traded funds, equities (including common stock, preferred stock, convertible securities and other equities, whether traded on an exchange or not publicly traded), fixed income securities, real estate, commodities, natural-resource related stock, hedge funds, derivatives, alternate investment vehicles and, as to an appropriate portion, cash equivalent investments. The asset allocation of each of the Endowment Funds shall be determined from time to time by the Board of Directors, in consultation with any managers or advisors if desired (unless the Board delegates such task to an external manager), which allocation shall reflect a proper balance of such Fund's investment objective, any risk tolerance standard and the need for liquidity.

Some exempt organizations maintain separate investment policies for restricted funds, and virtually all major exempt organizations maintain separate investment policies for their endowments.

These provisions often interact with the exempt organization's Gift Acceptance Policy. Certain assets (e.g. real property, intellectual property, closely held businesses) may be appropriate only in funds that have minimal need for liquidity. Reputational, Valuation and Liquidity issues, as well as donor restrictions, associated with this type of asset may make them inappropriate for direct inclusion in any portfolio – whether long or short term. That exclusionary language is generally embedded in the Gift Acceptance Policy rather than the Investment Policy.

Diversification

Investments of each Fund will be diversified to limit the risk of loss resulting from the concentration of assets in a specific type of investment, specific maturity, specific issuer or sector unless the Board prudently determines that, because of special circumstances, the purposes of the Fund are better served without diversification. The Board shall review the diversification strategy periodically, provided, however, that it shall review any decision to not diversify as frequently as circumstances require but, at a minimum, annually.

Diversification is the hallmark and bellweather of prudent investment and portfolio strategy. Boards should be very leary of any suggestion that a portfolio need not (or should not) be diversified.

Measuring diversification is often more art than science. Some organizations adopt benchmarks and investment caps in order to measure and monitor portfolio diversification. Common benchmarks include S&P or Total Market segment percentages (easily accessible and understandable), or SIPC category segmentation. Each measure has its own advantages and disadvantages – including some ambiguity about how the sector weights (regardless of which indices you employ) impact portfolio risk and volatility.

Organizations also employ, often arbitrary, limits on funds' total investment in any given position. (e.g., Maximum investment < 2% of total portfolio is a popular one.) While caps may assist diversification efforts (e.g., the <2% limit assures that there are at least 50 positions in the portfolio) caps do not guarantee diversity. Caps also tend to cap portfolio performance as well – your best yielding positions are the most likely issues that will trigger the cap and reallocation away from the high performer.

Board of Directors Responsibilities: Managing and Investing the Exempt Organization's Financial Assets

The Board of Directors will act in good faith and with the care an ordinarily prudent person in like position would exercise under similar circumstances. When making investment and management decisions, the Board shall consider the Exempt Organization's purposes, as well as the purposes of the specific Funds.

In making decisions regarding management and investment of the Exempt Organization's financial assets, the Board of Directors, as required by applicable law, shall consider the following factors, if relevant:

1. General economic conditions;
2. The possible effect of inflation or deflation;
3. The expected tax consequences, if any, of investment decisions or strategies;
4. The role that each investment or course of action plays within the overall investment portfolio of the specific Fund;
5. The expected total return from income and the appreciation of its investments;
6. other resources of the Exempt Organization;
7. The needs of the Exempt Organization and the specific Fund to make distributions and to preserve capital; and
8. An asset's special relationship or special value, if any, to the purposes of the Exempt Organization.

The Board of Directors shall not make management and investment decisions regarding an individual asset in isolation but rather in the context of the specific Fund's portfolio of investments as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the Fund and the Exempt Organization. The Board shall make reasonable efforts to verify facts relevant to the management and investment of the Funds and may incur only costs that are appropriate and reasonable in relation to the assets, the purpose of the Exempt Organization and the skills available to the Exempt Organization.

