COMMUNITY FOUNDATION of SAN JUAN ISLAND

INVESTMENT POLICY STATEMENT

Revised 10-10-12
Revised 8-30-18
Revised 3-28-19
Revision 5-19-22
Board Approved 5-19-22

Introduction & Purpose

This document presents the investment process of The Community Foundation's Investment Portfolio ("Portfolio"), including investment objectives, asset allocation, investment restrictions, and review procedures (collectively, the "Policy").

The objective of this Policy is for the Portfolio to:

1. **Earn sufficient returns to support the foundation's annual operations budget which is funded through a combination of:**
    a. **Fund fees.**
    b. **Operations donations.**
    c. **Annual distributions from the general endowment and the operations endowment.**
2. **Earn sufficient returns to support the foundation's annual granting budget which is funded through a combination of:**
    a. **Granting fund donations to the healthy community fund, non-endowed donor advised, designated, agency and grant/scholarship specific funds.**
    b. **Annual distributions from the general endowment and the endowed donor advised, designated, agency and grant/scholarship specific funds.**
3. **Earn sufficient long-term return to preserve or grow the purchasing power of the endowed assets, after fees (investment and administrative) and inflation within the parameters of the Uniform Prudent Management of Institutional Funds Act (UPMIFA).**
4. **Achieve on an annual basis, performance that meets or exceeds the overall benchmark that best represents the target portfolio as mutually agreed by the foundation and its investment consultant.**

Investment Responsibilities

Board of Directors

The Foundation Board of Directors holds the ultimate fiducial authority and responsibility for legal compliance with respect to all funds, investments, expenses, fees and grants. The Board exercises this authority and responsibility through the establishment, regular review and approval of Foundation investment, spending and fund related policies.

Board Delegated Authorities

The Board has, by adoption of this Investment Policy Statement, delegated certain authorities to Committees of the Board. Specifically:

Oversight of the investment portfolio within the board approved asset allocation ranges, is delegated to the Investment Committee.

Review of the Foundation Spending Policy is delegated to the Finance Committee in consultation with the Investment Committee.

The authority to review, set terms and make recommendations to the board for the approval of new fund applications is delegated to the Executive Director as detailed in the SJICF Fund Management Policy.

Authorities Specifically Retained by the Board of Directors

The following authorities are specifically retained by the Board of Directors and subject to approval by a majority vote of the Board:

- Final approval of the following policies and any revisions based upon the recommendations of the (indicated) committees:
    - SJICF Investment Policy Statement (Investment Committee Review)
    - SJICF Asset Allocation Policy (Investment Committee)
    - SJICF Spending Policy (Review by Finance Committee and Investment Committee)
    - SJICF Fund Management Policy (Review by Executive Committee)
    - SJICF Fund Administration Fees (Review by Executive Committee)
- Approval of any investment consultant and any consultant contract and/or retainer as recommended by the Investment Committee.
- Approval of all investment fund managers, any related contracts and any changes to the approved investment fund managers as recommended by the Investment Committee.
- Approval of all new funds including revisions to the fund terms and conditions.

The designated committee of the board will review investment Board policies annually and any changes will be brought as recommendations to the board for their approval.

Investment Committee

The Investment Committee of the Board of Directors has the responsibility for establishing and modifying all elements of this Policy including establishing the Portfolio's asset allocation strategy subject to final approval by the Board. The Finance and Investment Committees of the Board and their delegated and designated staff, the Investment Consultant and investment managers will be charged with implementing this Policy.

The Investment Committee is responsible for:

1) Overseeing the Portfolio's assets and reporting on the status of the Portfolio to the Board of Directors.

2) Reviewing investment reports prepared by the Investment Consultant for the Committee's review ensuring that such reports contain information necessary for the Committee to exercise its investment responsibilities.

3) Establishing an overall investment strategy using a combination of indexed Exchange Traded Funds (ETFs), Managed Mutual Funds and Managed Alternative Funds (Private Credit, REITs, Hedged).

4) For each ETF, monitoring its absolute Total Return (share price plus dividends plus capital gains distributions) and evaluating its contribution to the overall investment objectives.

5) For each Managed Fund, monitoring the investment performance of each manager versus the associated benchmark using reports prepared by the managers and the foundation's Investment Consultant.

6) For each Managed Fund, monitoring the appropriateness of each manager's investment strategy given the Foundation's overall investment strategy, philosophy, and objectives.

7) For each Managed Fund, selecting and terminating investment managers for the Portfolio using advice from the foundation's Investment Consultant, in accordance with the strategic asset allocation as set forth in this Policy and including performance and Policy compliance related issues.

8) Reviewing this Policy on an ongoing basis and recommending changes to the Board of Directors, as may be necessary or desirable.

