

# THE JEWISH COMMUNITY FOUNDATION

(“the Foundation”)

## INVESTMENT POLICY AND MONITORING COMMITTEE GUIDELINES

### I. INTRODUCTION

- A. The purpose of this statement is to foster a clear understanding of the Foundation’s investment objectives, policies and guidelines among the Foundation Board, the Monitoring Committee, the Foundation staff, the investment consultant and the Foundation’s investment managers.
- B. The assets governed by this statement are the Foundation’s financial assets that are invested to provide long-term total return and growth, subject to the Foundation’s distribution requirements. The Committee has designated the assets as endowment funds (“the endowment” or the “funds”).
- C. The Committee will regularly review this statement and each manager's adherence to it. It is the intent of this statement to be both sufficiently specific to be meaningful, and yet flexible enough to be practical and enduring.

### II. MANAGEMENT AND INVESTMENT OBJECTIVES

- A. The Foundation requires a strong focus on development, since a substantial part of its growth is dependent on the infusion of new funds. The Foundation’s fiduciary role is to manage the endowment funds in a reasonable and prudent manner to support the overall aims of the Foundation.
- B. The primary long-term financial objective of the Foundation is to preserve and enhance the inflation-adjusted value of the corpus in perpetuity. Additional financial objectives are to maintain the purchasing power of the endowment funds over the long term, net of distribution to programs and to limit the volatility of distributions to beneficiaries to minimize disruption to programs to the extent possible while adhering to the prior objectives.
- C. The primary investment objective of the funds is to earn an average real (inflation adjusted) total return of 5 1/2% per year, net of management fees and commissions, over the long term (ten-year periods).

### III. PORTFOLIO COMPOSITION

For purposes of investment policy, the funds shall be considered as two parts: equities and fixed income investments. The Committee will, based on advice of an investment consultant, recommend to the Board a long-term policy range or band for the equity portion and the fixed income portion, as well as a long-term target allocation for each asset class within each portion.

- A. The asset allocation process is subject to the following constraints: a) estimated amounts may be kept in liquid assets for purposes of making grants; and b) up to 3% of the value of the restricted

and unrestricted portion of the funds may be kept in Israel Bonds at the discretion of the Board of Directors.

- B. The equity portion is intended to provide long-term capital appreciation. It is recognized that the equity portion by itself will likely entail the assumption of greater price variability than would the fixed income portion.
- C. The equity portion should normally represent 50-80% of total fund assets at market value. The actual percentage of equities will vary due to market fluctuations, manager allocation discretion, and Committee action, within a range set by the Board.
- D. The equity portion of the portfolio may also include an allocation to alternative investments, which will at no time exceed 15% of the total value of the portfolio at market. Alternative investment strategies may include, but are not limited to, relative-value (convertible arbitrage, fixed income arbitrage, and market equity neutral), event-driven (risk arbitrage and distressed securities), and opportunistic approaches (macro, short sellers, long region, emerging markets, and long/short equity). Alternative investments may involve strategies such as use of leverage, short selling, purchasing derivatives, and purchasing low quality bonds. This allocation may include investments in "Fund of Funds" vehicles that in turn may invest in funds using some or all of these strategies. Generally, alternative investments have limited liquidity and typically include incentive fees.
- E. The purposes of the fixed income investments are to provide a hedge against deflation and to help diversify the total funds.
- F. The fixed income portion should normally represent 20-50% of total fund assets at market value. The actual percentage of fixed income securities will vary due to market fluctuations, manager allocation discretion and Committee action within a range set by the Board.
- G. Other than the alternative investment allocation, individual investment managers' activities should be restricted to securities traded in established securities markets. They will be asked not to violate the guidelines set out below:
  - 1. investment of more than 40% of the market value of total assets per manager in the securities of a single industry;
  - 2. investment of more than 5% of portfolio value in the securities of a single issuer, with the exception of United States Government securities;
  - 3. investment in venture capital or any other highly illiquid securities;
  - 4. investment in high risk or excessively volatile strategies;
  - 5. transactions which could jeopardize assets of the Foundation beyond those actually invested, e.g., short sales, margin purchases, futures, derivatives and other leverage techniques, investments in high risk vehicles such as commodities, commodity contracts or low rated corporate or government bonds.
- H. Holdings may not be jeopardized by allowing them to be mortgaged or pledged to secure indebtedness of any kind including indebtedness of the Foundation, the Federation or a Federation agency.
- I. Investment may not be made for other than maximizing prudent return; e.g., no investment for the purpose of acquiring control of a company or to aid any individual to acquire such control.

