

**STATEMENT OF INVESTMENT POLICY**  
**of**  
**THE RICHLAND COUNTY FOUNDATION OF MANSFIELD, OHIO**

**I. Background**

The Richland County Foundation (“Foundation”) is a public charitable organization incorporated in the State of Ohio in 1945 by citizens of the Richland County area. The charitable features of the Foundation are designed to improve the quality of life in Richland County through support of non-profit programs and services in the areas of health, economic development, basic human needs, education, cultural activities, environment and community services. The Foundation provides flexibility in responding to charitable requests and identifies changing needs within the community.

The Board of Trustees (“Board”) consists of members selected for their experience in understanding the Richland County community and awareness of a community foundation's role in addressing these concerns. The Board has charged the Finance Committee (“Committee”) with the responsibility of safeguarding the Foundation’s assets (“Assets”) and financial stability by providing direction and oversight of the Statement of Investment Policy (“Policy”).

The investment funds of the Foundation are a vital source of grants to the community. The growth and enhancement of the Assets entrusted to the Foundation's stewardship (measured in constant dollars adjusted for inflation) is necessary to provide funds to enable the Foundation to meet changing conditions and to address community pressures and opportunities.

**II. Purpose**

The critical determinant of the Foundation’s ability to achieve its goals will be the growth of the asset pool supporting the Foundation. The Foundation recognizes the need to develop and execute a comprehensive program of prudently investing the Assets under its control with the goals of maximizing long-term total return of the Assets and meeting the cash flow needs of the Foundation within the guidelines set forth in this document. The purpose of the Policy is to assist the Foundation in more effectively supervising and monitoring the investment activities of the Assets by:

- defining the responsibilities of the Foundation, its investment managers (“Managers”) and its investment consultant (“Consultant”);
- stating in writing the Foundation’s attitudes, expectations, and goals for the investment of the Assets;

- providing a basis for reviewing investment management organizations in the selection process;
- encouraging effective communication between the Managers, the Consultant, and the Foundation; and
- setting objectives, against which the performance results of the Managers, operating within the constraints imposed by the Foundation's Policy can be measured.

This Policy will be reviewed at least annually by the Committee. All changes to the Policy shall be approved by the Committee and submitted to the Board for final approval.

### **III. Investment Objective**

The overall objective should be the prudent management of investments in such a way that will provide reasonable opportunities over the long term for real growth of principal and a predictable income stream to meet any identified current needs. The Foundation may withdraw capital gains for distribution in accordance with its Spending Policy.

The Foundation believes that asset allocation rather than market timing or security selection is the primary determinant of investment returns and is an appropriate strategy for the long-term investor. Furthermore, well-defined investment guidelines and a prudent asset allocation formula should incorporate an equity bias to enhance overall portfolio return potential and diversification while producing an acceptable level of risk.

### **IV. Spending Policy**

The asset allocation strategy and risk tolerance incorporated in this policy are based on the total return expectations implied by the intended use of the Foundation. The maximum Spending Policy for the Foundation is 5% of a twelve-quarter trailing market value average. A specific spending rate will be recommended each year by the Finance and Executive Committees and approved by the Board of Trustees. The spending of Assets will be consistent with guidelines established by the Board in a prudent manner upon consideration of several factors including but not limited to the following: economic conditions, the possible effects of inflation or deflation, the expected return of the investments, other resources of the Foundation and other factors identified by the Uniform Prudent Management of Institutional Funds Act. The spending amount is intended to cover grants, strategic initiatives and expenses associated with operating the Foundation.

### **V. Investment Target**

The primary investment target of the Foundation is to earn, over a five-year moving period, net of investment management fees and transaction costs, an average annual total rate of return at least 5.0 percent greater than inflation as expressed in the Consumer Price Index.

Total rate of return takes into consideration dividends and interest income plus realized and unrealized capital appreciation.

## **VI. Investment Responsibilities**

A) **The Finance Committee:** Accountable to the Board, the Committee is responsible for the review and implementation of investment policies of the Foundation including, but not limited to, drafting and establishing investment policies, selecting an investment consulting organization, selecting and terminating investment managers, reviewing the investment strategies of investment managers, selecting master record keepers and custodians, determining asset allocations, prudently diversifying investments by asset classes and investment managers, monitoring investment performance, and setting standards for portfolio rebalancing.

