



# INVESTMENT POLICY

*Revised and approved by WCCF Board January 29, 2020*

## **Introduction**

The Western Colorado Community Foundation (“the Foundation”) was created to provide perpetual financial support to the Colorado Western Slope community and was organized and is operated exclusively for “Charitable Purposes”. The term “Charitable Purposes” means those charitable, benevolent, civic, cultural, literary, educational, religious, scientific, and other charitable purposes described in Code (501(c)(3) and Code (170(c)(1) and (2), including the making of grants to organizations that qualify as exempt organizations under Code (501(c)(3) and the administration of scholarship funds. The investment policy is to establish guidelines for the Foundation’s endowment investment portfolio (the “Portfolio”) that will be used for monitoring the progress of the Portfolio’s investment program and for evaluating the performance of the investment advisors hired on behalf of the Portfolio and its beneficiaries and to delineate the objectives and guidelines for all investable assets of the Foundation.

## **Investment Objectives**

The investment strategy of the Portfolio will be to emphasize Total Return. Total Return, net of management fees, is the aggregate return from capital appreciation, dividend, and interest income. The objectives of the Portfolio have been established in conjunction with a comprehensive review of the current and projected financial requirements.

The primary investment objective of the Portfolio is to provide a relatively stable, inflation adjusted, annual payout to support the Foundation’s defined spending rate. There will be some inevitable volatility in principal value of the Portfolio, but it may offer the potential for a sustainable payout plus inflation protection over the long term.

To assist the Foundation in gauging the success of the return on investments, the Foundation shall employ, as its investment minimum return goal, the following formula:

5 yr. Annualized CPI + Spending Rate (4.5%) + Administrative Fee (1%)

The target minimum return is measured based on a trailing five-year annualized return. This is the time period used to gauge whether or not the portfolio is meeting its objective. Each individual period may be more or less than the target. The probability of success of achieving the minimum return goal increases as the length of the evaluation period increases. It is anticipated that there will be periods of time where the five-year trailing calculation will be below the minimum return goal. There must be a tolerance for these periods in order to remain with the long-term strategy and not change at inopportune times.

The Foundation shall also maintain an objective of controlling fees and costs of administering and managing the investments.

## **Fiduciary Responsibilities**

This document is intended to serve as a policy and guideline for the Investment Committee that allows sufficient flexibility in the management process to capture investment opportunities while providing parameters that ensure prudence and care in the execution of the investment program as dictated by the Prudent Investor Rule, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), C.R.S. 15-1-1101 et seq. and all other pertinent statutes.

The Foundation's Board of Directors has fiduciary duty and is responsible for directing and monitoring the investment management of the Foundation assets in accordance with UPMIFA. The Investment Committee, acting in a fiduciary capacity, is accountable to the Board and to the Executive Committee with respect to the investment portfolio and overseeing the investment of all assets owned by WCCF.

## **Investment Committee Guidelines**

This Investment Policy sets forth the investment objectives and guidelines that govern the activities of the Investment Committee and any other parties to whom the Investment Committee has delegated investment management responsibility for its assets.

The investment policies contained herein have been formulated consistent with WCCF's anticipated financial needs and in consideration of the Foundation's tolerance for assuming investment and financial risk.

Policies contained in this document are intended to provide guidelines for ensuring that the investments are managed consistent with the short-term and long-term financial goals of the fund. Functions of the Investment Committee include:

1. Develop and define, in coordination with the Foundation staff, investment objectives subject to Board approval.
2. Select an investment advisor(s) to help the Committee oversee the professional management of the Portfolio. WCCF will retain professional investment management organizations (firms that are registered advisors under the Investment Advisors Act of 1940 or appropriately exempt from registration). All investment advisors will hold appropriate investment qualifications, licenses and education as recognized by the industry and UPMIFA.
3. Meet not less than four times annually to review the results of the investment portfolio and determine whether the investment objectives are being achieved and investment guidelines are being followed.
4. Recommend changes in asset allocations and benchmarks to the Board, to ensure that the investment policy remains consistent with the Foundation's mission and charitable purposes, the intentions of donors as expressed in gift instruments, these Bylaws, UPMIFA, and other applicable laws and regulations.
5. Recommend changes in investment advisors to the Board.