Within a reasonable time after the Exempt Organization's receipt of a gift of property or other financial assets, the Board shall make and carry out decisions regarding retaining or disposing of the property, or the rebalancing of the Fund or Funds applicable to such gift in order to ensure compliance with the purposes, terms, and distribution requirements of the Exempt Organization (including the diversification requirements and other aspects of this policy) as necessary to meet other circumstances of the Exempt Organization and the requirements of applicable law, subject to any restrictions imposed by the terms of the gift.

The Board may delegate one or more of its responsibilities with respect to the management and investment of the Exempt Organization's financial assets to a committee of the Board or an officer or employee of the Exempt Organization. Any such committee or individual to whom such responsibility is delegated shall report to the Board on a regular basis and shall be subject to direction by the Board. If such responsibilities are delegated to a committee or individual, the rights and obligations set forth in this policy applicable to the Board (other than the right to amend this policy) shall also apply to such committee or individual, subject to the right of the Board to review and revise any decision of such committee or individual, and reports required under this policy to be made to the Board may instead be made to the committee or individual, which or who shall in turn report to the Board on a regular basis.

This provision could readily form the outline for a Board or Committee portfolio management education program. Collaterally, the same criteria could be applied to evaluate the delegated manager's performance of basic due diligence activities.

Delegation of Management and Investment Authority to an External Agent

To the extent it considers prudent, the Board may delegate management and investment decisions to one or more external agents, such as a bank, investment advisor, investment manager or custodian, except where prohibited by the terms of a gift instrument. The Board will act in good faith and with the care an ordinarily prudent person in like position would exercise under similar circumstances in (i) selecting, continuing or terminating any external agent (including assessing the agent's independence, including any conflicts of interest such agent has or may have;³ (ii) establishing the scope and terms of the delegation, including the compensation to be paid; and (iii) monitoring the agent's performance and compliance with the scope and terms of the delegation. The Board, in making the decision as to whether to delegate such functions to a specific external agent, shall conduct such due diligence as the Board deems appropriate, such as reviewing information regarding the external agent's experience, personnel, track record and proposed compensation as compared to appropriate peers. Any external agent to which management and investment authority is delegated owes a duty to the Exempt Organization to exercise reasonable care, skill and caution to comply with the scope and terms of the delegation.

Any external agents shall provide the Board with reports on investment performance on a quarterly basis, at a minimum, and more frequently if so requested by the Board. The Board will assess at least annually the performance and independence of any external agent, including any conflicts of interest it may have. Any actual or potential conflicts of interest involving a member of the Board or officer or key employee of the Exempt Organization with respect to the external agent must be disclosed and resolved pursuant to the Exempt Organization's conflict of interest policy and any conflicts of interest the agent may have involving service to the Exempt Organization (e.g., investment in deposits of a bank owned by the agent's near relative) must also be disclosed to the Exempt Organization. Any contract between the Exempt Organization and an external agent involving delegation of investment authority shall be terminable by the Exempt Organization at any time, without penalty, upon no more than 60 days' notice.

The Board of Directors will also review from time to time the Exempt Organization's arrangements with any investment managers, investment advisors, custodians and the banks and other entities with which the Exempt Organization maintains its financial assets to ensure that the costs and fees associated with each such arrangement are appropriate and reasonable in relation to the assets, the Exempt Organization's purposes and the skills available to the Exempt Organization.

The Exempt Organization will seek to ensure that any investment managers retained by the Exempt Organization invest the Exempt Organization's investment assets in accordance with this policy and any specific guidelines for the investment manager established by the Board of Directors, which may include return and risk expectations, asset allocations and investment strategies (including allowed and prohibited investments). Specific guidelines established for investment managers will be reviewed from time to time by the Board of Directors and revised as necessary. Decisions as to the selection of individual investments,

³ For example, the exempt organization's Board should consider whether any director, officer or key employee has any business or personal relationships with the external agent that the Board might reasonably expect to interfere with the Board's ability to properly monitor or assess the external agent's performance or receive independent investment advice from the external agent.

security size and quality, number of industries and holdings shall be left to the broad discretion of the investment manager, within the limits set forth in this policy and any specific guidelines established by the Board, and subject to the prudence standards under <APPLICABLE-LAW>.

