WHATCOM community FOUNDATION

INVESTMENT POLICY

1. Introduction.

1.1 The Whatcom Community Foundation manages separate, commingled pools of assets with different objectives and time horizons. This Investment Policy is intended to establish the roles and responsibilities of all parties involved with these pools, objectives of the different pools, investment guidelines, investment manager selection criteria and reporting requirements.

1.2 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. The Board of Directors, members of the Investment and Finance 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.

2. Roles and Responsibilities.

2.1 The Board of Directors shall approve the Investment Policy and all amendments thereto. The Board shall semi-annually review a report prepared by the Investment and Finance Committee analyzing each asset pool's performance relative to the Investment Pool Objectives as well as compliance with the Asset Allocation Guidelines. This report will also analyze each third-party manager (as may be contracted) on the same basis. The Board shall approve the engagement of any third-party investment manager/advisor based on recommendations by the Investment and Finance Committee.

2.2 The Investment and Finance Committee shall:

2.2.1 Develop the Investment Policy, including performance objectives and guidelines for each asset class. Investment performance will be monitored against these guidelines

2.2.2 Develop recommendations for asset classes, their target allocations and allowable range.

2.2.3 Review the investments quarterly to ensure that policy guidelines continue to be met. The Committee or its staff shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks. The Committee, or its staff, shall also monitor portfolio characteristics and portfolio performance attribution. The information for these reviews may come from staff, outside advisors, the custodian, and the Foundation's Investment Managers.

2.2.4 Take appropriate action if investment objectives are not being met or if policies and guidelines are not being followed. Reviews of portfolios managed by external managers will focus on:

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- Compliance with the Foundation Investment Policies, Investment Objectives, Investment Guidelines Statement and the Investment Manager Reporting Requirements.

2.2.5 Review externally managed portfolios, focusing on material changes in the managers' organizations, such as investment philosophy or process, personnel changes, acquisitions or losses of major accounts, etc. External managers will be responsible for keeping the Foundation advised of any material changes in personnel, process, investment strategy, or other pertinent information potentially affecting performance.

2.2.6 Administer the Foundation's investments in a cost-effective manner. These costs include, but are not limited to: management, consulting and custodial fees, transaction costs and other administrative costs chargeable to the Foundation.

2.2.7 Be responsible for selecting a qualified custodian as defined by the ability to handle investments, transactions, and strategies authorized by this policy. For mutual and other commingled funds, responsibility for selecting a qualified custodian resides with the Investment Manager of that mutual or commingled fund.

2.2.8 Provide overall monitoring of Investment Advisors, and ensure that Investment Advisors conform to the terms of their contracts and that their performance monitoring systems are sufficient to provide the Foundation with timely, accurate and useful information.

2.3 Staff shall:

2.3.1 Implement the investment plan as directed by the Investment and Finance Committee.

2.3.2 Rebalance internally managed pools to maintain the proper diversification within the ranges approved by the Investment and Finance Committee and in accordance with the Investment and Rebalancing Guidelines in Section 4, and report allocation quarterly to the Investment and Finance Committee.

2.3.3 Execute any documents necessary to facilitate implementation of this policy, including but not limited to contracts with Investment Advisors and Managers for providing services.

2.3.4 Provide for the collection and investment of contributions and investment income, and the payment of expenditures for the management of the Endowment.

3. Investment Pool Description/Objectives.

The Foundation manages five separate pools of assets: Long-Term Pool, Long-Term Socially Screened Pool, Mid-Term Pool, Short-Term Pool and Impact Investing Pool.

3.1 The Long-Term Pool consists primarily of the Foundation's endowed funds, but may also hold non-endowed funds which the donor or fund representative does not intend to request disbursement for 5 or more years. The Long-Term Pool's investment objective is to assure a long-term rate of growth sufficient to offset normal inflation, administrative fees, and management fees (if any), plus reasonable, regular distributions in perpetuity.

3.1.1 **Performance Goal.** The time weighted total return (before contributions and withdrawals) shall approximate the average return of appropriate capital market indices, weighted by the asset allocation target percentages, net of all investment fees and expenses, without increasing the short-term risk characteristics, over rolling five-year periods.

3.2 The Long-Term Socially Screened Pool consists primarily of endowed funds, but may also hold non-endowed funds which the donor or fund representative does not intend to request disbursement for 5 or more years. The Long-Term Socially Screened Pool's investment objective is to assure a long-term rate of growth sufficient to offset normal inflation, administrative fees, and management fees (if any), plus reasonable, regular distributions in perpetuity, while focusing on investments that screen for environmental, social and human rights criteria.

3.2.1 **Performance Goal.** The time weighted total return (before contributions and withdrawals) shall approximate the average return of appropriate capital market indices, weighted by the asset allocation target percentages, net of all investment fees and expenses, without increasing the short-term risk characteristics, over rolling five-year periods.

3.3 The Mid-Term Pool is intended for non-endowed funds for which the donor or fund representative expects to request disbursement over two to five years, after which the funds may be totally expended without prior notice at any time. The investment objective is to minimize short-term volatility in order to fund distributions, and to enhance the longer term returns in recognition that funds may not be expended for several years.

