Investment & Spending Policy

I. INTRODUCTION. The mission of Benton Community Foundation (BCF) is to invest in our community through Philanthropy. In so doing, we carefully monitor our investments and spending to achieve a total rate of return that will allow BCF to respond to immediate community needs and to achieve the long-term growth necessary to meet the changing needs of our community in perpetuity.

II. PURPOSE. The purpose of this Investment and Spending Policy is to set forth the policies and procedures that shall guide the BCF Board of Directors (Board) in supervising and monitoring the management of BCF's investment assets. These policies include risk levels; asset allocation; diversification; the selection of investment managers and/or consultants who will implement and manage the investment plan; and Spending Policies.

III. SCOPE. The Board has delegated oversight to the Finance Committee (Committee). The Committee assumes the role of oversight and stewardship of the assets entrusted to BCF. The Board and Finance Committee recognize that sound investment practices and procedural prudence are the keys to fulfillment of their fiduciary responsibilities. This Investment & Spending Policy will supersede any earlier Investment & Spending Policy Statement(s). The policies and practices outlined in this Investment & Spending Policy Statement are not intended to be overly restrictive given changing economic, business and capital market conditions.

A. **Investment Objective.** The primary investment objective is to maintain the real purchasing power of current assets and all future contributions in perpetuity, after inflation, costs and spending. A secondary objective is to achieve a total return in excess of the Policy Benchmark at an equal or lower level of risk.

B. **Time Horizon.** BCF has a long-term investment horizon. The investment guidelines are based on an investment horizon of greater than five years. Because BCF is a community foundation, the majority of its assets are comprised of permanent endowments as well as donor-designated charitable needs. With a perpetual investment time horizon, the Board takes a long-term perspective in setting and monitoring the impact of these policies.

C. **Risk Tolerances.** The Committee recognizes that some risk of loss must be assumed to achieve the investment objectives of the portfolios, and that returns from capital markets will vary from one period to the next, sometimes dramatically. The Committee is willing to accept this volatility in order to attempt to earn the higher long-term rates of return necessary to meet spending and capital appreciation requirements.

D. **Performance Expectations.** The performance expectation is to achieve and sustain the desired spending rate, after including the costs of managing the portfolios plus inflation. The performance expectation rate of return should allow BCF to maintain its real purchasing power over time. It is understood that performance will vary from period to period and a set rate of return may not be consistent during some periods. Accordingly, relative performance benchmarks for the investment options are set forth in the Investment Return and Risk Objectives section.

IV. POLICY. BCF's investment & Spending philosophy is built on the precepts of diversification, long-term strategic focus, and prudent risk management. BCF utilizes a "total return" approach, allowing the Board to establish an annual payout rate based on a percentage of the asset base over a rolling twelve quarter period. By using the total return approach, BCF is able to maintain and increase the value of donated assets while funding current needs at an appropriate level. Because investments can be managed for both growth and income, rather than requiring distributions from income alone, a larger and more predicable flow of funds will be available to meet both current and future needs. Management of BCF's endowed assets is to be done in accordance with the Uniform Prudent Management of Institutional Funds Act, ORS 128.305 to 128.336 (UPMIFA). The Act requires that all fiduciaries (members of the Board and Committee as well as the Investment Advisor) "shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances." In performing their duties the following shall be considered:

- The need of BCF to make distributions and to preserve the value of endowed capital
- The expected total return from income and appreciation of investments
- The possible effects of inflation and/or deflation on the value of endowed capital
- General economic conditions
- The role that each investment or strategy plays within the overall portfolio
- Ensuring that costs are appropriate and reasonable in relation to the assets and the purposes of BCF

A. **Policy Review.** This Policy Statement shall be reviewed annually by the Finance Committee and any recommendations for changes presented to the Board.

B. **Key Responsibilities.**

1. **Board of Directors.** The Board is the governing body of BCF and is fiducially responsible for the disposition of BCF's investable assets. The Board has delegated the direct management and fiduciary oversight of the investment management of investable assets to the Finance Committee. The Board retains the responsibility of approving any changes to this Policy Statement.

2. **Finance Committee.** The Finance Committee shall be selected as set forth in BCF Bylaws and shall report to the Board of Directors. The Finance Committee may choose to have an Investment sub- committee. The Finance Committee shall be responsible for:

    - Assisting in the development and periodic review of investment policy, recommending changes when appropriate
    - Managing liquidity to allow for timely transactions and distributions
    - Monitoring the asset allocation to ensure compliance with Policy guidelines
    - Reviewing asset allocation targets periodically or in response to Investment Advisor suggestions
    - Reviewing and monitoring the performance of the Investment Advisor in the management of assets to achieve the investment objectives within the guidelines of policy
    - Determine if overall policies and objectives continue to be appropriate and reasonable, providing recommended changes to the Board as necessary.
    - Ensuring that all costs are reasonable
    - Meeting with Investment Advisor at least annually to review portfolio performance