Policies often include other requirements that the Investment Manager must fulfill. Some of these, and our comments regarding them, are listed under “Additional (Optional) Provisions, below.

Note that this provision, the “Spending Provisions” below, and the Board and Managers actions must often be reconciled with the Board’s Conflict of Interest Policies. This places a premium on vigilance over both the Board Member’s own actions, and the actions undertaken by the other Board Members. Regular, scheduled, reviews may be appropriate.

Endowment Fund Spending

Decisions with respect to spending from the Exempt Organization's endowment funds shall be made in accordance with the Endowment Spending Policy set forth in Appendix A of this policy.

This is the “cheap and easy” version of this provision. It presupposes the actual existence of a spending policy. In the absence of such a policy statement, spending provisions would be incorporated into this clause.

Investment Policy Reviews

The Board will review this policy, and shall amend the policy, from time to time as necessary to reflect developments affecting the Exempt Organization’s finances and activities.

A scheduled review (e.g. annual or quarterly) provides greater certainty that policies actually get reviewed. This is one of those activities that “falls through the cracks” in many organizations.

Additional (Optional) Provisions

If the board of directors wishes to include more detailed guidance in the organization's policy, the guidance could address items such as, but not limited to:

Investment philosophy asset allocation guidelines, prohibited investments, and risk and return expectations;

Capital preservation and liquidity are the two main objectives for the investment of the operating reserve funds, the portfolio will have a short-term focus. Investment guidelines for the investment of the operating reserve fund:

Maturity for each investment should be no more than 3 years.

At least 10% of the portfolio should have a maturity of less than 90 days.

Permissible investments for the portfolio are as follows:

Money Market Funds – these funds should be available upon demand, must be with a financial institution that is insured and must not exceed the insured limit at the institution.

Certificates of Deposit – these funds should be issued by financial institutions that are insured by the FDIC and are limited to \$100,000 in principal per institution.

Commercial Paper - investments in these instruments are authorized provided they hold a rating of A1/P1, are 90 days or less in maturity and are limited to \$100,000 per issuing entity.

Repurchase Agreements – these investments with banks are eligible investments, only if the bank is rated AA or better, and the repo collateral consists of government securities. Collateral should be delivered and held by the bank in Colorado Nonprofit Association's name. The term of the repo is not to exceed 14 days, and the amount may be no larger than \$150,000.

Banker's Acceptance – these are eligible investments provided that the draft is drawn on an authorized obligatory bank, does not exceed \$150,000, is for 90 days or less, and another security (i.e., commercial paper, negotiable CD or repo) is not presently outstanding with the issuing bank. The bank shall have a commercial paper rating of A1-P1.

U.S. Government Obligations - the only restriction on direct U.S. Government securities will be a limit of \$300,000 per maturity, and a maximum term of three years.

Federal Agency Securities - investment in government agencies that are not direct obligations of the federal government will be restricted to one-year maturities and a maximum of \$300,000 per agency.

Corporate Notes - investments in Corporate Notes are authorized provided that the debtor holds an AA rating or its equivalent and has a maturity of one year or less, is a United States corporation, and is limited to \$100,000 per entity. These investments shall be made through public placement only.

The Finance Committee is to receive regular reports of investment performance and investment activity.

The utilization of outside investment professionals may be considered when implementing part or all of this program. Such professional service must be bound by these same guidelines while undertaking its investment management role.

Specific allocation caps

intended to promote diversification of the exempt organization's investment portfolio, such as caps on the market value of the portfolio that may be invested in any one industry, in the securities of any one company or in any asset class; For Example:

The asset allocation policy shall be based on the following factors:

1. Historical performance of capital markets adjusted for the perception of the future short and long-term capital market performance.
2. The correlation of returns among the relevant asset classes.

3. The perception of future economic conditions, including inflation and interest rate assumptions.
4. Liquidity requirements for the projected grants and other charitable expenditures.
5. The relationship between the current and projected assets of the Organization and projected liabilities.

