

# EVANSTON COMMUNITY FOUNDATION INVESTMENT AND SPENDING POLICY

Approved September 13, 2005

## **Introduction**

This policy is adopted by the Board of Directors (the Board) of the Evanston Community Foundation (ECF) to codify the principles that are used to guide its investment and spending activities. Prior to recommending the original form of this Policy in 1997, the Investment Committee (the Committee) of ECF reviewed historic market trends and economic literature, as well as spending patterns by ECF. The Committee concluded that, to preserve the value of its endowment, ECF should slow its rate of spending. The Board believes this Policy is sound and can be followed and that it will meet the needs of ECF and the Evanston community. However, the Committee and the Board are obliged to discharge their ongoing fiduciary responsibility to evaluate the performance of ECF's endowment and its spending and, at least annually, to readopt this Policy with such changes as may be appropriate.

Prior to 1997, ECF had budgeted annual spending by considering two competing goals: (1) to increase the amount of funds available for grants and (2) to build sufficient reserves to insure the long-term protection of the endowment. During its first ten years of operation, while it was securing its first \$1 million, the competing goals did not clash because it was a period of exceptional market returns. However, ECF's spending objective takes a longer term perspective, recognizing that market performance is cyclical, as experienced during the years 2000 through 2002. This objective also permits simplification of financial reporting. It is similar to, and is derived from, a review of practices at other community foundations and other not-for-profit organizations.

## **Investment Objective**

The principal investment objective of ECF is to preserve, in perpetuity, the purchasing power of its assets (the Endowment) and to provide a growing stream of income to cover expenses and fund grants and programs. ECF is indifferent as to whether this objective is met through current income or appreciation in value of assets. The focus is on total return of the Endowment. ECF expects, over time, to achieve an annual total return which exceeds budgeted spending plus an amount equal to inflation (increase in the Consumer Price Index) during the preceding year. Over a market cycle this objective will insure that the investment strategies, budgeted spending and inflation expectations are sufficiently coordinated to preserve the purchasing power of the Endowment.

## **Spending Objective**

The annual spending objective of ECF is a maximum of 6% and a minimum of 3.5%, determined by the Board as part of its budgeting process, of the three-year moving average of the market value of (a) the Unrestricted Endowment and (b) funds intended to be permanent and subject to this Policy (the Spending Objective). For budgeting purposes, the three-year average will be calculated using monthly data for the previous two calendar years and an estimate of the monthly data for the current year.

In addition to the Spending Objective, ECF may spend funds which do not affect the Unrestricted Endowment, such as: amounts contributed to be expended currently for grants, programs or administrative expenses; income from fees and tuition; distributions and grants from donor advised and agency funds; annuities; and amounts determined by the Board to be allocated to the budget from the Discretionary Fund.

While there may be legitimate programmatic reasons to make multiyear grants, to adhere to this Policy and preserve its flexibility, ECF does not ordinarily entertain multiyear grant proposals.

### **Operating Policy**

The Board has fiduciary responsibility for ECF assets. At least annually, it receives an investment report submitted by the Committee for the Board's review and approval.

The Committee (which may include members of the community who are not members of the Board) is delegated responsibility to manage the assets of ECF. The Treasurer of ECF serves as a member of the Committee. The Committee meets not less often than four times each year. In discharging its responsibilities, the Committee is authorized, within the parameters of this Policy, to engage and discharge investment managers and make asset allocation decisions. The Committee may also recommend to the Board for approval the establishment of reserves, special funding requirements, conditions upon which funds should be accepted and other related matters.

The Treasurer, and such other persons as may be designated by the Committee or the Board, are responsible for implementing decisions of the Committee and the Board with respect to custody and investment of the assets of ECF in accordance with this Policy.

In discharging their responsibilities with respect to investment and application of assets of ECF, the Board and its committees, officers and employees will act as prudent investors in accordance with this Policy. They will display the skill and prudence which an ordinarily capable and careful person would use in the conduct of his or her own business of like character. With respect to investing funds they will use the care and skill of a reasonably prudent investor while recognizing the inevitability of assumption of risk. In this Policy and its implementation, ECF seeks a prudent balance between investment risk and potential return.