3. **Investment Advisor.** The Investment Advisor serves as an objective, third-party professional retained to assist the committee in managing the overall investment process. The Advisor is responsible for guiding the committee through a disciplined and rigorous investment process to enable the committee to meet the fiduciary responsibilities outlined above. The Advisor shall be a Registered Investment Advisor (RIA) and shall act on a discretionary basis with a written acknowledgement of fiduciary status. The investment Advisor shall be responsible for:

    - Assisting in the development and periodic review of investment policy, recommending changes when appropriate

- Designing and implementing an appropriate asset allocation plan consistent with the investment objectives, time horizon, risk profile and the guidelines and constraints outlined in this statement.
- Periodically rebalancing the portfolio(s) back to target allocations taking into consideration transactions costs and prevailing market conditions
- Recommend new asset categories when appropriate
- The selection and monitoring of Investment Managers/Funds
- Providing periodic reports evaluating the return and risk characteristics of individual investments compared to appropriate indexes and/or peer group universes
- Apprising the Committee of changes with regard to Investment Funds in a reasonable time frame given the significance of the information
- Meeting with the Committee and/or Board at least annually to present performance reports, asset allocation reviews, economic outlooks and any recommended changes to investment policy
- Selecting and monitoring an independent custodian to hold Foundation assets
- Ensuring that investment costs are reasonable

4. **Investment Manager and Investment Funds.** The Investment Manager (Manager) is an individual or entity that manages assets for BCF. The vehicle used by the Investment Manager to manage assets for BCF is an Investment Fund (Fund). Given the advantages of transparency, liquidity, and regulatory/compliance oversight, BCF requires that BCF's invested assets be held in SEC-registered Investment Advisor securities, as defined in the Investment Company Act of 1940, commonly known as mutual funds, unit-investment trusts, separately-managed accounts and most exchange-traded funds. No invested assets may incorporate 12b-1 fees, or other indirect fees or expenses. Direct security investment, hedge funds, non-registered ETF's and limited partnerships are excluded from this definition and inclusion in the portfolio would require specific approval of the Board.

5. **Donor Recommended Investment Manager.** BCF recognizes that the pooling of invested assets reduces administrative and investment-related expenses and thereby allows more money to go toward the charitable good. For this reason, BCF has established certain limitations and guidelines for situations when a donor wishes to recommend a specific investment manager to hold his or her fund. Upon request by a donor who wishes to establish a fund with a gift in the minimum amount of two million dollars ($2,000,000), BCF will negotiate with the donor and the donor's individual investment manager or management firm ("Recommended Manager") to enter into an Recommended Manager Agreement ("RCA") between the parties. Every RCA shall have standard terms and conditions required by the Board including but not limited to the following conditions: assets must be managed in a separate account belonging to BCF; the donor may exercise no control over that account; and, pursuant to I.R.S. regulations, BCF's Board retains the sole discretion to terminate BCF's relationship with the Recommended Manager, and to transfer the funds held by the Recommended Manager to other investment managers under any facts or circumstances that the Board in good faith believes warrant such termination and transfer.

C. **Spending Policy.** BCF's charitable distributions from endowed funds are guided by prudence, current economic conditions, donor intent, and UPMIFA. Unless otherwise specified by the donor, the general goal is to spend up to 5% of the "fund value" for charitable distributions while remaining within the UPMIFA "prudence guideline" of not spending more than 7% of the "fund value" in any given year [ORS

128.322]. The “fund value” will not be the actual value of the fund on the date the charitable percentage rate is applied, but instead will be the average value of the fund over the most recent twelve full quarters or the total number of full quarters the fund has been in existence if less than twelve quarters. The administrative fee (BCF overhead and investment management expenses) must be factored into BCF’s spending decisions. Since the administrative fee charged to each fund varies with the type of fund, the charitable distribution percentage rate may vary from one type of fund to another. Additionally, UPMIFA applies only to endowed funds; thus, as defined in ORS 128.316 (2), the board may use its discretion, subject to donor intent, on setting the charitable distribution percentage rate for non-endowed funds.

For endowed funds, the board will annually set a 4% charitable distribution percentage rate (“charitable payout”) for the coming year. If necessary, the aforementioned 4% rate for charitable payouts will be adjusted to stay within the prudence rule of UPMIFA. No charitable payout will be made from an endowed fund in any year that it is 10% or more below its historic gift value. No charitable payout will be made from an endowed fund in existence for less than two full quarters. The Board will review BCF’s spending policy for reasonableness and compliance with regulatory parameters with the objective of providing stable and predictable distributions. The Committee may factor material changes to BCF’s spending policy in the process of reviewing asset allocation targets.