[Note: <NFP-Name> should determine its own allocations, based on its investment objectives and cash needs. The following allocation schedule is a sample. It is not recommended for use without review by investment counsel.]

Asset Allocation Range	Target	Limits
Cash & Equivalents	5%	0 – 15%
Fixed Income	40%	20 – 60%
Equities: Domestic Large Cap	25%	20 – 40%
Equities: Domestic Small/Mid Cap	20%	10 – 25%
Equities: International	10%	5 – 15%

Board and Committee Responsibilities

officers and/or staff if your board of directors has delegated management and investment authority to such internal delegates; Examples:

Exempt Organization Board of Trustees

As a fiduciary, the primary responsibilities of the Exempt Organization are:

1. Prepare and maintain the Investment Policy Statement.
2. Prudently diversify the accounts' assets to meet an agreed upon risk/return profile.
3. Prudently select investment options for the Investment Account.
4. Control and account for all investment, record keeping and administrative expenses associated with the accounts.
5. Monitor and supervise all service vendors and investment options.
6. Avoid prohibited transactions and conflicts of interest.

Investment Committee

The Investment Committee is a standing committee comprised of representatives from the Board, staff, and the Community. The Investment Committee serves at the pleasure of the Board of Trustees and makes recommendations to the Board which retains ultimate responsibility for investment recommendations. They are responsible for the oversight of the Investment Account's investment

accounts and publicly traded assets. They are not responsible for private equity, partnerships, real estate and other illiquid assets, or investment made by outside investment advisors chosen by donors. They shall act solely in the best interest of the Exempt Organization and in concert with the mission of the Exempt Organization.

The Investment Committee's responsibilities include:

1. Setting and revising investment policies.
2. Developing investment objectives, asset allocation strategies and performance guidelines.
3. Recommending Investment Consultants, Investment Managers, Money Managers and Custodians to the Board.
4. Reviewing and evaluating investment results.
5. Providing periodic performance reports to the Board.
6. Responsible for oversight of the Investment Account's investment accounts that hold publicly traded assets.

The Investment Committee is directly responsible for the oversight of all assets invested by the Investment Managers as part of the overall Investment Account.

With respect to the long-term portion of the Investment Account, Investment Managers may invest in individual securities, mutual funds and/or exchange-traded funds and fixed-income securities, including individual corporate bonds. The permissible capitalization range will typically be \$500 million or greater for investments in individual securities. All direct investments in equities shall be traded in the U.S. markets, on recognized exchanges and must have a consistently liquid market. Direct investments in foreign securities not listed on U.S. exchanges are not permitted. The average credit quality rating of bonds in the portfolio shall be at least "A-", as defined by either S&P or Moody's. For bonds with split ratings, the lowest rating will be applied.

Concentration in any single security shall be limited to five percent of the total portfolio by cost. A manager's position may not reflect greater than five percent of the shares outstanding of any one company or controlled group. Concentration in any one industry, economic sector, geography, security type and maturity shall not be excessive relative to world markets.

Without prior Board written approval, the investment manager is prohibited from directly investing in commodities, futures, derivatives, private placements, private partnerships, limited partnerships, leveraged transactions, and real estate. Also limited to prior written approval are engaging in short sales, put options, or margin transactions.

The Investment Committee is also directly responsible for oversight of the assets held for short-term purposes (Money Market Account). Guidelines for the Money Market Account are:

1. A range of between 10% to 15% of the Money Market Account will be held in cash.
2. The cash balance should never go below \$500,000.
3. Twenty percent of the CD portfolio may be in investment grade bond funds, with no more than 25% of that amount in any one fund. The target duration is two years with a maximum of four years. Eligible investments inside the bond funds include: cash, cash equivalents (including commercial paper, banker's acceptances, certificates of deposits, money market funds. Foreign bonds, zero coupon bonds (including U.S. Treasury-stripped securities), non-investment grade bonds, and short sales are included investments.