B) **Investment Management Consultant:** The Consultant may assist the Committee in establishing investment policy, objectives and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and reporting back to the Committee on portfolio performance and positioning.

C) **Investment Managers:** The Foundation may authorize the delegation of discretionary investment responsibility to banking institutions and/or independent professional investment management firms to purchase, sell or hold specific securities that will be used to meet the Foundation's investment objectives. Subject to broad investment policies as outlined in this document and standards of fiduciary prudence, this discretionary responsibility includes the execution of day-to-day investment functions by responding to the Committee's guidelines as to asset mix, portfolio diversification and rebalancing, liquidity, market volatility, and management style. In addition, the Managers are responsible for specific investment decisions with regard to security selection, timing and execution.

D) **Custodian:** The custodian will physically (or through agreement with sub-custodian) maintain possession of securities owned by the Foundation, collect dividend and interest payments, redeem maturing securities, and affect receipt and delivery following purchases and sales.

## **VII. Asset Allocation**

The prime factor influencing the risk and ultimately the investment performance of the Foundation's portfolio is the allocation of investments between asset classes. Historical performance results and future expectations suggest that common stocks will provide total investment returns higher than fixed income securities over a long-term investment horizon. However, one can expect an increase in portfolio volatility as the stock percentage is increased, particularly over the short-term.

Within this document, the Committee expresses its need to ensure that the Assets will be invested to maximize long-term total return and meet the cash flow needs of the Foundation. Therefore, based on the investment objectives and risk tolerances stated in this Policy, the following ranges of asset classes is considered appropriate for the Foundation:

<u>Asset Class</u>	<u>Range</u>
Domestic Large-cap Equity	20-30%
Domestic Mid-cap Equity	5-10%
Domestic Small-cap Equity	5-10%
Total Domestic Equity	30-50%
International Equity	10-20%
Total Equity	40-70%
Alternative Investments	5-15%
Fixed Income	20-40%
Cash & Cash Equivalents	0-10%
Total Fixed Income & Cash	25-45%

#### Asset Class Rebalancing

Periodically, the Committee will establish an asset allocation target for each asset class within the ranges approved by the Board. In addition to directing new cash inflows or cash outflows to best reach target allocations, re-balancing to the target allocation will be considered whenever the actual allocations deviate outside the above stated policy ranges, unless the Committee specifically approves a deviation from this allocation. Compliance with the Policy will be measured on a calendar-quarter basis using annually updated cash flow projections and quarterly updated market values for Assets.

The ranges allow for the Finance Committee, with the advice from the Investment Consultant, to make tactical asset allocation decisions, emphasizing certain asset classes and de-emphasizing others based upon their relative attractiveness, but will insure that exposure to each asset class falls within the specified range. This will provide opportunities to benefit from periods of undervaluation and overvaluation of asset classes but will insure some discipline in the management of the portfolio, insulating it from undue pessimism or enthusiasm over market cycles.

### **VIII. Investment Guidelines**

#### A. Equity Assets

The following investment directions are intended to apply to the investment of the equity portion of the Assets.

Cash Positions: A separate account equity manager must notify, and get approval from, the Committee in the event that the Manager wishes to increase its cash equivalent position beyond 10% of the assets under its supervision.

Diversification: It is expected that any Manager selected shall ensure adequate investment diversification. The Manager is required to seek Committee approval if more than 6% at book value, or more than 10%, at market value, of the assets under a Manager's supervision are to be committed to the equities of any one company.

Approval will also be required if a Manager has a sector allocation of more than double the market capitalization weighting to the equities of companies operating in the same economic sector as defined by Standard & Poor's. In the case of international securities, the diversification guidelines pertain to the Europe, Australasia, and Far East (EAFE) Index.

Marketability/Liquidity: Acceptable levels of marketability/liquidity are frequently expressed as functions of quality, market capitalization, and location of trading of a given security. It is the Foundation's expectation that the Manager will ensure adequate marketability of investments under its supervision. Moreover, any Manager is not expected to invest in securities of companies with less than \$500 million capitalization. However, if the Manager is given a specific small capitalization mandate, the Manager is not expected to invest in securities of companies with less than \$25 million capitalization.