- J. Direct investment may not be made in real estate either by purchase or lease or any interest in real estate. Publicly traded shares in REITs are acceptable as long as there is an active market available for purchase or sale.
- K. Investment may not be made or held in any partnership in which the Foundation may be obligated for further contributions to that partnership.

#### **IV. ASSET ALLOCATION**

- A. The funds will be diversified both by asset class (e.g., common stocks, bonds, cash) and within asset classes (e.g., within common stocks by economic sector, industry, quality, and market capitalization).
- B. With the advice of the professional investment consultant, the Committee will select managers that fit particular investment styles or philosophies within the framework of the recommended asset allocation plan. Subject to these guidelines and the usual standards of fiduciary prudence, the managers will have complete discretion over the funds.
- C. The Committee will make asset allocation recommendations that limit the probable downside risk to no more than 15% in any given year.
- D. The Committee may, at its discretion, and with the advice of the investment consultant, change the near-term ratios of the equity portion and the fixed income portion, but it is anticipated that such changes will be infrequent and within the long-term asset allocation policy ranges as set forth in the appendix.
- E. Cash equivalents are maintained for short-term operating purposes or at managers' discretion as equity and bond substitutes.
- F. Based upon semi-annual review following the 2nd and 4th calendar quarters, the Committee will rebalance the portfolio to previously established targets whenever it moves more than 20% away from the current target percentages
- G. New contributions will be used to rebalance the portfolio to the target asset allocation on an ongoing basis.
- H. As a general rule, staff will distribute new dollars contributed to the Foundation in such a way as to approximate the asset allocation targets most recently adopted by the Committee. Withdrawal of assets will be handled in the same fashion.

#### **V. GUIDELINES FOR THE EQUITY FUND**

- A. The overall investment objective of the domestic equity portion is to outperform the Wilshire 5000 stock index by one percentage point, net of fees.
- B. Large-capitalization domestic equity managers will be expected to outperform the S&P 500 stock index by one percentage point, net of fees, and to be on par with or exceed the median of comparable managers.

- C. Small-capitalization domestic equity managers will be expected to outperform the Russell 2500 stock index by one percentage point, net of fees, and to be on par with or exceed the median of comparable managers.
- D. International equity managers will be expected to outperform an appropriate international stock index, such as the MSCI EAFE Index, by two percentage points, net of fees, as well as to be on par with or exceed the median of the appropriate universe of international equity managers.
- E. Performance against objectives is to be measured quarterly and evaluated over rolling three to five-year periods. It is recognized that the objectives may be difficult to attain in every period, but should be attainable over most complete market cycles.
- F. However, the Committee has discretion to evaluate and terminate a manager for any reason at any time.

## **VI. GUIDELINES FOR THE FIXED INCOME FUND**

- A. The broad objective of the fixed income portion is to outperform the Shearson Lehman Aggregate Bond Index by one-half percentage point, net of fees, and a peer group of managers, over rolling three to five-year periods. Individual fixed income managers may be expected to outperform other indices, or hybrid indices, which more closely parallel the manager's investment style. Such indices will be determined on a case-by-case basis in consultation with the manager. The Committee has discretion to evaluate and terminate a manager for any reason at any time.
- B. The manager is expected to employ active management techniques to assure the fund's effectiveness as a deflation hedge. The manager will use his or her discretion in selecting instruments and length of maturity of fixed income securities.
- C. The prospect of credit risk or risk of permanent loss shall be avoided. The portfolio should be of investment grade. Issues of state or municipal agencies shall not generally be purchased, except under unusual circumstances.
- D. In general, the fixed income portion shall be well diversified with respect to economic sector, financial sector, and issuer in order to minimize risk exposure.