If managing a separate account (as opposed to a mutual fund or a commingled account), to seek approval from the Exempt Organization prior to purchasing and/or implementing the following securities and transactions:

- Letter stock and other unregistered securities; commodities or other commodity contracts; and short sales or margin transactions.
- Securities lending; pledging or hypothecating securities.
- Investments in the equity securities of any company with a record of less than three years' continuous operation, including the operation of any predecessor.
- Investments for the purpose of exercising control of management.

Responsibilities of investment managers and custodians

if your board of directors has delegated management and investment authority to external agents rules and requirements may, or must, be included to establish guidelines for investment managers;

Investment Managers

Each investment manager will invest assets placed in his, her or its care in accordance with this investment policy.

Each investment manager must acknowledge in writing acceptance of responsibility as a fiduciary.

Each investment manager will have full discretion in making all investment decisions for the assets placed under his, her or its care and management, while operating within all policies, guidelines, constraints, and philosophies outlined in this Investment Policy.

Specific responsibilities of investment manager(s) may include:

- Discretionary investment management, including decisions to buy, sell, or hold individual securities, and to alter allocation within the guidelines established in this statement.⁴
- Reporting, on a timely basis, monthly investment performance results.
- Communicating any major changes in the economic outlook, investment strategy, or any other factors that affect implementation of investment process.
- Informing the Board, or if authority is delegated, the Investment Committee, regarding any changes in portfolio management personnel, ownership structure, investment philosophy, etc.

⁴ Most states impose net worth, audit, and/or minimum bonding requirements on investment advisors that exercise discretion over client trades. The Investment Committee or Board should incorporate those requirements into their due diligence assessment before engaging with the Advisor.

- Voting proxies, if requested by the Board, or if authority is delegated, the Investment Committee, on behalf of the Organization.⁵
- Administering the Organization's investments at reasonable cost, balanced with avoiding a compromise of quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the Organization.
- Communicate with the Exempt Organization and Investment Committee all significant changes pertaining to the fund it manages or the firm itself. Changes in ownership, organizational structure, financial condition, and professional staff are examples of changes to the firm which should be communicated.
- Effect all transactions for the Portfolio subject "to best price and execution." If an Advisor utilizes brokerage from the Exempt Organization's assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Exempt Organization.
- Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like Portfolios with like aims in accordance and compliance with Uniform Prudent Investment Act and all applicable laws, rules, and regulations.
- On a quarterly basis, the Advisor will provide a written report, in a format provided by the Exempt Organization, performance numbers and an explanation of any variance from the asset allocation set forth by the Investment Committee.. This written report will be due with the Investment Manager's financial report 10 days after the end of the quarter. The report should include an explanation of any deviation from the IPS and a plan to be in compliance by the next quarterly Investment Committee meeting. Consequences of noncompliance may include loss of management of the account.

Custodians

Custodians are responsible for the safekeeping of the Portfolio's assets. The specific duties and responsibilities of the custodian are:

1. Maintain separate accounts by legal registration.
2. Value the holdings.
3. Collect all income and dividends owed to the Portfolio.
4. Settle all transactions (buy-sell orders) initiated by the Investment Manager.
5. Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall portfolio since the previous report.

⁵ Many advisors specifically decline to vote proxies on behalf of their clients. Thus, that duty often falls to the Board or Investment Committee – if proxies are exercised at all.

Most of these advisor and custodian requirements are explicit in SEC/FINRA regulations that apply to investment advisors. Hence, including them in the Investment Policy serves primarily as a reminder and guidepost for the Committee's due diligence.

To verify that the advisor subscribes to them, review the advisor's "Company Brochure" (Form ADV2 and 2A) on the SEC/FINRA IARD website. Pay particular attention to any history of disciplinary actions involving either the firm or the individual advisor.

Restrictions imposed on the types of permitted investments for non-financial reasons

e.g., prohibitions on investments in certain industries, such as tobacco, defense industries, fossil fuels, companies with weak ESG records, etc.