3.3.1 **Performance Goal.** The time-weighted total return (before contributions and withdrawals) shall approximate the average return of appropriate capital market indices, weighted by the asset allocation target percentages, net of all investment fees and expenses, without increasing the short-term risk characteristics, over rolling three-year periods.

3.4 The Short-Term Pool is intended for non-endowed funds which may be expended at any time, including current year operating and program funds, special projects and the spendable portion of endowed funds. The primary objective of this pool is to preserve capital until funds are disbursed.

3.4.1 **Performance Goal.** Attain low-risk, money market returns.

3.5 The Impact Investment Pool is limited to discretionary spendable fund balances and spendable balances of endowed and non-endowed donor advised funds which the donor or fund representative agrees will not be available to grant until the investment is repaid.

3.5.1 **Performance Goal**. Impact, rather than performance, is the goal for this pool. Investments focusing on mission priorities in the Foundation's Strategic Framework document shall be evaluated by the Impact Investing Committee, in accordance with Foundation by-laws, and the Foundation's Impact Investing Policy.

4. Investment Guidelines.

Inherent in the guidelines for each "Pool" is that the risk profile of each pool, and the resultant short-term volatility as measured by standard deviation of return, shall not exceed the short-term volatility of the target allocation weighted return of each pools' index.

4.1 **Asset Allocation.** It is the Foundation's policy to invest according to an asset allocation strategy that is designed to meet the Performance Goals. The strategy will be based on a number of factors, including:

- The projected spending needs plus expenses;
- The maintenance of sufficient liquidity to meet spending requirements;
- Historical and expected long-term capital market risk and return behaviors; and
- The relationship between current and projected assets of the fund and its spending requirements.

4.1.1 **Target Allocation and Allowable Ranges**

Asset Class		**Target Allocation**				**Allowable Range**	**Comparative Index**
Equities		**Long-Term Pool**	**Long-Term Soc Pool**	**Mid-Term Pool**	**Short-Term Pool**		
	Large Cap	39.0%	65.0%	25.0%	0.0%	5% of target $	S&P 500 Composite Index
	Mid Cap	5.2%	0.0%	0.0%	0.0%	5% of target $	S&P 400 Composite Index
	Small Cap	7.8%	0.0%	0.0%	0.0%	5% of target $	Russell 2000 Index
	International	17.0%	0.0%	0.0%	0.0%	5% of target $	MSCI ACWI-ex US IMI
Total Equities		**69.0%**	**65.0%**	**25.0%**	**0.0%**		
Real Estate		**5.0%**	**5.0%**	**5.0%**	**0.0%**	5% of target $	MSCI US REIT Index
Fixed Income							
	Intermediate-Term	23.0%	27.0%	65.0%	0.0%	5% of target $	Barclays Aggregate Bond Index
Total Fixed Income		**23.0%**	**27.0%**	**65.0%**	**0.0%**		
Cash Equivalents		**3.0%**	**3.0%**	**5.0%**	**100.0%**	as needed	3-Month T Bill
	Impact Investment Pool allocation varies -- see project proposal/approval						

4.2 **Mutual Funds**. Shall be limited to no-load index and index "like" funds selected by the Investment and Finance Committee. The Committee will annually review the prospectus of each mutual fund for compliance with Investment Guidelines.

4.3 **Asset Classes**.

4.3.1 **Equity Securities.** The purpose of Foundation equity investments, both domestic and international, is to provide long-term capital appreciation with the recognition that this asset class carries with it the assumption of greater market volatility and higher risk of loss than is assumed with fixed income or cash equivalent investments. This component includes domestic and international common stocks, American Depository Receipts (ADRs), preferred stocks, and convertible stocks traded on the world's stock exchanges or over-the-counter markets.

Public equity securities shall generally be restricted to a broadly diversified portfolio of readily marketable securities of corporations that are traded on the major stock exchanges, including NASDAQ. Equity holdings must generally represent companies meeting a minimum market capitalization requirement of $100 million with reasonable market liquidity. Decisions as to individual security selection, number of industries and holdings, current income levels and turnover are left to broad manager discretion subject to the standards of fiduciary prudence. However, no single economic sector (as defined by Standard and Poors) shall represent more than 30% of the Fund's total target equity allocation, nor more than double the S&P 500 sector weighting (whichever is smaller), and no single security shall represent more than 5% of the Fund's total market value. International stocks (not including ADRs) shall not represent more than 20% of the (target) market value of equities.

Investment Managers, including the Investment and Finance Committee, are prohibited from borrowing money or pledging assets, or trading uncovered options, commodities or currencies without the advance approval of the Board of Directors. Managers are also restricted from investing in private placements, hedge funds, and restricted stock unless otherwise permitted by the Board. It is expected that no assets will be invested in securities whose issuers are or are reasonably expected to become insolvent, or who otherwise have filed a petition under any state or federal bankruptcy or similar statute.