## **VII. GUIDELINES FOR ALTERNATIVE INVESTMENTS**

- A. While there is not a set of guidelines that will apply to all alternative investment opportunities, the following guidelines will help to ensure knowledge about each investment.
  - 1. For each alternative investment made, there will be a synopsis in the committee minutes describing the particular investment style and any exceptions to the general policy
    - a. A clear description of the particular strategy
    - b. The type of investment vehicle used
    - c. The terms of the agreement to include the ability to withdraw funds, management fee structure, allocation of profits and losses, incentive allocation, and distribution rules
    - d. The amount of leverage allowed, if it can be monitored

2. There will also be a description of the benchmark to be used for monitoring purposes relevant to other Fund of Funds.
- B. Performance against objectives is to be measured quarterly and evaluated over rolling three- to five-year periods. It is recognized that the objectives may be difficult to attain in every period, but should be attainable over most complete market cycles.
- C. However, the Committee has discretion to evaluate and liquidate an investment for any reason at any time.

## **VIII. GUIDELINES FOR MUTUAL FUNDS**

- A. The fund's long-term record will be expected to exceed the appropriate benchmark by at least 1%. Emphasis should be placed on consistency of return. Additional consideration should be given to risk, volatility and fund expenses.
- A. The fund's holdings should be consistent with its stated objective, and the fund's asset size should be appropriate to its investment objective.
- B. The fund's manager should have a demonstrated long-term track record for the fund's style of investing.

## **IX. GUIDELINES FOR TRANSACTIONS**

- A. In general, all transactions should be entered into on the basis of best execution, which means best-realized net price. Notwithstanding the above, commissions may be designated for payment of services, i.e., soft dollars, rendered to the funds in connection with its management.

## **X. MONITORING OF OBJECTIVES AND RESULTS**

- A. All objectives and policies are in effect until modified by the Committee and approved by the Board. The Committee will review them at least annually for their continued appropriateness.
- B. If at any time a manager believes that any policy guideline inhibits his or her investment performance, it is his or her responsibility to communicate this view to the Committee.
- C. The total fund will be monitored on a continual basis for consistency of investment philosophy, return relative to objectives, and investment risk. Risk will be evaluated as a function of asset concentration, exposure to extreme economic conditions, and performance volatility. The Committee on a quarterly basis will review investment performance with the assistance of the consultant's quarterly reports (unless market conditions or other considerations warrant more frequent reporting). Managers' results will be monitored quarterly, and evaluated over rolling three- to five-year periods. The Committee will review the managers to confirm that the factors underlying the performance expectations remain in place and that the managers' performance exceeds the appropriate benchmarks.
- D. Individual investment managers will report the following information to the Committee quarterly: total return and equity only portion (on a time-weighted basis, before fees and net of all commissions) and purchases and sales for the quarter. Regular communication concerning investment strategy and outlook is expected from the managers. Additionally, managers are required to inform the Committee promptly of any change in firm ownership or fundamental

investment philosophy, any significant change in organizational structure or professional personnel, or any change in portfolio manager(s) for the Foundation's account.

- E. The Committee will periodically review the related services provided to the Foundation, including custody services, performance evaluation and consulting.

## **XI. ROLE OF MONITORING COMMITTEE, BOARD OF DIRECTORS, AND INVESTMENT CONSULTANT**

- A. The Foundation Board of Directors shall establish the structure and responsibilities of the Monitoring Committee.
- B. The purpose of the Monitoring Committee is to:
  - 1. Monitor performance of the investment managers or funds and change managers within established asset classes with the assistance of an investment consultant.
  - 2. Report investment performance quarterly to the Foundation Board.
  - 3. Make recommendations to the Foundation Board concerning changes in investment objectives and policies.
  - 4. Make recommendations to the Foundation Board regarding the hiring and dismissal of investment consultant.
  - 5. Review and recommend to the Foundation Board adjustments to long-term asset allocation policies, ranges and targets.
  - 6. Conduct a periodic review of Investment Policy and Monitoring Committee Guidelines.
- C. Committee members must avoid all conflicts of interest.
- D. The Foundation will employ the services of professional investment consultant whose hire will be recommended by the Monitoring Committee and approved by the Board of Directors.
- E. The responsibilities of the investment consultant will be: a) to recommend an asset allocation plan, the policy allocation to each asset class, and any changes in the asset allocation plan by asset class or target percentages as necessary; b) to provide the Committee with professional investment manager candidates for each asset class, as appropriate; c) to provide investment performance data for the Committee to ensure that investment managers are achieving the Foundation's goals relative to the appropriate indices; and d) to review annually with the Committee the asset allocation model and target percentages.
- F. The Committee, with Board approval, may choose a custodian bank and/or brokerage firm to provide services necessary to perform its obligations as set forth in the policy statement.