Criteria for selecting and evaluating investment managers;

The Exempt Organization will apply the following due diligence criteria in selecting each individual Advisor.

1. Regulatory oversight: Each investment manager must be a regulated bank, an insurance company, a mutual fund organization, a registered investment adviser (RIA) or an investment advisor representative (IAR) working under and RIA.⁶

2. Assets under management: The manager should have at least \$XX million under management.⁷

3. Expense ratios/fees: The manager's fees should be competitive with fees provided to similar non-profit organizations.

4. Stability of the organization: There should be no perceived organizational problems – the same portfolio management team should be in place for at least two years. (This may be waived in some circumstances; such as for funds managed by teams or for funds where prior performance histories of separate accounts are considered relevant.)

Criteria/benchmarks that will be used to evaluate the investment performance

of the Reserve, Restricted and Endowment Funds.

⁶ Once again, verify this by reference to the firm's and the advisors' IARD filings. In most states, this is the minimum requirement for practice as an advisor.

⁷ This cutoff is essentially arbitrary, though State/SEC/FINRA registration requirements differ based on whether the advisor has less than \$25 million, between \$25 and \$100 million, or over \$100 million assets under management.

While AUM provides a rough measure of experience or longevity, it is important to bear in mind that it may have very little to do with integrity or basic skill. Prime Example: Bernie Maddof's Hedge Fund Claimed something in excess of \$100 BILLION of AUM. This volume afforded Maddof the opportunity to misappropriate approximately \$50 Billion of those investments. A small fund manager's skills and integrity may outweigh the size (or lack thereof) of their AUM.

General Notes Regarding Spending Policies

Gift instrument may be (i) a gift agreement between the donor and the Exempt Organization creating or contributing to an endowment fund; (ii) the Exempt Organization's solicitation materials in which the Exempt Organization represents that funds received from the solicitation will be maintained in reserved or endowed funds; (iii) minutes of a Board of Directors meeting at which a donor's gift of endowed funds is announced; or (iv) any other record that contains a directive from the donor that makes the fund an endowment.

Under UPMIFA, the assets in the Exempt Organization's endowment fund may not be spent until they are "appropriated for expenditure" by the Exempt Organization. Although the term is not defined in UPMIFA, an appropriation is generally understood to mean a decision by the board of directors to release a portion of an endowment from the donor-imposed restriction on spending, thus authorizing it to be spent in accordance with the terms of the gift instrument. Funds appropriated for expenditure need not be spent immediately; they may be appropriated on one date and spent at a later date or over time.

There is some uncertainty whether the decision to appropriate endowment funds for expenditure or to accumulate such funds can be delegated to a board committee, such as the executive committee or finance committee. UPMIFA specifically authorizes the delegation of board investment-related responsibilities to board committees and outsiders but is silent on whether the appropriation decision can be delegated. Section 712 of the N-PCL, however, specifically allows delegation of most board duties to board committees and, accordingly, could be seen as providing the board with the power to delegate the appropriation decision to a board committee. We understand that the Charities Bureau is intending to issue guidance on this issue. Until such guidance is issued, it may be best to ensure that the final decision with respect to any appropriation or accumulation of endowment funds is made by the board of directors.

Endowment Spending Policy For <NFP-Name> (the "Exempt Organization")

Purpose

The purpose of this Endowment Spending Policy is to set forth the standards and guidelines governing spending from the endowment funds of the Exempt Organization.

An endowment fund is any fund, or a part of a fund, that, under the terms of the gift instrument, is not wholly expendable by the Exempt Organization on a current basis. Funds that are not restricted as to expenditure under the terms of a gift instrument but have been so restricted by action of the Exempt Organization's Board of Directors (the "Board of Directors" or the "Board") are not endowment funds.

Appropriating Endowment Funds for Expenditure

All spending from each of the Exempt Organization's endowment funds will comply with any donor restrictions on spending imposed on such fund by contract or by the <APPLICABLE-LAW>. When an endowment fund is created, the donor also restrict the purpose or purposes for which funds from the endowment may be spent. All decisions regarding expenditures from an endowment fund restricted as to purpose must comply with those restrictions. Expenditures from endowment funds that are not restricted may be used for any purpose of the Exempt Organization.