## **Investment Philosophy**

The Foundation, with the help of the investment advisor, manages and invests all property accepted by it in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances, with proper attention to the intent of donors as expressed in gift instruments, the charitable purposes of the Foundation, the purposes of the gifts, and applicable law.

### Investment Considerations:

Colorado Statutes dictate the use of the Prudent Investor Rule, as incorporated in UPMIFA. In managing and investing the funds of the Foundation, the following factors, as listed in UPMIFA, shall be considered.

1. The duration and preservation of the endowment fund;
2. The purposes of the foundation and the endowment fund;
3. General economic conditions;
4. The possible effect of deflation and inflation;
5. The expected total return from investments;
6. Other resources of the institution; and
7. The investment policy of the institution.

### Foundation Responsibilities:

In developing this policy, consideration was given to the Foundation's financial condition, its liquidity requirements, the nature of its spending requirements and its risk-taking capacity. WCCF must also comply with audit and accounting rules applicable to non-profit organizations.

### Risk and Return:

The Committee shall follow UPMIFA, which incorporates modern portfolio theory. The goal is to manage both risk and return in order to preserve the long-term endowment funds of the foundation. The Committee is aware that in order to sustain the Foundation's spending rate in perpetuity, an equity biased portfolio is necessary. An equity biased portfolio will inevitably have a large degree of volatility over time, but historically the risk of owning equities has been rewarded with a greater return than that available from fixed income investments.

## **Investment Horizons**

The Foundation manages three categories of funds which have different time horizons.

### Permanent Endowment and Long-term Funds:

Funds with a long-term investment horizon (five years or more). Generally, the Foundation's endowment assets are intended to exist and provide for grant making capability into perpetuity. The investment objectives of these funds are to provide a relatively stable, inflation adjusted, annual payout to support the Foundation's defined spending rate. This IPS refers only to the investment of these long-term assets.

The Foundation also holds assets for a duration of time that is less than five years. These include non-endowed funds (also known as spend down funds), operating funds, and project funds. These funds are not invested in the long-term investment portfolio. The Foundation uses a

variety of FDIC-insured vehicles for these short-term assets that include checking and savings accounts, CDs, CDARs, and Money Market accounts. In general, there is a preference to use western Colorado based financial institutions for these kinds of deposits. **These funds are not covered by this IPS.**

### **Spending Policy**

Income available for spending from endowed funds is determined by a “total return” spending policy and is calculated as follows:

The amount to be expended or distributed for grants and scholarships will be 4.5% of the Portfolio’s average market value over the prior 20 quarters, and may be drawn from both ordinary income earned (i.e., dividends, interest, rents, royalties, etc.) and appreciation, both earned and unearned. Some adjustments to the 20 quarters are allowed for funds which have seen significant growth in gifts in a year or period of years. This 20-quarter average was chosen to accommodate (smooth out) the payouts based on a more volatile, growth-oriented portfolio.

Any fund agreement or other gift instrument that has different spending requirements would be honored, per UPMIFA.

### **Allowable Investments**

#### **Marketable Securities:**

Marketable investments provide greater opportunity to buy or sell to meet the requirements of the Foundation. Diversification in marketable investments requires holding investments in many different sectors of the market. Investments that do not participate in markets with acceptable volumes should be held only because of specific needs of the Foundation. For example, a hedge fund that will not allow prompt liquidation would not be allowed.

#### **Non-Market Assets and Securities:**

1. Ownership of individual real estate parcels and other unique assets present challenges to the owner of such items in terms of risk, monitoring, liquidation, and control.
2. To handle these assets the Foundation shall set up or contract with supporting or other entities to manage and control these assets.
3. The Investment Committee and the Special Assets Committee shall develop policies to deal with classes of such assets, as needed.

#### **Socially Responsible and Local Investments:**

The Investment Committee will consider socially responsible and local mission-related investments when so directed by donors or when the Foundation accumulates sufficient unencumbered funds for which to make such an investment.

