Revised by IC February 2016
Updated November 5, 2013
Updated February 2012
Revised October 2012

The Community Foundation for Palm Beach and Martin Counties

Statement of Investment Objectives, Goals, and Policy Guidelines

I. Philosophy

Beginning modestly in 1972, the Foundation's assets have enjoyed significant growth. The assets support an ever broadening array of activities that promote the Community Foundation's mission. The Foundation's Board of Directors, ever mindful of its stewardship, has caused this statement to be prepared to provide a framework for a disciplined process that seeks to add value and minimize risk for the Foundation and those who benefit from its assets.

II. Investment Objectives

In the management of its assets, the Foundation seeks to earn a total return (income plus capital appreciation) sufficient to preserve the real dollar value of its funds and to provide a dependable source of support for current Foundation operations and programs. In general, this implies that the portfolio will be managed to earn a return to meet or exceed inflation and a draw for the Foundation’s operations and program.

Most of the Foundation's assets are permanent funds with disciplined longer-term investment objectives and strategies that will accommodate relevant, reasonable, or probable events.

Spending for current operations and programs should not exceed the approved spending rate multiplied by a 12 quarter moving average of the Fund's total market value, unless otherwise approved by the Executive Committee.

Furthermore, in recognition of the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA), spending shall comply with the “prudent spending” guidelines of FUPMIFA.

III. Diversification of Investments

In recognition of the prudence required of fiduciaries, reasonable portfolio diversification will be sought where possible. Experience has shown financial markets and inflation rates are cyclical and therefore, control of volatility will be achieved through diversification of asset classes and selection of managers of diverse styles.

IV. Asset Class Roles

Various asset classes or strategies serve distinctly different roles and should be included only if they add value to the overall portfolio. For that reason, the asset allocation policy should define the role of each asset class or strategy in achieving the principles set forth below.

The purpose of diversification is to provide reasonable assurance that no single security, or class of securities, will have a disproportionate impact on the performance of the total fund. Within all asset classes, managers (i.e., active managers or providers of passive investment products) with different investment styles will be employed. Diversification by investment style is an important step in reducing the risk inherent in the Fund. *Illiquid investments, defined as those that cannot be readily sold within a one-year period, are limited to 25% of the total Fund's market value*. It is understood that the following descriptions of asset class roles apply to the mandates of the selected managers in the Fund.

1. The purpose of traditional marketable equity investments in the Fund, both domestic and international, is to provide capital appreciation, current income, and effective diversification. It is understood that this asset class carries relatively high volatility, but with high relative liquidity.

    - Global Public Equity will be benchmarked against the MSCI AC World Index.

2. The purpose of flexible capital is to offer market-comparable returns with lower expected volatility along with a low correlation to stock and bond markets. Flexible capital funds are less liquid than traditional marketable equity investments.

    - This allocation will be benchmarked against a Flexible Capital composite (consisting of the corresponding benchmarks for the underlying funds within the segment).

3. The purpose of private equity investments (including Venture Capital and Private Equity) is to provide long-term appreciation of principal and diversification. The Committee recognizes that private equity investments are more susceptible than stocks and bonds to extended periods of over/under valuation and that returns are much more manager dependent than is the case for marketable securities. It is understood that private equity investing is an illiquid form of investing.

    - This allocation will be benchmarked against the Venture Economics All Private Equity Index.

4. The purpose of real assets is to achieve capital appreciation and current income with a relatively high correlation to unexpected inflation. Historically, real assets have had a low correlation to marketable equity securities.

    - This allocation will be benchmarked against a Real Assets composite (consisting of weighted underlying funds and actual benchmark returns)

5. The purpose of fixed income investments, both domestic and international, is to provide diversification and a highly predictable, dependable source of income. Fixed income instruments should reduce the overall volatility of the Fund's assets as well as provide both a dollar hedge and deflation hedge.

    - This allocation will be benchmarked against a Fixed Income composite consisting of 50% BC 3-10 Year Treasury Index, 25% Citigroup World Government Bond Index, and 25% Barclays U.S. Aggregate Index.

6. The unique cash flow needs of the Foundation in support of its mission of grant making necessitate a target allocation to cash. Short-term cash and cash equivalent investments may include U.S. Treasury and Government Guaranteed Securities.