Decisions to appropriate funds from each endowment for expenditure or to accumulate such funds shall be made only by the Board of Directors. The Board may authorize a committee of the Board to assist the Board in carrying out its responsibilities with respect to the expenditure of the Exempt Organization's endowment funds. Such committee may be authorized to make recommendations to the Board of Directors regarding the expenditure of the Exempt Organization's endowment funds but the final decision as to such matters shall be made by the Board. The Board committee, in making a recommendation to appropriate funds from each endowment for expenditure or to accumulate such funds, and the Board of Directors, in making a decision to appropriate funds from each endowment for expenditure or to accumulate such funds, must act in good faith with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and must (a) consider the uses, benefits, purposes and duration for which the endowment fund was established and (b) consider each of the following factors, if relevant:

1. The duration and preservation of the endowment fund;
2. The purposes of the Exempt Organization and the endowment fund;
3. General economic conditions;
4. The possible effect of inflation or deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Exempt Organization;
7. Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Exempt Organization; and
8. The Exempt Organization's investment policy.

In accordance with <APPLICABLE-LAW>, decisions to appropriate endowment funds will be made on a fund-by-fund basis and in accordance with any specific directives on spending that the donor has imposed. Should the number of the Exempt Organization's endowment funds become large enough that making annual appropriation decisions on a fund-by-fund basis becomes unduly burdensome or cumbersome, the Board of Directors or a Board committee so authorized by the Board, may classify the Exempt Organization's endowment funds into groups of similarly situated funds for the purpose of allowing the Board, in accordance with the prudence standard set forth above, to determine each year an appropriate spending rate that should be applied to each such group of similarly situated funds. The factors that the Board or Board committee may consider in determining classes of similarly situated funds include: (i) the purposes of the funds as stated in the gift instruments; (ii) spending restrictions imposed by donors in the gift instruments; (iii) the durations of the funds; (iv) whether the funds are invested similarly; (v) the financial conditions of the funds; and (vi) such other factors as the Board or Board committee determines are relevant under the circumstances.

The Board of Directors or the Board committee shall review from time to time the classes of similarly situated funds and the composition of each such group to ensure that such funds are properly classified.

Specific donor directives on spending may preclude classification of an endowment fund into any class of similarly situated funds. When making an appropriation recommendation or decision from an endowment fund that includes such specific donor directives on spending, the Board committee, in making its recommendation, and the Board of Directors, in making its decision, shall consider the endowment fund separately and appropriations from such endowment fund will be made in accordance with any specific directives on spending that the donor has imposed.

Documenting Spending Deliberations

The Board committee, if any, and the Board of Directors each shall keep a contemporaneous record of its decisions regarding the appropriation of endowment funds for expenditure, describing the nature and extent of the consideration that the committee or Board gave to each of the eight factors listed in Section II above.

Under <APPLICABLE-LAW>, unless permitted by the donor in the gift instrument, an annual distribution from an endowment fund created on or after September 17, 2010 in an amount exceeding seven (7) percent of the fair market value of the fund, calculated based on market values determined at least quarterly and averaged over a period of at least the last twenty quarters ending with the last quarter of the fiscal year preceding the distribution (or for the number of quarters in existence for endowments more recently created), will create a rebuttable presumption that such distribution was imprudent. Accordingly, should the Board committee recommend and/or the Board of Directors decide, after acting in accordance with <APPLICABLE-LAW>'s prudence standard as set forth above, that making an annual distribution in excess of seven (7) percent from such endowment fund is prudent, the Board committee and the Board each shall ensure that the contemporaneous written record documenting its recommendation or decision includes a detailed statement of the basis upon which the Board committee and/or Board determined that such annual distribution was prudent.