#### **Illiquid Investments:**

The advisor(s) should not invest in “illiquid” investments, such as private placements, limited partnerships, and hedge fund vehicles. The Investment Committee may reject the use of such investments for any reason.

#### **Prohibited Assets:**

The Investment Committee views investment in the following types of transactions as prohibited

and unsuitable for the Foundation:

- Any transaction as prohibited by federal tax and regulatory guidelines.
- Investments in securities or products that generate UBIT (Unrelated Business Income Tax) or other taxable income to the Foundation. If, as a result of a donation directly to the Foundation that is not easily converted to cash for investment, and for which the Foundation is or could be liable for UBIT, careful review and consideration of whether to hold the asset (and pay UBIT), or dispose of it, will be undertaken as soon as is administratively feasible.
- Investments subject to the Excess Business Holdings treatment. The Pension Protection Act of 2006 amended section 4943 of the Internal Revenue Code to limit ownership of closely held business interests in a donor advised fund. A fund's holdings, together with the holdings of disqualified persons (donor advisor, members of their families and businesses they control, in the aggregate) may not exceed any of the following:
  - 20% of the voting stock of an incorporated business;
  - 20% of the profits interest of a partnership, joint venture or the beneficial interest in a trust or similar entity;
  - Any interest in a sole proprietorship.

These limitations do not apply if the donor-advised fund holds an interest that does not exceed two percent of the voting stock and two percent of the value of the business.

Donor-advised funds receiving gifts of interests in a business enterprise have five years from the receipt of the interest to divest holdings that are above the permitted amount. To prevent a violation of these rules, it is the Foundation's policy to divest itself of such holdings within five years from the date the Foundation acquired the asset. If that is not possible, the asset will be transferred to a new or existing fund that is not an advised fund.

Because they are not "business enterprises," the rule will not apply to most gifts of real property, although undeveloped land may become a business enterprise under some circumstances. Interests in investment partnerships and LLCs—including family partnerships, hedge funds, REITs, and so forth—are excluded from the definition of business enterprise as long as 95 percent or more of the entity's income is from passive sources. Examples of other property gifts that are excluded because they are not business enterprises include: oil and gas interests (non-working); life insurance; tangible personal property (as long as it is not inventory); and remainder interests in personal residences and farms."

### **Asset Allocation**

The strategic allocation of portfolio assets across broadly defined financial asset categories will be the most significant determinant of long-term investment returns and asset value stability. The Committee believes that the Portfolio's risk and liquidity posture are, in large part, a function of asset class mix. The advisor has presented, to the Committee, summary information about the long-term performance of various asset classes, focusing on balancing the risks and rewards of market behavior. Considering the Portfolio's investment objective, time horizon, risk tolerances, performance expectations, and asset class preferences, an appropriate portfolio allocation was identified, as shown in the "Asset Allocation Targets" chart (see Appendix). The targets shown in the chart will not be changed without first Committee approval, to be followed by Board approval.

In general, the Investment Advisor will manage a diversified long term portfolio which may

include the following asset classes: Money Market Funds, Short Term, Intermediate Term, and/or Long Term Bonds, Treasury Inflation Protected Securities, International Bonds, International and Domestic Large Cap Value, International and Domestic Large Cap Growth, International and Domestic Real Estate, International and Domestic Mid Cap, International Small Cap, Small Cap Value, Small Cap Growth, Energy and Natural Resources, Commodities, Private Equity Investments, Hedge Funds, and Alternatives.

After the allocation strategy is implemented, the advisor is responsible for rebalancing the portfolio, applying the methodology approved by the advisor's Investment Committee. Any change in methodology will be communicated to the Foundation in writing contemporaneously.

### **Manager Due Diligence Policy**

For an asset allocation strategy to be effective, each asset class must be represented by using a manager that will best represent the class objective. Otherwise, the results will most likely be different than anticipated. This is particularly true during times of adversity or crisis.

A qualifying manager must be a registered investment advisor under the Investment Advisors Act of 1940 or appropriately exempt from registration. In most instances, the advisor will use money managers, mutual funds and exchange-traded funds (ETFs) that have established track records of at least five years. A ten-year track record is preferred, if possible. The advisor will decide which managers to use based upon their particular contribution to the Portfolio. This often results in having more than one manager for the same asset class, each with a different bias and approach.

