



FOUNDATION POLICIES

No. 2: INVESTMENT POLICY

Approved by Board Action Feb. 7, 2020

Introduction

This Investment Policy Statement (“IPS”) is to establish in writing the investment goals and objectives and management policies applicable to the **Louisiana – Mississippi – West Tennessee Kiwanis District Foundation Endowed Funds** (“Foundation”) investment portfolio (“Portfolio”). This IPS will

- Establish reasonable expectations, objectives and guidelines in the investment of the Portfolio’s assets
- Create the framework for a well-diversified asset mix that can be expected to generate acceptable long-term returns at a level of risk suitable to the Foundation, including:
 - Describing an appropriate risk posture for the investment of the Foundation’s Portfolio
 - Specifying the target asset allocation policy
 - Establishing investment guidelines regarding the selection of investment managers, permissible securities and diversification of assets
 - Specifying the criteria for evaluating the performance of the Portfolio’s assets
- Define the responsibilities of the Foundation.
- Encourage effective communication between the investment manager(s) and the Foundation
- This IPS is intended to be a summary of the investment philosophy and the procedures that provide guidance for the Foundation and any investment manager. The investment policies described in this IPS should be dynamic. These policies should reflect the Foundation’s current status and philosophy regarding the investment of the Portfolio. These policies will be reviewed and revised periodically to ensure they adequately reflect any changes related to the Portfolio, to the Foundation, or the capital markets.

It is understood that there can be no guarantee about the attainment of the goals or investment objectives outlined herein.

Investment Policy Discussion

What is an Investment Policy Statement?

An investment policy outlines and prescribes a prudent and acceptable investment philosophy and defines the investment management procedures and long-term goals for the Investor.

The need for a Written Policy

The principal reason for developing a long-term investment policy and for putting it in writing is to protect the portfolio from ad hoc revisions **that contradict those** of a sound long-term policy. The written investment policy

will help maintain a long-term policy when short-term market movements may be distressing and the policy is in doubt.

Having and making use of an investment policy encourages a more disciplined and systematic approach, thus improving the probability of satisfying the investment goals.

Investment Philosophy

The basic tenets under which this portfolio will be managed include the following:

1. Modern portfolio theory will be the primary influence driving the way the portfolio will be structured and how subsequent decisions will be made. The underlying concepts of modern portfolio theory include:
 - Investors are risk averse. The only acceptable risk is that which is adequately compensated by potential portfolio returns.
 - Markets are efficient. It is virtually impossible to know ahead of time the next direction of the market as a whole or of any individual security. It is, therefore, unlikely that any portfolio will succeed in consistently “beating the market.”
 - The portfolio as a whole is more important than an individual security. The appropriate allocation of capital among asset classes (stocks, bonds, cash, etc.) will have far more influence on long-term portfolio results than the selection of individual securities. Investing for the long-term (preferably longer than ten years) becomes critical to investment success because it allows the long-term characteristics of the asset classes to surface.
 - For every risk level, there exists an optimal combination of asset classes that will maximize returns. A diverse set of asset classes will be selected to help minimize risk. The proportionality of the mix of asset classes will determine the long-term risk and return characteristics of the portfolio as a whole.
 - Portfolio risk can be decreased by increasing diversification of the portfolio and by lowering the correlation of market behavior among the asset classes selected. (Correlation is the statistical term for the extent to which two asset classes move in tandem or opposition to one another.)
2. Investing globally helps to minimize overall portfolio risk due to the imperfect correlation between economies of the world. Investing globally has been shown historically to enhance portfolio returns, although there is no guarantee that it will do so in the future.
3. Equities offer the potential for higher long-term investment returns than cash or fixed income investments. Equities are also more volatile in their performance. Investors seeking higher rates of return must increase the proportion of equities in their portfolio, while at the same time accepting greater variation of results (including occasional declines in value).
4. Picking individual securities and timing the purchase or sale of investments in the attempt to “beat the market” are highly unlikely to increase long-term investment returns; they can also significantly increase portfolio operating costs. Such practices are, therefore, to be avoided.
5. The basic underlying approach to the management of this portfolio shall therefore be to optimize the risk/return relationship appropriate to the Investor’s needs and goals using a globally diverse portfolio of a variety of asset classes using mutual funds and/or managed portfolios, to “buy and hold” the selected securities and periodically re-optimize (rebalance).

Investment Objective

The specific objective for these assets shall be to achieve an average annual rate of return (over a period of five years) of 8%.

Time Horizon

These Endowed Funds are to be held in perpetuity with only the income or a set percentage as determined by the Foundation being distributed periodically. Therefore, the time horizon for investment purposes is long-term. Capital values do fluctuate over shorter periods and the Foundation recognizes that the possibility of capital loss does exist. However, historical asset class return data suggest that the risk of principal loss over a holding period of at least three to five years can be minimized with the long-term investment mix employed under this IPS.

Tax Policy

This account is not subject to taxes, so all investment decisions are to be made without consideration of the tax impact.

Risk Tolerance

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (volatility of return) is associated with higher return.

The Foundation is interested in seeing the value of assets grow over time for the benefit of the Foundation and the charitable causes it will support. It is understood that volatility comes with the desire for higher returns and the Foundation is prepared to be patient through such volatile periods.