Rockefeller Foundation: Investment Committee Charter

Bylaws, Article IX, Section (c) states:

There shall be an investment committee consisting of not less than four nor more than nine persons, at least two of whom shall be trustees. Members of the committee shall be elected by the Board at the annual meeting each year and shall serve at the pleasure of the Board. The chair of the committee, who shall be a trustee, shall be elected by the Board. A vacancy in the committee may be filled by the Board at any meeting.

The committee shall formulate and propose investment policy to the Board and shall implement such policy as is approved by the Board. Pursuant to such policy, the committee shall establish investment guidelines and shall have the authority to exercise those powers relating to the investment management of the corporation's assets which are conferred upon the corporation by law and by its certificate of incorporation. In addition, the committee shall oversee the investment assets of the Fund, and monitor the management of the Fund's assets for compliance with investment policies and guidelines and for meeting performance objectives over time. Between meetings of the committee, the chair of the committee and the president of the corporation, acting together, shall have the authority to exercise all such powers, subject to the investment policy set by the Board and investment guidelines established by the committee.

The committee shall keep regular minutes of its proceedings and shall report all actions to the Board at the next meeting of the Board following such action.

In addition to the specific section of the Bylaws establishing the investment committee, other provisions of the Bylaws related to the committee include the following:

Composition

The chair of the Board and the president of the Fund shall be ex officio members of the committee.

Members of committees who are not trustees or who are former trustees who have served for nine consecutive full one-year terms as committee members shall not be eligible for re-election without an interruption of at least one year, except that any former trustee who was a committee chair at the conclusion of the former trustee's term as trustee shall be eligible for re-election to the committee for two additional one-year terms beyond this limit.

Meetings

The chair of the Board shall be entitled to have notice of committee meetings and to attend and vote at such meetings, provided that, with the exception of the executive committee, the chair shall be under no obligation to attend and shall not be counted to determine the number necessary to make a quorum or to determine whether a quorum is present.

The president of the Fund shall be entitled to have notice of committee meetings and to attend and vote at meetings of committees of which the president is a member, but the president shall be under no obligation to attend and shall not be counted to determine the number necessary to make a quorum or to determine whether a quorum is present.

Any action required or permitted to be taken by the Board or any committee may be taken without a meeting, if all members of the Board or the committee consent in writing or electronically to the adoption of a resolution authorizing the action. If written, the consent must be executed by the trustee or committee member by signing the consent or causing his or her signature to be affixed to the consent by any reasonable means, including but not limited to facsimile signature. If sent electronically, the consent must set forth or be submitted with information from which it can reasonably be determined that the transmission of the consent was authorized by the trustee or committee member. The resolution and the consents thereto by the members of the Board or of such committee shall be filed with the minutes of the proceedings of the Board or of such committee.

Any one or more members of the Board or of a committee may participate in a meeting of the Board or the committee by means of a conference telephone, videoconference, or similar communications equipment as long as all persons participating in the meeting can hear each other at the same time. Participation by such means shall constitute presence in person at the meeting.

Unless otherwise specified in the Bylaws, a majority of the members of each committee shall constitute a quorum for the transaction of business and an act of the majority of members present at the meeting shall be an act of the committee.

The committee shall meet at least three times a year.

In addition to requirements of the Bylaws, this charter sets forth the following additional provisions that guide the committee:

Purpose

The investment committee is charged by the Board of the Fund with responsibility of advising the Board on investment policy and implementing such policy.

Responsibilities

The committee shall:

- a) Formulate and propose to the Board investment policies, objectives and strategies for the Fund's investment assets, which may include asset allocation and manager selection.
- b) Establish investment guidelines reflecting portfolio objectives and risk constraints within a defined policy portfolio. Delegate its responsibilities, as outlined in the investment guidelines, to officers and employees of the Fund.
- c) Review the performance of the outside chief investment office in the implementation and administration of the policies and procedures established by the committee and report to the president and the Board on this review.
- d) Evaluate investment performance of the portfolio. The evaluation will take into account compliance and investment policies as well as guidelines and risk levels.
- e) Periodically review and assess the adequacy of this charter.