

Investment & Spending Policy v. <b>12.14.22</b>
Policy #19-01
Appendix: 1- Spending Policy Procedures
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**HOMER FOUNDATION  
ENDOWED FUNDS INVESTMENT AND SPENDING POLICY #19-01 v. 12.14.22**

**I. Introduction**

The investment policy of the Homer Foundation (HF), outlined below, is designed to ensure effective management of the Foundation’s assets to serve the current needs and long-term best interests of the southern Kenai Peninsula. The Homer Foundation assets are a collection of individual donations from private citizens and other organizations. The investment policy is primarily designed to provide sufficient annual income for the support of local charitable needs. A secondary emphasis of our policy is to grow the purchasing power of the principal in perpetuity. Policies contained in this statement are intended to provide guidelines, where necessary, for ensuring that the Portfolio’s investments are managed consistently with the short-term and long-term financial goals of the Foundation and the investment funds. At the same time, they are intended to provide for sufficient investment flexibility in the face of changes in capital market conditions and the financial circumstances of the Institution. This investment policy was developed with the long-term interests of the community in mind, adheres to accepted investment principles, and reflects the mission of the Homer Foundation.

**II. Role of the Finance Committee**

The Finance Committee (the “Committee”) is acting in a fiduciary capacity concerning the Portfolio and is accountable to the Board of Trustees for overseeing the investment of all assets owned by or held in trust for, the Foundation.

- A. The Finance Committee is to use this investment policy statement, including the investment objectives, community grants policies, and investment guidelines, to govern the investment management responsibility for Portfolio assets.
- B. The Finance committee shall maintain a majority opinion in assessing the Foundation’s anticipated financial needs and in consideration of the Foundation’s tolerance for assuming investment and financial risk. The committee also ensures that investment policies have been formulated with these needs and risks.
- C. The Committee will review this Investment Policy Statement at least once per year. Changes to this Investment Policy Statement can be made only by affirmation of a majority of the Committee, and written confirmation of the changes will be provided to all Committee members and to any other parties hired on behalf of the Portfolio as soon thereafter as is practical.

**III. Investment Objective and Spending Policy**

- A. The Fund is to be invested to preserve the long-term, real purchasing power of assets while providing a relatively predictable and growing stream of annual community grants in support of the Institution.
- B. The distribution of Fund assets to make community grants, will be permitted to the extent that such community grants do not exceed a level that would erode the Fund’s real assets over time. The Committee will seek to reduce the variability of annual Fund community grants by factoring

past spending and Portfolio asset values into its current spending decisions. The Committee will review its spending assumptions annually to decide whether any changes therein necessitate amending the Fund’s spending policy, its target asset allocation, or both.

- C. Periodic cash flow, either into or out of the Portfolio, will be used to better align the investment portfolio to the target asset allocation outlined in the asset allocation policy in Section IV. A. herein.

**IV. Portfolio Investment Policies**

A. Asset allocation policy

1. The Committee recognizes that the strategic allocation of Portfolio assets across the broadly defined financial asset and sub-asset categories with varying degrees of risk, return, and return correlation will be the most significant determinant of long-term investment returns and Portfolio assets value stability.
2. The Committee expects that actual returns and returns volatility may vary from expectations and return objectives across short periods. While the Committee wishes to retain flexibility concerning making periodic changes to the Portfolio’s asset allocation, it expects to do so only in the event of material changes to the Fund, to the assumptions underlying Fund spending policies, and/or to the capital markets and asset classes in which the Portfolio invests.
3. Fund assets will be managed as a balanced portfolio composed of two major components: an equity portion and a fixed income portion. The expected role of Fund equity investments will be to maximize the long-term real growth of Portfolio assets, while the role of fixed-income investments will be to generate current income, provide for more stable periodic returns, and provide some protection against a prolonged decline in the market value of Portfolio equity investments.
4. Where applicable without excessive risk or cost, the Fund will use investments screened for certain environmental, social, and governance factors determined by the Committee.
5. Cash investments will, under normal circumstances, only be considered as temporary Portfolio holdings, and will be used to fund liquidity needs or to facilitate a planned program of dollar-cost averaging into investments in either or both of the equity and fixed-income asset classes.
6. Outlined below are the long-term strategic asset allocation guidelines, determined by the Committee to be the most appropriate, given the Fund’s long-term objectives and short-term constraints. Portfolio assets will, under normal circumstances, be allocated across broad asset classes by the following guidelines:

Asset Class	Lower Limit	Strategic Allocation	Upper Limit
Total Stocks	65	70	75
U.S. Stocks	-	35	-
International Stocks	-	35	-
Total Bonds	-	30	-
Total Reserves	-	0%	-

#### B. Diversification policy

1. Diversification across and within asset classes is the primary means by which the Committee expects the Portfolio to avoid undue risk of large losses over long periods. To protect the Portfolio against unfavorable outcomes within an asset class due to the assumption of large risks, the Committee will take reasonable precautions to avoid excessive investment concentrations. Specifically, the following guidelines will be in place:
  - a) Except for fixed-income investments explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of total portfolio assets.
  - b) Except for passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single investment pool or investment company (mutual fund) shall comprise more than 20% of total portfolio assets.
  - c) Concerning fixed income investments, for individual bonds, the minimum average credit quality of these investments shall be investment grade (Standard & Poor's BBB or Moody's Baa or higher).

#### C. Rebalancing

It is expected that the Portfolio's actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset and sub-asset classes. The Portfolio will be rebalanced to its target normal asset allocation under the following procedures:

1. The investment manager will use incoming cash flow (contributions) or outgoing money movements (disbursements) of the Portfolio to realign the current weightings closer to the target weightings for the Portfolio.
2. The investment manager will review the Portfolio semiannually to determine the deviation from target weightings. During each semiannual review, the following parameters will be applied:
  - a. If any asset class (equity or fixed income) within the Portfolio is +/-5 percentage points from its target weighting, the Portfolio will be rebalanced.
  - b. If any fund within the Portfolio has increased or decreased by greater than 20% of its target weighting, the fund will be rebalanced.
3. The investment manager may provide a rebalancing recommendation at any time.
4. The investment manager shall act within a reasonable period to evaluate deviation from these ranges.

#### D. Other Investment Policies

Unless expressly authorized by the Committee, the Portfolio and its investment managers are prohibited from:

1. Purchasing securities on margin or executing short sales.
2. Pledging or hypothecating securities, except for loans of securities that are fully collateralized.
3. Purchasing or selling derivative securities for speculation or leverage.
4. Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected, given the objectives of their Portfolio.

## **V. Monitoring Portfolio Investments and Performance**

The Committee will monitor the Portfolio's investment performance against the Portfolio's stated investment objectives. At a frequency to be decided by the Committee, it will formally assess the Portfolio and the performance of its underlying investments as follows:

- A. The Portfolio's composite investment performance (net of fees) will be judged against the following standards:
  1. The Portfolio's absolute long-term real return objective.
  2. A composite benchmark consisting of the following unmanaged market indexes weighted according to the expected target asset allocations stipulated by the Portfolio's investment guidelines.
    - (a) U.S. Equity: CRSP US Total Market Index or a similar broad domestic equity index
    - (b) Non-U.S. Equity: FTSE Global All Cap ex US Index or a similar broad international equity index
    - (c) Investment Grade Fixed Income: Barclays Capital US Aggregate Float Adjusted Index
    - (d) International Fixed Income: Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index Hedged
    - (e) Real Estate Investment Trusts: MSCI US REIT Index
    - (f) Cash: Citigroup 3-Month T-Bill Index
- B. The performance of professional investment managers hired on behalf of the Portfolio will be judged against the following standards:
  1. A market-based index appropriately selected or tailored to the manager's agreed-upon investment objective and the normal investment characteristics of the manager's portfolio.
  2. The performance of other investment managers having similar investment objectives.
- C. In keeping with the Portfolio's overall long-term financial objective, the Committee will evaluate Portfolio and manager performance over a suitably long-term investment horizon, generally across full market cycles or, at a minimum, on a rolling five-year basis.
- D. Investment reports shall be provided by the investment manager(s) on a (calendar) quarterly basis or as more frequently requested by the Committee. Each investment manager is expected to be available to review portfolio structure, strategy, and investment performance annually with Investment Committee.