D. **Investment Return and Risk Objectives.** BCF seeks to match or exceed its Policy Benchmark over a full market cycle and does not expect that all investment objectives will be attained in each individual year. Furthermore, the Committee recognizes that over various time periods, the portfolio may produce significant deviations relative to the Policy Benchmark. For this reason, investment returns will be evaluated over a full market cycle. The Committee will periodically review the investment performance of the BCF portfolios to ensure that performance is generally in line with expectations. The Investment Advisor will provide reports that clearly quantify and assess the performance of BCF invested assets so the Finance Committee clearly ascertain if investment objectives and performance match.

E. **Portfolio Performance Review.** Aggregate performance of the overall portfolio will be measured against that Policy Benchmark equal to the target weight for each asset class (see Asset Allocation section) multiplied by the performance of the relevant asset class benchmark. Performance will be reviewed over various trailing and rolling time periods with more emphasis given to longer periods (5-10 years).

F. **Investment Fund Performance.** Individual Fund performance will be evaluated versus the appropriate peer group and/or benchmark index. Evaluation of Investment Funds will primarily consist of the following quantitative and qualitative factors:

Quantitative Factors:
- Risk-adjusted returns versus peer group over rolling periods
- Risk-adjusted returns versus benchmark index over rolling periods
- Management fees or expense ratios
- Asset flows

Qualitative Factors:
- Consistency of key personnel
- Consistency to stated investment strategy
- Deviation from style and/or market cap for which the Fund was selected
- Significant organizational change (ownership change, compensation structure, etc.)

G. **Portfolio Construction and Management**

1. **Portfolio Diversification Requirements.** The portfolio will be invested so all assets will be well diversified, with the intent of minimizing the risk of large loss. The total portfolio will be constructed and maintained to meet UPMIFA guidelines, including providing for reasonable diversification with regard to the concentration of holdings in individual issues, corporations or industries. Diversification

will be achieved at the total portfolio level and not necessarily at the individual Fund level.

2. **Portfolio Rebalancing.** Market conditions will cause the investments to vary from the established allocation. To remain consistent with these guidelines, the portfolio will be periodically reviewed and rebalanced back to the permitted range. Current and anticipated market conditions and transaction costs will be considered in the process.

3. **Asset Allocation.** To achieve its long-term goal, the Board has adopted an asset allocation plan that includes a distribution of assets among major asset classes. The asset allocation is based on an aggregate of BCF funds versus individual BCF funds. The allocation acknowledges that over long investment horizons, the allocation among various asset classes will outweigh security selection. For funds designated for long-term investment, the Board has approved the following asset allocation targets:

Asset Class	Asset Type	Normal Weighting	Minimum Weighting	Maximum Weighting
Cash	Money Market Fund	*2%*	*1%*	*10%*
Global Fixed Income	US Fixed Income	*14%*	*10%*	*30%*
	Non-US Fixed Income	*8%*	*0%*	*17%*
Global Equity	Large Cap US Stocks	*20%*	*12%*	*30%*
	Mid Cap US Stocks	*6%*	*3%*	*10%*
	Small Cap US Stocks	*9%*	*3%*	*10%*
	Developed Country Stocks	*15%*	*10%*	*20%*
	Emerging Country Stocks	*5%*	*0%*	*8%*
Alternative Strategies	Real Estate	*4%*	*0%*	*6%*
	Flexible Allocation - Conservative	*5%*	*0%*	*10%*
	Flexible Allocation - Growth	*12%*	*5%*	*15%*
	Total	***100%***		

H. **Investment Guidelines and Benchmarks.** BCF's investment strategy will be implemented using a combination of diversified active and passive investment approaches through commingled investments in the form of mutual funds and/or exchange-traded funds. This structure will enable the portfolio to achieve full diversification and lower costs through economies of scale. Other implementation structures may at times be considered in part or in full. Decisions as to individual security selection, security size, and quality, number of industries and holdings, current income level, use of alternative strategies, turnover and the other tools employed by active Investment Managers are left to the Manager's discretion, subject to the usual standards of fiduciary prudence and individual manager guidelines.

For funds designated for short-term investment, the Board has approved the use of:

- Interest-bearing checking accounts for cash needed within the next 60 days,
- Money market mutual funds, and
- FDIC-insured certificates of deposit, with maturities of no longer than two years.

Cash, money market funds and certificates of deposit are used to meet the liquidity demands of The Foundation.

Fixed income instruments reduce volatility and provide income to the portfolio.

Equity will be used in the portfolio to provide long-term capital appreciation in order to facilitate growth of the portfolio. Equity investments have a greater volatility than fixed income or cash instruments.

Alternative Strategies will be used primarily to replace market risk (beta) with manager risk (alpha) and lower overall portfolio risk through additional diversification.