To identify managers who fit the implementation objectives, a rigorous research process is to be followed. The research process involves both a quantitative and qualitative review.

#### **Quantitative Analysis**

The quantitative analysis attempts to distill a large universe of managers into a small group of strong performers. Managers who pass this phase of the research process have a history of delivering above-average risk adjusted returns, as measured against their peers who fit the same asset class. Performance during multiple market cycles is observed. The goal is not to chase returns, but to look for consistent, long-term track records of at least five and preferably ten years. Also, a *returns-based style analysis* and a *holdings-based analysis* is performed to assure accurate asset class fit.

#### **Qualitative Analysis**

The qualitative analysis involves an in-depth review of the management company and its history. Several years of all published reports are reviewed for consistency of management style and stability of professional staff. A review of historical portfolios is performed for clues about the true style and risk posture of the manager over time. Personal interviews and on-site office visits are made, wherever possible. Managers are continuously monitored, and new managers are reviewed in an attempt to find the best managers possible in the judgment of the Committee and the advisor.

#### **Fund Family Analysis**

Each of the approved fund families will be reevaluated on a periodic basis. The analysis will



include ranking a broad range of fund families as well as major ETF providers based on returns relative to peer universes. This performance ranking will focus on both open and terminated funds to get a full understanding of the success of the fund family as a whole over time, not just of the fund family's current offerings. We will compare performance ranking of each fund within each fund family amongst each particular fund's peer universe. These rankings will be averaged across each fund family's overall individual fund lineup. Only share classes which do not assess 12b-1 fees and only specific management mandates (not broad-based fund-of-funds or target date funds) will be included. Fund share classes with 12b-1 fees will be eliminated to ensure comparisons of most competitively priced funds from each fund family being evaluated. Top fund families will then be compared based on factors such as their competitive cost structure, appropriate level of analytical talent, corporate culture, focus on long-term fundamentals, percentage of terminated/merged funds, and other intangibles.

Only when deemed necessary to obtain appropriate exposure to a desired asset class will we then look outside our list of identified superior fund families. For example, where funds within superior fund families do not provide the appropriate exposure targeted it may be necessary to utilize the best available fund from another fund family.

### **Individual Manager Analysis**

Individual funds are selected from the approved fund families mainly on the basis of the style of Manager(s) which is most appropriate in terms of constructing the target model portfolio. The Manager(s) selected within each asset class should provide the appropriate level of diversification and style purity with the best likelihood of providing optimal performance after the hire date. While analysis will vary by asset class, the goal is to utilize funds from the particular superior fund families which provide strengths most relevant to the asset class being evaluated. Managers will be regularly evaluated for style drift and competitive cost structure.

### **Benchmarks and Reference Points**

Several evaluation benchmarks are required to measure both the success of the allocation strategy as well as the managers used to implement the allocation. To measure the success of the allocation strategy, the Committee will use both Domestic and Global Stock/Bond mixes, as well as an Equity Biased Growth Reference Point. These benchmarks are described below.

#### **Domestic and Global Stock/Bond Mixes:**

The Domestic and Global Stock/Bond Mixes are comprised of the same ratio of equity to fixed income as that of the Portfolio (77% equity and 23% fixed income). These mixes are derived from the indices described below. Monthly rebalancing is assumed. The performance of the equity/fixed income mixes is presented net of the average annual Exchange Traded Fund (ETF) and Index Fund expense ratio, prorated monthly.

#### **77/23 Domestic Stock Domestic Taxable Bond Mix**

77% Wilshire 5000 Total Market Index  
23% Barclays Capital Aggregate Bond Index

#### **77/23 Global Stock Global Taxable Bond Mix**

77% S&P Global Broad Market Index  
23% Barclays Capital Global Aggregate Index

The Wilshire 5000 Total Market Index represents all U.S. equity securities that have readily available prices.

The Barclays Capital Aggregate Bond Index represents the performance of the U.S. investment grade fixed-rate bond market, including both government and corporate bonds.