All Investment Managers are responsible for:

1) Acting in accordance with "prudent investor" principles with respect to the management of the Foundation Portfolio's assets.

2) Immediately reporting to the Investment Consultant and Investment Committee, any investigations of, or judgments or findings against the firm or its principals, either by the SEC or any other regulatory authority. In addition, any lawsuits brought against the firm or its principals should also be immediately reported to the Foundation.

3) Immediately communicating all pertinent changes in the Manager's firm to the Foundation and Consultant. This includes, but is not limited to:

    - Changes in personnel involved in the Foundation's relationship
    - Changes in Manager's ownership
    - Changes in senior investment professionals' responsibilities
    - Changes in Manager's investment style

The Foundation's Treasurer and Staff is responsible for:

1) Assisting the Investment Committee, the Investment Consultant and the Managers with all components of this Policy.

2) Ensuring that deposits to and withdrawals from the Portfolio are in accordance with the requirements established by the Investment Committee and the Board of Directors.

3) Verification of the managers' fees on a regular basis in conjunction with the Investment Consultant.

The Investment Consultant is responsible for:

1) Assisting the Foundation Treasurer, Staff and the Investment Committee with its responsibilities.

2) Reviewing Total Portfolio performance and underlying investment manager performance on a regular basis, typically quarterly.

3) Preparing Investment Reports that consolidate information from each investment manager.

4) Monitoring this Policy and recommending changes as needed.

5) Providing assistance to the investment committee in establishing target benchmarks for each asset class and for the portfolio as a whole.

6) Regularly evaluating portfolio performance with respect to the agreed target benchmarks and notifying, in a timely manner, the investment committee of significant deviations along with recommendations for corrective actions in cases of under-performance.

7) Notifying the investment committee of significant market or economic events that might lead to portfolio under-performance and offer mitigating or corrective actions for consideration by the committee.

8) Tracking compliance with the board approved asset allocation policy and notifying the committee of necessary changes.

9) Adhering to the committee's investment strategy or "style" and raising for discussion any recommendations for changes.

10) Providing each investment manager (separate accounts only) with a copy of the updated Statement of Investment Policy.

11) Monitoring each investment manager's ownership structure and investment personnel and reporting all significant changes to the Investment Committee.

12) Monitoring each investment manager for adherence to this Policy as well as to his or her stated investment style.

13) Providing necessary information and cooperating with the accounting staff in preparing reports and audits as and when required to do so.

14) Maintaining an awareness of other potential investment managers and recommending the addition or change in investment managers as appropriate.

15) Communicating regularly (at least quarterly) with the Committee with regards to each of the above-mentioned responsibilities.

16) Provide a general economic perspective as a context for the Committee's work.

17) Assist the Committee in evaluating various economic forecast scenarios, the possible effects of those scenarios on the Portfolio and possible alternate strategies that might be appropriately recommended to the Board.

Spending Policy

The Board has approved a "SJICF Spending Policy" which determines the amount of funds that annually, the Foundation will make available for distribution for charitable purposes from endowed or quasi-endowed funds. Endowed funds are managed to preserve principal while achieving an annual distribution amount sufficient to cover administration fees and make grant distributions consistent with the Foundation's Spending Policy. Quasi-endowed funds are those in which the donor has not specified that the fund should be endowed but, by vote of the Board are managed as if they were endowed in order to best achieve the fund's long term goals as determined by vote of the Board. These funds are managed to the same standards as endowed funds.

For endowed funds, the Spending Policy has been established in compliance with the Washington State approved UPMIFA rules and is reviewed annually to set a spending rate that takes into account expected portfolio returns, inflation rate, administrative expenses and mission related expenses.

Underwater funds will be identified and specific consideration given to that fund's spending rate for the year in question based on the foundation's variance policy and the UPMIFA guidelines.

For quasi-endowed funds, spending will be managed according to the SJICF Spending Policy as if they were endowed but without the legal requirement for compliance with the UPMIFA rules.

All other funds may be classified for the purposes of spending in one of the following categories:

- Non-Endowed Donor Advised, Designated or Agency Funds –
  - These Funds are distributed by the Board based upon requests from the donor or non-profit agency subject to the terms of the specific Fund Agreement. Such distributions may include any amount of earnings and/or principal up to the full amount of the fund.
  - Historically, distributions from these funds have been somewhat predictable annually. The Committee will make this information available to the Investment Consultant. The Treasurer manages a cash account with the assistance of staff to provide a quarterly buffer for these distributions.

- Program Funds –
  - These Funds are discretionary funds of the Foundation and are distributed by the Board or its designated Committees. There are no restrictions on the amount that may be distributed at any time up to the full amount of the fund.
  - Historically, distributions from these funds have been predictable annually. The Committee will make this information available to the Investment Consultant. The Treasurer manages a cash account with the assistance of staff to provide a quarterly buffer for these distributions.