## **VI. Description of Foundation Assets**

- A. Endowed Assets- These assets are encumbered. The assets are intended to support the organization's mission in perpetuity. As such, the investment horizon is long (>10 years) and liquidity requirements are limited.
- B. Non-Endowed Assets- These assets may not be perpetual, with no set limit on the amount and timing of the distributions. The unpredictable nature of the liquidity requirements suggests that these funds should be invested with a lower risk profile.
- C. Restricted/Project Funds- These assets are short-term in nature (< 2-year duration) and are generally for projects and/or grants that have already been committed to. These funds should be invested as Cash Equivalents.

## **Appendix 1:**

### **VII. Spending Policy Procedure:**

A. The spending rate shall be recommended by the Finance Committee and approved by the Foundation Board, and shall be reviewed annually and adjusted as appropriate according to the needs of the Foundation and the current market climate. The current spending rate is set at 4%.

B. Using the approved spending rate, the Finance Committee will calculate the amount available to spend (ATS) annually. The annual ATS allocated to each fund is the current spending rate (e.g., 4%, as defined in VII.A.) of the eight-quarter rolling average for each fund. The fund balance on the last date of each quarter will be used to calculate the quarter average.

1. The annual ATS shall be calculated using the most recent December 31<sup>st</sup> quarter as the last value in the calculation.
2. The ATS will be posted in the fund report for the quarter ending September 30 and will be available for each fund type as outlined below. The ATS for all funds is available at the start of the fiscal year (July 1<sup>st</sup>) and the fund advisors will be notified of the available amount on the quarterly fund report following the close of the fiscal year (June 30).
3. New Funds will not participate in the ATS calculations during their first calendar year. Starting in their second year, their 8- quarter rolling average calculation will include zeroes for any quarter their fund did not exist. If new funds would like additional ATS before this time, they may reserve an amount from the original donation or make a supplemental donation as a spendable amount, as outlined in the original fund agreement.
4. The annual ATS will be available to the different fund types as follows: (See Community Grants Policy for more detail)
  - a. Agency Endowment Funds: The full ATS for agency endowment funds shall be distributed at least annually. Through written directive, the agency may request a cash distribution, or have their full ATS rolled into the corpus of their fund.
  - b. Field of Interest and Scholarship Funds: The ATS, or a portion thereof shall be distributed at least annually through the Homer Foundation's Community Grants Committee or the established Waiver process. Any unallocated balance at the end of the fiscal year will roll forward into the new fiscal year. ATS will not accrue to the corpus of the fund, any other existing fund, or used to establish a new fund.
  - c. Donor Advised Funds: The ATS or a portion thereof shall be distributed at least annually. Any unallocated balance at the end of the fiscal year will roll forward into the new fiscal year. ATS will not accrue to the corpus of the fund, any other existing fund, or used to establish a new fund. Donor advisors may make grant recommendations on the Donor Advised Grant Recommendation Form in an amount not to exceed their ATS. These recommendations will be reviewed and approved by the Executive Director and the Community Grants Committee Chair using the approved Waiver process. The Community Grants Committee may also be proactive in soliciting donor-advised funds to support grants approved by the Homer Foundation's Community Grants Committee.
  - d. Non-Endowed Funds: This spending policy does not apply to a non-endowed, special project, or fiscal sponsorship funds.