Within the above guidelines and restrictions, Managers will have complete discretion over the timing and selection of equity securities.

4.3.2 **Fixed Income Securities.** The purpose of fixed income investments is to provide diversification, and a predictable and dependable source of cash flow. It is expected that fixed income investments will not be totally dedicated to the long-term bond market, but will be flexibly allocated among maturities of different lengths. Fixed income instruments should reduce the overall volatility of the Fund's assets, and provide a deflation hedge. This component includes, but is not limited to, U.S. Treasury and government agency bonds, public corporate debt, mortgages, asset-backed securities and certificates of deposit with maturities of one year or greater provided balances at any institution do not exceed the current threshold for FDIC insurance protection.

Investments in fixed income securities should be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums. These investments will be subject to the following limitations:

- The weighted average duration of the fixed income portfolio should be within 15% of the duration of the index to which the portfolio is benchmarked;

- Investments of a single issuer, with the exception of the U.S. Government may not exceed 5% of the total market value of the Fund;

- No more than 5% of the corporate debt securities in the fixed income portfolio may be rated below investment grade.

Within the above guidelines and restrictions, the Manager(s) has complete discretion over the timing and selection of fixed income securities.

4.3.3 **Cash and Equivalents**. The Investment Manager may invest in the highest quality commercial paper, repurchase agreements, Treasury Bills, certificates of deposit (with maturities of one year or less, provided balances at any institution do not exceed the threshold for FDIC insurance protection), and money market funds to provide income, liquidity for expense payments, and preservation of the Fund's principal value. Commercial paper assets must be rated at least A1 or P-1 (by Moody's or S&P). No more than 5% of the Fund's total market value may be invested in the obligations of a single issuer, with the exception of the U.S. Government and its agencies.

Un-invested cash reserves shall be kept to a minimum. Short-term, cash equivalent securities are usually not considered an appropriate investment vehicle for investment. However, such vehicles are appropriate as depository for income distributions from longer term investments, or as needed for temporary placement of funds directed for future investment to the longer term capital markets. Also, such investments are the standard for contributions to the current fund or for current operating cash.

Within the above guidelines and restrictions, Managers have complete discretion over the timing and selection of cash equivalent securities.

4.3.4 **Restrictions**. The Investment and Finance Committee is authorized, with prior approval of the Board, to waive or modify any of the restrictions in these guidelines in appropriate circumstance. Any such waiver or modification will be made only after a thorough review of the Manager and the investment strategy involved.

4.4 **Rebalancing.** The Investment Manager shall review investment allocations monthly, in order to identify allocations outside of the allowable range for the investment, and shall rebalance as necessary to bring the investments within allowable range. At a minimum, investment pools shall be rebalanced semi-annually, and the Long-Term Pool must be rebalanced after the spendable amount for each fund in the pool is calculated.

5. Third-Party Investment Managers

With the approval of the Board, the Investment and Finance Committee shall have authority to engage, replace and dismiss third-party investment advisors.

5.1 Minimum Selection Criteria. Investment advisors retained by the Foundation shall meet the following minimum criteria:

- Be an SEC Registered Investment Advisor
- Have been in business with the same company for a minimum of five (5) years.
- Have demonstrated experience working with not for profit organizations.
- Provide composite historic returns (net of all fees and expenses) of all assets under management for a minimum of the past five years, detailing
  - Time weighted 5-, 3-, and 1-year composite return
  - Time weighted 5-, 3-, and 1-year equity return
  - Time weighted 5-, 3-, and 1-year fixed income returns
  - Sector weighting of current composite equity portfolio
  - Capitalization profile of current equity composite portfolio
  - Quality profile of current (taxable) fixed income composite portfolio
  - Maturity profile of current (taxable) fixed income composite portfolio
- Provide current assets under management
- Describe structure of firm and responsibilities of specific individuals that would work on Foundation account
- Provide fee structure

5.2 Reporting

5.2.1 **Quarterly**. Third-party investment managers shall provide quarterly written reports containing at a minimum:

- An account statement showing each security held (name/description), cost basis, current market value, and summarizing values by asset class and within equities by economic sector.
- A statement of all purchases and sales (including matured or called fixed income securities) over the previous quarter.
- A statement of income received over the past quarter.
- A statement of realized gains and losses over the current fiscal year to date.

- Performance Analysis showing beginning assets, ending assets, gain or loss, contributions, withdrawals, gain or loss before contributions and withdrawals, and fees paid (not included in withdrawals). Time weighted total return calculation (net of fees) for total account and by asset class, total return for comparative indices. The periods covered shall be preceding quarter and trailing twelve months, and trailing three years.
- A narrative report including but not limited to:
  - Major changes in the Investment Manager's investment outlook, investment strategy, investment process, or portfolio structure;
  - Significant changes in ownership, organizational structure, financial condition or senior personnel;
  - All pertinent issues which the Investment Manager deems to be of significant interest or material importance.

5.2.2 **As Needed**. Third party investment advisors shall meet directly with the Investment and Finance Committee on an as needed basis, but not less than once per year.