- Project Funds –
    - These Funds are similar to designated funds except they are discretionary to the Board but only for the designated purpose. These funds may be fully spent. The timing of distributions is at the discretion of the Board and can usually be preplanned (at least 6 months) for the purposes of predicting investment liquidity requirements. The Committee will provide fund-by-fund requirements to the Investment Consultant.

Deposits/Withdrawals

The Investment Committee, with the advice of the Finance Committee and the Investment Consultant, will determine how to allocate deposits to the managers in a manner that is consistent with the asset allocation policy.

Investment Philosophy

As a long-term investor, the following issues are significant factors in the prudent allocation of the Foundation's Long–Term pooled assets:

- In order to achieve a rate of return that will support the above-mentioned spending policy while protecting the assets from inflation, the Foundation must be willing to take some investment risk with respect to the Endowment Portfolio.

- The Committee believes that the most effective way to establish an appropriate volatility level for the portfolio is through its asset allocation (i.e. stocks, bonds, alternatives and cash). Long term investment return and volatility depend on the Portfolio's strategic asset allocation. In consultation with its Investment Consultant, a strategic asset allocation policy has been adopted which best balances the opportunity for achieving the investment return objectives as set forth in this Policy with an acceptable volatility level.

- As a long-term investor, the Foundation has adopted a strategic long-term asset allocation for the Portfolio. Over time, the Portfolio will remain invested in percentages that are fairly close to those called for in the strategic allocation.

- While the Foundation acts as a long-term investor, market conditions may dictate the adoption of short-term tactical strategies as a reaction to major market disruptions. These short-term tactical strategies should be thoroughly discussed with the Investment Consultant and brought to the attention of the Board of Directors.

- If a short-term tactical strategy results in changes to the asset allocation policy then approval of the board will be required.

- The Foundation strongly believes in the long-term benefits of diversifying its Portfolio into a number of different asset classes and investment strategies. While each asset class and strategy is carefully selected, the measure of success of the investment process is based on the overall Portfolio performance.

- To achieve the long-term benefits of a widely diversified Portfolio, the Foundation has adopted strategic targets for each asset class that it utilizes. It expects that the Portfolio weight for each asset class will remain within minimum and maximum percentages. The current strategic asset allocation including targets and acceptable ranges is set forth in the then current Strategic Asset Allocation Policy as approved by the Board.

- Within each asset class, the Foundation seeks to earn the most efficient rate of return possible (after investment expenses). Investments will be well diversified by investment style and strategy. The Foundation has adopted specific requirements and restrictions for each asset class. These are described in ***Appendix A***.

Performance Objectives

In order to achieve the objectives stated in the Introduction to this Policy, the Foundation's total Portfolio must earn a rate of return that meets its long-term goals. Given that this target rate of return is not solely related to current market performance, success or failure in achieving this goal should be evaluated over a full market cycle, typically five to seven years.

It is understood that short-term results are significant factors in the evaluation of the Foundation's investment performance by its donor and agency fund holders. To this end the Foundation seeks to carefully manage its short-term risk profile and therefore seeks to minimize the short-term downside performance risk in balance to the other objectives stated in this policy.

In order to evaluate the performance of its managers over shorter time periods, the Foundation has also adopted a market driven benchmark for each asset class. For the Portfolio as a whole, the Total Portfolio Benchmark ("Benchmark") will consist of a suitable index for each asset class used. These indices will be weighted on a monthly basis according to the Foundation's strategic asset allocation targets listed in the Board approved Strategic Asset Allocation Policy.

Administrative and Review Procedures

The Investment Committee will review this Policy at least annually and make recommendations for any changes to the Board for approval.

The Investment Committee will review the performance of the Portfolio assets each meeting with the assistance of its Investment Consultant and the Foundation staff. These reviews will include

- Review of the Portfolio's overall asset allocation to assure compliance with this document.

- Review of the assets held in each portion of the Portfolio to assure compliance with the Foundation's policies regarding investment restrictions and the consistency of the manager's strategy.

- Review of performance against the benchmarks set forth in this document.

Foundation Staff and the Investment Consultant will perform the above review at least quarterly and report any deviations or concerns as soon as reasonably practicable to the Investment Committee Chair.

The Committee will make a report to the Board at its quarterly meetings with regard to these factors including any recommended changes in asset allocation, investment strategy or specific investment managers. Annually the Committee will evaluate the performance of the Investment Consultant pursuant to the renewal of the annual contract.

Non-Permanent Funds

A. The Board has authorized the investment of funds owned by the Foundation in the form of non-permanent funds. The investments would be through a local bank, national bank, investment company, or financial institution.

B. Approved instruments include:

1. Bank, mutual fund, commingled fund, institutional money markets;

2. Separately managed investment accounts provided they comply with the guidelines set forth for Long-Term Pooled assets in Appendix B.