   - This allocation will be benchmarked against the 3 Month T Bill Index.

V. Asset Allocation*

To achieve its investment objective and to mitigate risk, the Fund's assets will be allocated among several asset classes. The identified asset classes are domestic equity, international equity, flexible capital, private equity, public and private real assets, fixed income, and cash/equivalents. Since the selection and weighting of asset classes is the primary determinant of investment return and volatility, asset choice will be carefully considered by the Community Foundation Investment Committee in accordance with a systematic allocation process derived from consultation with its advisors. Approved asset classes and policy target ranges are as follows:

Asset Class (% Allocation)		**Target**	**Range**	**Benchmarks**
Global Public Equity		35.0	25.0-45.0	MSCI All Country-World Index
Global Private Equity		10.0	0-15	Venture Economics All PE Index
Flexible Capital		30.0	20-40	Flexible Capital Composite Index
Real Assets		15.0	10-20	Real Assets Composite Index
Fixed Income	U.S. Treasuries	4.0	0-8	Barclays 3-10 Year Treasury Index
	Global Government	2.0	0-8	Citigroup World Government Bond Index
	Core Bonds	2.0		Barclays US Aggregate Index
Liquid Capital		2.0	0-5	Citigroup 3 Month T-Bill

The Fund is to be structured for long term growth with a broadly diversified mix of asset classes and styles. The international, alternative, and inflation hedging segments are intended to reduce both volatility and the Fund's reliance on long only domestic financial markets.

- The targets for the actual asset mix will be reviewed by the Investment Committee annually, or more frequently as necessary, and may be changed from time to time by the Committee after consultation with its advisors. As part of this process, a quarterly rebalancing procedure within the policy framework of the adopted asset allocation model has been established. The quarterly review will result in changes in the allocations to the asset classes segments or sub-segments at any time when the quarterly weightings are outside the established weight ranges as defined in the asset allocation model.

The Investment Committee will review the segment asset allocations at their regularly scheduled meeting and any changes in the allocations will be made after the meeting. In the case of major market movements resulting in variations as provided above, rebalancing of the segment allocations may be made prior to the quarterly review upon approval of the Committee Chair.

VI. Spending Guideline

Draw on the Foundations' Funds

The annual spending guideline during the fiscal year for grant making and administration will be determined annually by multiplying the approved spending rate by the trailing 12 quarter ending average principal market value as of March 31, unless otherwise approved by the Executive Committee.

Distributions for new funds

Fifty percent of new funds established at the Foundation prior to the mid-point of the fiscal year will be applied to the annual distribution calculation amount. Funds established after the mid-point of the fiscal year will not be applied to the spending distributions during the initial fiscal year, unless specifically approved.

VII. Investment Management Selection and Monitoring

The Committee has delegated investment manager selection to the investment consultant. The investment consultant is also responsible for the ongoing monitoring of the investment managers it selects and providing reports to the staff and Committee to assist in their oversight of the Fund.

The investment consultant shall seek investment managers that it believes demonstrate effective strategies, sustainable advantages, and high-quality organizational structures. The investment consultant shall seek active managers that it believes have the ability to generate superior, relative risk-adjusted performance, net of all expenses. Passive mandates may be used in more efficient (occasionally in less efficient) segments of the capital markets, for the purpose of gaining market exposure.

Attractive investment manager characteristics typically include:

- strong reputation in the marketplace and a meaningful, high-quality, institutional client base;
- aligned interests (e.g. significant amount of principal/employee dollars invested in the funds);
- stable and experienced professional team and principals/employees own equity in the firm;
- controlled growth and a manageable level of assets under management; and
- Competitive long-term performance among peers.

The investment consultant shall conduct extensive due diligence prior to investing in an underlying investment manager. Evaluations shall include meetings with key personnel and typically include at least one on-site visit to the principal office. Research should also include reviews of audited financial statements, reference checks with other clients and business associates, and comparison to competitors. When deemed appropriate by the investment consultant, background checks may be conducted. The investment consultant will use their respective network of contacts to gain further confirmation of an investment manager's abilities and business practices. New firms may have additional business risk and be subject to a more rigorous level of due diligence and more stringent ongoing monitoring. Selection of investment managers is not geographically restricted.