Accounting for contributions and withdrawals and calculation of investment rates of return are in accordance with standards adopted by CFA Institute. Allocation of investment expenses is based upon actual results for each fiscal year using monthly data.

### **Asset Allocation**

ECF recognizes that asset allocation is the single largest determinant of a portfolio's long-term return. Accordingly, consistent with the prudent investor concept, ECF is deliberate in the formulation of its long-term strategic asset mix. It relies on (1) optimization modeling using the expected returns, standard deviations and correlations of and between various asset classes, (2) the experience and judgment of the members of the Committee and its advisors, and (3) review of the asset allocation strategies of other successful peer institutions. The underlying premise for this process is that equities continue as the dominant asset class, but that further diversification can reduce volatility (risk) and improve long-term returns.

The approved asset classes, as of the date of adoption of this Policy, are as follows. All options may not be utilized at any one time, and the Committee may change the list from time to time. The principles in this Policy coupled with the liquidity of investments make it unnecessary to have an allocation for cash.

Equities	45-60%
Domestic (minimum of 30%)	
Foreign, including Emerging Markets (maximum of 20%)	
Fixed Income	25-45%
Domestic (minimum of 25%)	
Foreign, including Emerging Markets (maximum of 10%)	
Other	0-10%
Real Estate (maximum of 10%)	
Commodity Indexes (maximum of 8%)	

In the ordinary course, upon receipt of a gift of securities or other property, it will be sold at the earliest opportunity, and the proceeds will be invested consistent with the strategies established in this Policy. All financial assets of ECF other than cash are commingled for investment management, but in special circumstances, such as the establishment of an annuity or life income fund, assets may be segregated and invested in an appropriate manner to match the required income stream as determined by the Committee. At the end of the term, the remaining assets will be reallocated in accordance with this Policy.

### **Investment Time Horizon**

Consistent with the objective of ECF to preserve, in perpetuity, the purchasing power of its assets, it is appropriate to take a long-term view with regard to the investment time horizon. ECF recognizes that investment markets are cyclical and is willing to commit to investment themes for sufficient periods to capture the full cyclical values.

### **Managers**

In the ordinary course of portfolio management, the Committee does not handle individual security selection. External professional managers are engaged to provide day-to-day oversight and make individual investment decisions with respect to assets assigned to them. In some instances, this may be accomplished by an investment in a mutual fund or other commingled vehicle. In other cases, it may be accomplished by hiring a Qualified Professional Asset Manager to manage a separate portfolio.

### **Restricted Funds**

1. Designated Funds that have been in existence three years or more are subject to the Spending Objective set forth in this Policy. Designated Funds which have been in existence for less than three years are subject to the Spending Objective applied to the average fund balances for the periods the Funds have been in existence. Distributions will be made after deducting allocated investment expenses and agreed upon fees.

2. Unless otherwise agreed to, Field of Interest Funds and Donor Advised Funds are subject to the same principles applicable to Designated Funds.
3. Subject to governing accounting principles, the Leadership Fund (a Field of Interest Fund that supports Leadership Evanston, a program of ECF) is subject to the same principles applicable to the Unrestricted Endowment. Although the Leadership Fund Agreement provides that it shall pay a pro rata share of general operating expenses of ECF, it is subject to application of the Spending Objective, allocation of investment expenses in the same manner as other funds and an annual fee of 0.5% of its fund balance.
4. Annuity Agreements may not be accepted until ECF is 20 years old or has unrestricted assets of \$2 million. When such conditions are met, or if ECF arranges with another organization to provide an annuity, the agreement will be negotiated taking into account prevailing market rates, applicable Internal Revenue Service tables, this Policy with respect to allocation of investment expenses and fees applicable to other funds.
5. Pass Through Funds (funds which are contributed with the understanding they will be expended currently) will be accepted with the understanding that they are subject to allocation of investment expenses and payment of such fees as may be agreed upon, including an annual fee of not less than 0.5% of the amount received.