I. **Asset Class Descriptions.**

1. **Global Fixed Income.** *Fixed Income – Domestic and International*: The Fixed Income portfolio shall be comprised of predominantly investment grade securities having a minimum quality rating from Moody's of Baa3 or a BBB-rating from Standard and Poor's. The aggregate fixed income portfolio should have an average credit quality of A or better. *The Domestic Fixed Income assets in this portfolio should, over a market cycle, outperform the Barclays Aggregate Bond Index. The International Fixed Income assets should, over a market cycle, outperform the Citi WGBI Non USD Index.*

2. **Global Equities.**

a. Domestic Equities

- *Large Capitalization*: The Large Capitalization Domestic Equity asset class will be invested in predominantly U.S. equities with a market capitalization of $10 billion or more. This may include common stock, securities that are convertible into common stock, preferred stock, warrants and rights to subscribe to common stock. The securities may be listed on registered exchanges or traded in the over-the-counter market. *The Large Capitalization Domestic Equity asset class in this portfolio should, over a market cycle, outperform the Standard and Poor's 500 Index.*

- *Mid-Capitalization*: The Mid-Capitalization Domestic Equity asset class will be invested in predominantly U.S. equities with market capitalization typically between $2 billion and $10 billion. Mid-capitalization stocks bridge the gap between large and small capitalization stocks and incorporate tendencies of both, including volatility. In addition mid-cap companies tend to have narrower product lines, more limited financial resources and a more limited trading market than larger companies. The securities may be listed on registered exchanges or traded in the over-the-counter market. *The Mid-Capitalization Domestic Equity asset class in this portfolio should, over a market cycle, outperform the Russell Mid-Cap Index.*

- *Small Capitalization*: The Small Capitalization Domestic Equity asset class will be invested in predominantly U.S. equities with market capitalization of less than $2 billion. Small capitalization stocks represent companies that are less established but, in many cases, faster-growing companies. Their faster-growing nature can provide additional return potential; however, their less established nature can also result in additional volatility. The securities may be listed on registered exchanges or traded in the over-the-counter market. *The Small Capitalization Domestic Equity asset class in this portfolio should, over a market cycle, outperform the Russell 2000 Index.*

b. International Equity.

- *Developed Markets:* The International Equity – Developed Markets asset class will be invested in the stock of foreign corporations in developed countries. *The International Equity – Developed Markets asset class in this portfolio should, over a market cycle, outperform the MSCI All Country ex-US World Index.*

- *International Equity – Emerging Markets:* The International Equity – Emerging Markets asset class will be predominately invested in the stock of foreign corporations in the 21 developing or emerging countries as listed in the MSCI Emerging Markets Index. *The International Equity – Emerging Markets asset class in this portfolio should, over a market cycle, outperform the MSCI EM (Emerging Markets) Index.*

J. **Alternative Strategies.** *Alternative assets should, over a market cycle, outperform their respective benchmark index.*

- *Alternative Strategies:* Investments that utilize asset allocation strategies, or invest in real estate, commodities or managed futures will fall in this category. Specifically, Alternative Strategies is sub-divided and defined in two categories as follows:

- *Conservative:* Funds in this group allocate into an optimal mix of stocks, bonds and cash, both foreign and domestic with a primary goal of principal protection. Managers have the flexibility to rebalance the asset mix based upon their perception of the strongest market segments or to take advantage of temporary price anomalies. Additionally, these strategies can invest in alternative asset classes such as real estate, commodities and precious metals. It is anticipated that the equity portion of the allocation will not typically exceed 50% and will average 20-40%.

- *Growth:* Funds in this group allocate into an optimal mix of stocks, bonds and cash, both foreign and domestic with a primary goal of asset growth. Managers have the flexibility to rebalance the asset mix based upon their perception of the strongest market segments or to take advantage of temporary price anomalies. Additionally, these strategies can invest in alternative asset classes such as real estate, commodities and precious metals. It is anticipated that the equity portion of the allocation will average 60-85%.

Benchmarks for each sector are as follows:

- Flexible Allocation: An appropriate combination of fixed income and equity indexes. The appropriate index for each fund will be constructed using a Returns-Based Style Analysis (RBSA) review of historical return characteristics. The weighting shall be reviewed annually and adjusted as needed, however the historic index weights will be retained in calculating trailing returns.

- Real Estate: DJ US Select REIT Index

- Commodities: DJ UBS Commodity Index

- Managed Futures: Barclay's CTA Index

V. Review Procedure. To assure continued relevance of the guidelines and objectives contained herein, the Committee will review this Policy at least annually to determine if it continues to best serve the Foundation's needs and objectives. Changes will be submitted to the Board for approval. The Committee shall review the portfolio and investment results on a quarterly basis and report the results to the Board.

Approved by BCF Board of Directors on September 18, 2014. Revised May 21, 2015.
Reviewed and approved by the Board of Directors November 19, 2015.
Reviewed and Approved by the Board of Directors November 17, 2017.