At the same time, the Foundation does not see any reason to take excessive risks. Taking these factors into account, the foundation has chosen to pursue a growth investment policy.

Asset Allocation

Research suggests that the decision to allocate assets among various asset classes will far outweigh security selection and other decisions that affect portfolio performance. After reviewing the long-term performance and risk characteristics of various asset classes and balancing the risk and rewards of market behavior, the following asset classes were selected to achieve the objectives of the Portfolio.

<u>Asset Class</u>	<u>% Allocation or Range</u>
Cash	0% to 5%
Bonds (Short-term, Intermediate-term and Long-term)	20% to 40%
Stocks (Large-cap, Mid-cap, Small-cap and International)	60% to 75%

No guarantees can be given about future performance, and this Investment Policy Statement shall not be construed as offering such a guarantee.

Rebalancing Procedures

From time to time, market conditions may cause the Portfolio's investment in various asset classes to vary from the established allocation or range. To remain consistent with the asset allocation guidelines established by this IPS, every quarter the Portfolio will be reviewed. If the actual weightings by asset class differ from the established weighting by 5% or more the Portfolio shall be rebalanced back to the targeted total weighting. Or, if a range is set and the actual weighting by asset class falls outside the established range the Portfolio shall be rebalanced

back within the established range. **The portfolio is in a pool of endowed funds with the CREATE Foundation, Inc. and rebalancing will occur without knowledge of the Board as a performance by the Portfolio Manager.**

Diversification

Investment of the Foundation's funds shall be limited to individual marketable securities or packaged products (for example, mutual funds) in the following categories:

Permitted Asset Classes

1. Cash and cash equivalents
2. Fixed income – domestic bonds
3. Fixed income – non-U.S. bonds
4. Equities – U.S.
5. Equities – non U.S.
6. Equities – emerging markets

Permitted Security Types

1. Mutual funds – stocks, bonds, money market funds, real estate
2. Individual stocks as long as they are traded on a major U.S. exchange
3. Individual bonds as long as they are rated A or better and traded on a major U.S. exchange
4. Closed-end funds
5. Unit investment trusts
6. WEBS and exchange traded funds
7. Bank certificates of deposit

Prohibited Asset Classes and/or Security Types

1. Precious metals
2. Venture capital
3. Short sales
4. Leveraged transactions
5. Commodities transactions
6. Purchase of real estate other than through mutual funds or REITs.

Other Investment Considerations

Investment in any individual stock or bond (except U.S. Government backed securities) will not exceed 10% of the total portfolio value, without the approval of the Foundation Board.

Investment Monitoring and Control Procedures

Reports **The pooled funds with the CREATE Foundation do not allow for this type of reporting.**

1. The Foundation shall receive monthly reports that list all assets held, values for each asset and all transactions affecting assets within the portfolio, including additions and withdrawals. The Foundation shall receive no less frequently than on a quarterly basis the following management reports:
 - a. Portfolio performance results for the last quarter, year, 3 years and 5 years
 - b. Performance results of each individual manager for the same periods
 - c. Performance results of comparative benchmarks for the same periods
 - d. Performance shall be reported on a basis that is in compliance with AIMR standards.
2. Investor will receive annually a status regarding asset allocation – current versus targets and any recommendations for changes. **Investments shall be made in accordance with written investment objectives,**

policies, and procedures adopted by the CREATE Foundation, a copy of which will be provided to the “Foundation”, upon request.

3. CREATE Foundation provides to the Louisiana-Mississippi-West Tennessee Foundation a quarterly report of Endowed Funds market value, total revenues, both realized and unrealized, and expenses.

Meetings and Communication

4. Foundation shall be kept apprised of any material changes in the investment manager’s outlook, recommended investment policy and tactics. In addition, the investment manager shall meet with the Foundation no less than annually to review and explain the Portfolio’s investment results and any related issues. **The pool of endowed funds with The CREATE Foundation do not allow for this type of communication.**

Duties and Responsibilities

The Investment Manager

Investment Manager shall be responsible for:

1. Designing, recommending and implementing an appropriate asset allocation plan consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this statement.
2. Advising the Foundation about the selection of and the allocation of asset categories. **The pool of endowed funds with the CREATE Foundation does not allow for this duty.**
3. Identifying specific assets or funds within each asset category.
4. Monitoring the performance of all selected assets.
5. Recommending changes to any of the above. **The pool of endowed funds with the CREATE Foundation does not allow for recommendations directly to the Louisiana-Mississippi-West Tennessee Foundation.**

The Foundation

The Foundation shall be responsible for:

1. The oversight of the Portfolio
2. Defining the investment objectives and policies of the Portfolio.
3. Directing Investment Manager to make changes in investment policy and to oversee and to approve or disapprove any recommendations with regards to policy, guidelines and objectives on a timely basis.
4. Providing Investment Manager with all relevant information on Foundation’s financial conditions and risk tolerances and notifying them promptly of any changes to this information.

NOTATIONS IN RED APPLY TO THE ENDOWED FUNDS FOR THE DURATION OF THE ENDOWMENT FUND AGREEMENT BETWEEN THE CREATE FOUNDATION, INC AND LOUISIANA-MISSISSIPPI-WEST TENNESSEE KIWANIS FOUNDATION.