3. Appropriate checking accounts for smaller amounts to be used within 30 days.

Appendix A
Asset Class Definitions/Guidelines

Domestic US Equity

1) The domestic equity portfolio will be diversified according to economic sector, industry, number of holdings and other investment characteristics. Both indexed funds and managed funds will be employed as appropriate.

2) For Managed Funds: Domestic equity managers are permitted to hold up to 20% of their portfolio in American Depository Receipts ("ADRs") or foreign domiciled companies whose equity securities are traded in US markets.

3) For Managed Funds: No more than 5% at cost or 10% at market of a manager's portfolio may be held in the securities of a single issuer.

4) For Managed Funds: Short selling of securities is limited to hedging purposes only.

5) For Managed Funds: Derivative instruments such as financial futures and options may not be used without the prior approval of the Foundation's Investment Committee.

6) For Managed Funds: *Specific Restrictions* – The manager is restricted from purchasing any security the Committee deems inappropriate for the portfolio. The Committee may select such securities at any time and the investment manager must liquidate upon notification.

International Equity

The following definitions may be used to distinguish between developed and emerging international securities.

International Developed Equity: Listed equity securities traded on developed non-U.S. markets. Developed markets are defined as those included in Morgan Stanley's EAFE index plus Canada.

Emerging Markets Equity: Listed equity securities traded on emerging non-U.S. markets. Emerging markets are defined as any market that is not included in Morgan Stanley's EAFE index plus Canada.

All restrictions listed above for Domestic Equity, other than item number two (ADR's), also applies to International Equity with the following additions and modifications.

1) For Managed Funds: Managers must hold securities in a minimum of three countries at all times.

2) For Managed Funds: Currency exposure may only be hedged back to the US dollar. The decision to hedge is left to the manager's discretion. Derivative instruments may be used to achieve currency hedging as permitted under this policy.

U.S. Fixed Income

1) For Managed Funds: The duration of a manager's portfolio should be within 80% and 120% of the duration of their market benchmark. For Indexed Funds (ETFs): the duration may be selected by the Investment Committee based on current market conditions.

2) For Managed Funds: Managers are permitted to invest in the following classes of fixed income securities:
    - Bonds or notes issued by the U.S. Government or a U.S. Government Agency backed by the full faith and credit of the US Government
    - Mortgage-backed securities (exposure to "derivatives" requires permission from the Investment Committee).
    - Corporate bonds issued in the U.S. and denominated in U.S. dollars
    - Asset-backed securities
    - Inflation-protected treasuries
3) The committee will consider alternative credit market funds, including distressed credit investments on a case-by-case basis. Usually such instruments would involve ETF funds.
4) For Managed Funds: Aggregate bond managers are expected to maintain an average quality rating for their portfolio that does not fall below an S&P rating of B+. This restriction does not hold for managers dedicated to the high yield space. High Yield managers must carry a minimum average S&P quality rating of B-.
5) For Managed Funds: No more than 5% at market of a manager's portfolio may be held in the securities of a single corporate issuer. This restriction does not apply to securities issued by the U.S. Government or a U.S. Government Agency backed by the full faith and credit of the U.S. Government.
6) For Managed Funds: Derivative instruments may be utilized by a manager in order obtain more efficient exposure to a specific type of security. However, at no time, may derivative instruments be used to leverage the portfolio. In addition, it is expected that a manager will have thoroughly tested the behavior of the derivative instrument under a variety of market conditions before purchasing the security for the portfolio.
7) For Managed Funds: A manager may only deviate from these guidelines with advance written permission of the Foundation.

International Fixed Income

All restrictions listed above for US Fixed Income, other than item number two (restriction to US investments), also applies to Global Fixed Income with the following additions and modifications.

1) Managers must invest in a minimum of three countries at all times.
2) Currency may be hedged to the US dollar and/or other currencies in the market in order to capture desired exposures

Alternative Investments

In order to enhance portfolio results, the Foundation may elect to invest in alternative investment strategies (Private Credit, REITs, Hedged). These investments are made with the intention of raising portfolio returns and/or lowering total volatility. In most cases, these investments will be implemented via limited partnerships, limited liability companies, business trusts and foreign (non-US) corporations. Therefore, restrictions are established by the offering documents for each partnership.

The board hereby authorizes investments in alternative funds that have liquidity restrictions with up to a one-year hold followed by monthly or quarterly redemptions. Other terms will be at the Board's discretion. The percentage of alternative investments that have liquidity restrictions is limited to 20% of the total portfolio without specific authorization of Board.

Investment Consultant or Fund Manager:

Signed ______________________________

Date _____________

SJICF Investment Committee:

Signed ______________________________

Date _____________