The ongoing review and analysis, both quantitative and qualitative, of existing investment managers is just as important as the due diligence implemented during the manager selection process. In addition to performance measurement, the investment consultant will monitor for consistent implementation of investment strategy and philosophy, appropriate risk controls, adherence to any stated guidelines, and any material changes in the investment manager's organization and/or personnel.

The performance of the Fund's investment managers will be actively monitored by the investment consultant. Quarterly performance will be evaluated versus appropriate benchmarks and peer universes, but emphasis will be placed on relative performance over longer investment periods.

The investment consultant has the discretion to take corrective action by replacing an investment manager, if deemed appropriate at any time. Corrective action typically occurs as a result of meaningful organizational or process-related change, and, in some cases, sustained relative underperformance. Significant short-term underperformance may also trigger a review.

The following are some examples of reasons that may cause the investment consultant to lose confidence in an investment manager:

- Change in organizational structure or personnel – A significant change in culture through a merger or acquisition that is likely to distort incentives and promote turnover; or if the investment team leaves the firm.
- Changes in strategy and style – If the investment manager departs from the strategy and style that they were hired to implement; such as a switch from a quantitative process to a fundamental one; and
- Performance – continued performance shortfalls versus a peer group of managers with similar style and/or a market index. Performance is most meaningfully evaluated over a medium-to long-term time horizon of three to five years.

Underlying investment manager fees are expected to be reasonable. Incentive performance fees are common in the illiquid asset categories and, in some cases, more traditional asset classes.

VIII. Investment Consultant

The Foundation may retain the services of an independent investment consultant for the purpose of assisting the Investment Committee in developing and then attaining the financial objectives of the Foundation. The investment consultant will generally:

- Advise the Committee on investment policy, asset allocation, performance review, implementation of investment policies and guidelines (as established by the Committee), including policies and guidelines regarding asset allocation ranges, and prohibited investments and other investment matters;
- Select and monitor investment managers for the Fund in accordance with Section VII;

- Provide timely periodic reports to Staff and the Committee as requested;
- Provide timely quarterly reports that monitor performance of individual managers against similar managers as well as performance of the entire Fund against its objectives and against other appropriate indices;
- Attend Committee meetings as requested; and
- Provide commentary on Investment Manager Performance.

IX. Communication and Reporting

Where the Fund is separately managed, the manager is responsible for free and open communication with the Directors through the Investment Committee and the Chief Financial Officer in all significant matters pertaining to investment policies and management of Fund assets, including, but not limited to: (I) Changes in the investment manager's investment outlook, investment strategy, and portfolio structure; (ii) Any changes in the ownership, organizational structure, financial condition, or senior personnel staffing of the investment manager's organization; and (iii) quarterly transactions, evaluation, and performance reports.

Quarterly evaluations of assets under management shall be supplied by the investment managers, in the form as may be requested by the Directors and to include market valuations, industry segmentations, transaction registers, cash statements, and similar reports. The investment managers' reports of fixed-income and equities shall show inventories at cost, purchase date, market value and share or unit values at cost and market values.

At reasonable times and at the direction of the Directors, meetings shall be held with the manager(s) to discuss performance results, economic outlook, organizational changes, and other pertinent matters. All documents, exhibits, and other written materials to be used during such conferences shall be submitted by the investment manager(s) at least ten business days in advance of the conferences.

All materials required of the manager(s) and custodian shall also be provided to the consultant.

X. Custodian

A master custodian bank will be employed in order to control the flow of funds, provide for proper accounting of transactions, and the short-term investment of residual cash.

XI. Conflict of Interest

It is the policy of the Directors to avoid conflicts of interest in its operations and in the selection of investment managers or funds. Therefore, Foundation administrative officers or Directors or members of the Investment Committee, shall disclose any financial relationship with any manager or fund being considered. Similarly, the independent consultant shall have no financial relationship with any manager or fund serving the Foundation.

XII. Implementation

All new moneys received by investment manager(s) after the adoption of this Statement shall conform to the Statement. To the extent that fund assets are not currently managed in accordance with this Statement, the investment manager shall conform in all respects to this Statement within 60 days of its receipt hereof.