The S&P Global Broad Market Index (BMI) is a top-down, float capitalization-weighted index which measures the performance of the entire universe of institutionally investable equity securities.

The Barclays Capital Global Aggregate Bond Index provides a broad-based measure of the global investment-grade fixed income market, including government, credit and collateralized securities.

The Portfolio, which contains both domestic and global investments that are not intended to match the domestic and global weightings of these stock/bond mixes, may achieve returns that are greater or less than these mixes, depending upon the relative performance of the domestic and global investments.

#### **Equity Biased Growth Reference Point**

This reference point, produced by Morningstar, includes all funds contained within the Morningstar Allocation – 70%-85% Equity. Allocation – 70%-85% equity portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. These portfolios typically have 70% to 85% of assets in equities and the remainder in fixed income and cash.

The Committee agrees that this is a reference point. The performance of the Foundation's Portfolio may be greater or less, depending upon how aggressive the asset allocation strategy is relative to the reference point.

#### **Benchmarks for Managers**

To measure the success of the managers used to implement the allocation, each manager will be measured against its specific peer group, using a category average of mutual funds with the same asset class focus.

#### **Other Considerations**

In all cases, performance evaluations will focus more on trailing three, five, and ten-year performance measures (including risk adjusted measures), rather than short-term variances from the benchmarks. Although short term underperformance will be tolerated and closely monitored by the advisor, managers are normally expected to perform at or above their peer group averages. Both qualitative and quantitative measures have been developed to determine when a manager termination is appropriate.

### **Selection, Request for Proposal and Reporting by Investment Advisors**

#### Selection:

The Investment Committee will periodically review its investment advisors who have been chosen to steward the Foundation's investments. The investment advisors will serve at the will of the



Foundation and be administered by the Investment Committee. Generally, the Investment Committee may choose to diversify investment advisors by asset allocation and may choose to engage multiple investment advisors if it appears that the goals of the Foundation will be better met by such a decision.

All investment advisors will hold appropriate investment qualifications, licenses and education as recognized by the industry and UPMIFA.

Request for Proposal:

Request for Proposal (RFP) will be required for any new investment advisors.

Periodically, the Investment Committee shall review with the investment advisor(s):

- The Investment Policy;
- Any changes in the legal or regulatory environment;
- The investment advisors' regulatory qualifications;
- Whether any adverse actions have been initiated or taken against the investment advisor(s).

The Investment Committee will act immediately to review or remove any investment advisor(s) upon learning of any adverse action or complaints.

Reporting and Communication:

In addition to achieving the stated goals for achieving the expected return on investment the investment advisor(s) shall be expected to perform the following:

1. Provide WCCF staff with regular monthly statements within 15 days of month end (Investment Committee members may request these statements from staff when desired) and will provide Foundation staff and the Investment Committee full quarterly performance reports within 30 days following the end of the quarter.
2. Review the Investment Policy with the Investment Committee.
3. Promptly communicate to the Investment Committee any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objective progress of the Foundation.
4. Promptly inform the Investment Committee regarding any qualitative change to investment management organization. Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
5. Assess the Foundation's current asset allocation.
6. Supply the Investment Committee with other reports or information as reasonably requested on a timely basis.
7. Provide the Investment Committee information in a prescribed format providing the information needed on a timely basis.

### **Investment Advisor Responsibilities**

The advisor shall supervise and direct the investment of the Portfolio as specified in this Policy Statement. Supervision is continuous, with limited discretion. Limited discretion means that the Consultant is responsible for assessing the appropriateness of asset allocation strategies but does not have discretion to change the strategy without the Committee's and the Board's approval. The Consultant has discretion and is required to rebalance the Portfolio to maintain the asset allocation

using the methodology approved by the advisor's Investment Committee. The Advisor also has discretion to change managers as required by the Manager Due Diligence Policy described in this Policy Statement.

Investment advisor(s) are responsible for monitoring the activities of each underlying separately managed account, mutual fund or exchange-traded fund. The advisor will be held responsible and accountable to achieve the objectives stated.