#### B. Fixed Income Assets

The primary objective of the fixed-income portion of the Assets shall be to provide a secure stream of income (i.e. income in excess of U.S. Treasury Bill rates) and to provide a relatively stable market value base. The following directions are intended to apply to all fixed-income Managers:

Fixed-income investments may include issues of U.S. and foreign Government and Agency obligations, corporate bonds, mortgage or asset backed bonds, collateralized mortgage obligations, REIT debt, and preferred stocks with sinking funds as deemed prudent by the Managers.

Fixed-income portfolio maturity, as measured by portfolio duration, should not exceed 120%, nor should it be less than 80% of the appropriate fixed income benchmark.

Fixed-income investments shall be made primarily in those rated "BAA3" (investment grade) or better by Moody's and "BBB-" (investment grade) or better by Standard & Poor's with an average credit rating of "A" or better. If a security has more than one rating, the lower rating shall apply. High yield/non-investment grade securities shall not exceed 5% of the Foundation's total assets.

No more than 5% of the fixed income investments, at market, shall be invested in securities of any one issuer, except Government and Agency obligations, including federally sponsored entities such as FNMA and GNMA without the Committee's prior approval.

Cash equivalent investments (maturities less than one year) are permitted, up to 10% of the total market value of the account, when the Managers' investment policies discourage longer-term commitments. However, the Committee must be consulted in the event that the Manager chooses to increase its cash equivalent position beyond 10% of the assets under its supervision.

### C. Alternative Investments

Alternative investment strategies may include private market investments in venture capital, distressed debt, mezzanine debt, and buyouts or a combination of some or all strategies up to 15% of the total portfolio. Additionally, alternative investment strategies may include public market investments in market-neutral, long/short, risk arbitrage, convertible arbitrage hedge funds or a combination of some or all strategies. The objective of the alternative investment allocation is to provide the Foundation diversification, as well as enhance the performance of the asset pool.

### D. Cash Equivalent Investments

Such investments should be prudently diversified and would include:

- any instrument issued by, guaranteed by, or insured by the U.S. Government, agencies, or other full faith instruments;
- commercial paper issued by domestic corporations which is rated both "P-1" and "A-1" by Moody's and Standard & Poor's, respectively;
- certificates of deposit, bankers acceptances, or other such irrevocable primary obligations from a list of approved banks provided by the Managers; and
- commingled, short-term cash reserve funds managed generally in accordance with the principles set forth above.

## IX. Evaluation of Investment Managers

The Managers will be reviewed at least quarterly and will be evaluated based upon the following additional criteria:

1. Investment performance measured against market indices as listed in Schedule A. All active Managers are expected to outperform relevant indices over rolling 3- and 5-year time periods. Active Managers are expected to add value over benchmarks that reflect similar style and/or investment risk levels. Passive investment vehicles are expected to generate similar performance to the targeted benchmarks.
2. Investment philosophy and adherence to investment discipline, including minimizing style drift.
3. Continuity of personnel and practices at the firm, including ownership structure.
4. Compliance with Policy requirements.
5. Timeliness and accuracy of reporting in compliance with industry standards.

A Manager may be terminated if they fail to comply with these criteria or for any other reason(s) deemed appropriate by the Committee.

**X. Reporting and Communication Policy**

- A. Managers' communications with the Foundation Staff ("Staff"):
  - 1. Provide monthly portfolio valuation and transaction listings;
  - 2. Provide quarterly portfolio reports;
  - 3. Notification of material changes in personnel, style, within 5 days;
  - 4. Recommendations as to changes in the Policy.
- B. Committee communications with Managers:
  - 1. Provide Managers with Policy changes;
  - 2. Discuss cash flow trends and any other matters that may bear upon the portfolio.
- C. Consultants' communications with Staff and the Committee:
  - 1. Provide monthly portfolio valuation rate of return reports;
  - 2. Provide quarterly portfolio evaluation reports;
  - 3. Recommendations as to changes in the asset allocation as needed.
- D. Committee communications with the Board:
  - 1. The Finance Committee will provide reports on the status of Foundation investments as needed but not less than annually.

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