### **Investment Advisor Evaluation**

Ongoing review of the investment advisor's performance is just as important as the due diligence implemented during the advisor's manager selection process.

Investment advisors must comply and adhere to this Investment Policy.

The portfolio's composite investment performance (net of fees) will be judged against the following standards:

- The portfolio's long-term total return on investment objective: 5 yr. Annualized CPI + Spending Rate (4.5%) + Administrative Fee (1%)
- The Growth Reference Point and the domestic and global stock/bond blends described in the manager due diligence policy section.

Investment advisor(s) are employed at will by the Foundation. Investment advisors, whose performance is deemed inadequate, may be discharged at any time for any reason upon recommendation of the Investment Committee and approval of the Board. Factors to consider that may lead to termination include, but are not limited to:

- Underperformance against the benchmark; change in significant personnel; conflicts of interest;
- Lack of compatibility with the mission of the Foundation.

### **Fees and costs**

The fees paid to others to transact trades or manage investments directly impacts return so the Foundation and the investment advisor shall search for ways to reduce these costs without sacrificing return.

### **Conflict of Interest**

Each Investment Committee member shall discharge the duties as a committee member, or officer in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances in a manner the individual reasonably believes to be in the best interests of the Foundation and in accordance with applicable law. The Board of Directors shall adopt policies regarding conduct, conflicts of interest, and confidentiality. Upon appointment to the Investment Committee, and annually thereafter, each member shall sign an agreement confirming his or her commitment to these standards and policies. The Foundation shall be prohibited from doing business with any institution with which a Board member, committee member, or staff member has a disqualifying relationship. A "disqualifying relationship" means that a Board member, committee member or staff member, or a family member of any of these people has a 35% or greater ownership in the business. Family member is defined

to include lineal ascendants and descendants, siblings and spouses.

### **Definitions**

**Returns Based Style Analysis (RBSA):** RBSA is a quantitative approach to determining a manager's investment style and evaluating its consistency. The effective asset mix can be determined by comparing actual portfolio returns to the returns of indices (given a sufficient length of portfolio history and a robust mathematical technique).

**Holdings Based Style Analysis:** Holdings-based style analysis is a "bottom-up" approach in which the characteristics of a portfolio over a period of time are derived from the characteristics of the securities it contains at various points in time over the period. The choice of characteristics depends on the purpose of the analysis. For example, if the purpose is to describe a portfolio in terms of a set of quantitative style characteristics such as size and value/growth orientation, the prescribed characteristics of each security need to be calculated and then aggregated to the portfolio level.

-End-

## Appendix

Mason Investment Management Services (MIMS)  
Western Colorado Community Foundation  
Asset Allocation Strategy

Recommended Asset Allocation		After Interest Rates Rise Projected Change	After Interest Rates Rise
<b>Safety</b>			
Cash	0.50%		0.50%
Total Safety	0.50%		0.50%
<b>Income Assets</b>			
Short Term Bond	4.04%		4.04%
Intermediate Term Bond	4.28%	4.25%	8.53%
Long Term Bond	0.00%		0.00%
Inflation Protected Bond	4.04%		4.04%
International Bond	5.54%		5.54%
Total Income Assets	17.90%	4.25%	22.15%
<b>Growth Assets</b>			
Large-Cap Value	21.28%	-4.25%	17.03%
Large-Cap Growth	11.04%		11.04%
International Large Cap Value	7.04%		7.04%
International Large Cap Growth	5.04%		5.04%
Real Estate	7.04%		7.04%
Total Growth Assets	51.44%	-4.25%	47.19%
<b>Aggressive Assets</b>			
Small-Cap Value	11.04%		11.04%
Small-Cap Growth	5.04%		5.04%
International Small Cap	6.04%		6.04%
Energy/Natural Resources/Commodities	8.04%		8.04%
Total Aggressive Assets	30.16%		30.16%
Total Portfolio	100.00%		100.00%

We understand that if the five-year US Treasury interest rate rises to 3.5%, Mason is authorized to reduce large cap value by 4.25% and increase intermediate term bonds by 4.25%.

Note: it is normal for the portfolios to deviate to some degree from target percentages.