



# Statement of Investment Policy

## Objectives & Guidelines

### Scope of this Investment Policy

This statement of investment policy reflects the investment policy, objectives, and constraints of the funds held in the pooled funds of The Alaska Community Foundation. It does not cover funds that are held outside of the pool such as illiquid assets (real estate, closely held stock), funds held in money market funds for short term projects, or funds that are invested for other reasons outside of the general pools. The CFO and the CEO have discretion under the ACF Cash Management Policy.

### Purpose of this Investment Policy Statement

This statement of investment policy is set forth by the Board of Directors of The Alaska Community Foundation in order to:

- Define and assign the responsibilities of all involved parties.
- Establish a clear understanding for all involved parties of the investment goals and objectives of Fund assets.
- Offer guidance and limitations to all Investment Managers regarding the investment of Fund assets.
- Establish a basis for evaluating investment results.
- Manage Fund assets according to prudent standards as established in common trust law.
- Establish the relevant investment horizon for which the Fund assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

### Delegation of Authority

The Board of Directors of The Alaska Community Foundation is a fiduciary board, and is responsible for directing and monitoring the investment management of Fund assets. As such, the Board of Directors is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

- Investment Committee. The Investment Committee will assist the Board of Directors in: establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
- Investment Manager. The investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Fund's investment objectives.
- Custodian. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts.



- Co-Trustee. The Board of Directors may appoint an outside individual or entity, such as a bank trust department, to be co-trustee. The Co-trustee will assume fiduciary responsibility for the administration of Fund assets.

Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants, investment consultants, and others may be employed by the Board of Directors to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

The Board of Directors will not reserve any control over investment decisions, with the exception of specific limitations described in these statements. Managers will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment managers, each manager should request modifications which they deem appropriate.

If such experts employed are also deemed to be fiduciaries, they must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the Fund as deemed appropriate and necessary.

## Definitions for this Document

Fund	the Alaska Community Foundation.
Board of Directors	the governing board established to administer the Fund as specified by applicable ordinance.
Fiduciary (noun)	any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Fund assets.
Investment Manager	any individual, or group of individuals, employed to manage the investments of all or part of the Fund assets.
Investment Consultant	an advisor appointed by the Board of Directors to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
Investment Committee	a committee appointed by the Board of Directors to oversee the consultant, investment managers, asset allocation and performance.
Securities	the marketable investment securities which are defined as acceptable in this statement.
Investment Horizon	the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Fund is perpetuity.

## Assignment of Responsibility

### **Responsibility of the Investment Manager(s)**

Each investment manager must acknowledge in writing its acceptance of responsibility as a fiduciary. Each investment manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and



operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the Investment Manager(s) include:

- Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
- Reporting, on a timely basis, quarterly investment performance results.
- Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objective progress of the Fund's investment management.
- Informing the investment consultant who has the responsibility to inform the investment committee of any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
- Voting proxies, if requested by the Board of Directors, on behalf of the Fund, and communicating such voting records to the Board of Directors on a timely basis.

### **Responsibility of the Investment Committee**

The Investment Committee's role is that of an advisory committee to the Board of Directors of The Alaska Community Foundation. Investment advice concerning the overall management of Fund assets will be offered by the Investment Committee, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the Investment Committee include:

- Assisting in the development and periodic review of investment policy.
- Meeting with the Investment Consultant to review performance, asset allocation and manager changes.
- Monitoring the performance of the investment manager(s) to provide the Board of Directors with the ability to determine the progress toward the investment objectives.
- Communicating matters of policy, manager research, and manager performance to the Board of Directors.
- Reviewing Fund investment history, historical capital markets performance and the contents of this investment policy statement to any newly appointed members of the Board of Directors.

### **Responsibility of the Investment Consultant**

- Consult with the Investment Committee in the creation and ongoing review of the Fund's Investment Policy Statement, and overall asset allocation for the Fund.
- To provide assistance in the search and selection of investment managers .
- To provide due diligence on the investment managers and to provide the Investment Committee the reports and material updates.
- To provide performance reporting and evaluation on the managers that have been recommended by the Consultant.



## General Investment Principles

Investments shall be made solely in the interest of the beneficiaries of the Fund.

The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.

Investment of the Fund shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

The Board of Directors may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives.

Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.

## Investment Management Policy

**Preservation of Capital** - Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.

**Risk Aversion** - Understanding that risk is present in all types of securities and investment styles, the Board of Directors recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Fund's objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.

**Adherence to Investment Discipline** - Investment managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

## Goal of Foundation

The Board of Directors feels that grants to be made in the future are as important as grants made today. This is consistent with the philosophy that this Foundation is to exist in perpetuity, and therefore, should provide for grant making in perpetuity. To attain this goal, the overriding objective of this foundation is to maintain purchasing power. That is, net of spending, the objective is to grow the aggregate portfolio value at the rate of inflation over the Foundation's investment horizon. The Foundation's specific investment objectives will be established later in this document.

## Attitude toward Gifts

Future giving (contributions) to this Foundation is expected to be relatively consistent, and therefore, predictable. However, the Board of Directors has set an investment strategy with the objective of maintaining purchasing power of Foundation assets before consideration of gifts. Accordingly, future giving will serve to increase purchasing power. Therefore, expectations may be expressed by the following equation:

$$\text{Total Return} = \text{Inflation} + \text{Expenses} + \text{Grantmaking} = \text{Preservation of Purchasing Power}$$



## Spending Policy

The Board of Directors will develop a spending policy that attempts to balance the Foundation's shorter-term grant making obligations with its goal to provide grants into perpetuity. Therefore, the Board will design a spending policy which is flexible. The Investment Committee will periodically review the Spending Policy and recommend spending rates for approval by the Board of Directors.

## Investment Objectives

In order to meet its needs, the investment strategy of the Alaska Community Foundation is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income.

Specifically, the primary objective in the investment management for Fund assets shall be:

Long-Term Growth of Capital -To emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index.

The secondary objective in the investment management of Fund assets shall be:

Preservation of Purchasing Power After Spending - To achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve purchasing power of Fund assets. Risk control is an important element in the investment of Fund assets.

## Specific Investment Goals

Over the investment horizon established in this statement, it is the goal of the aggregate Fund assets to exceed the rate of inflation (as measured by the Consumer Price Index) plus cover expenses and grantmaking.

The investment goals above are the objectives of the aggregate Fund, and are not meant to be imposed on each investment account (if more than one account is used). The goal of each investment manager, over the investment horizon, shall be to:

- Meet or exceed the market index, or blended market index, selected and agreed upon by the Board of Directors that most closely corresponds to the style of investment management.
- Display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.
- Specific investment goals and constraints for each investment manager, if any, shall be incorporated as part of this statement of investment policy. Each manager shall receive a written statement outlining his specific goals and constraints as they differ from those objectives of the entire Fund.

## Definition of Risk

The Board of Directors realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the Alaska Community Foundation assets understands how it defines risk so that the assets are managed in



a manner consistent with the Fund's objectives and investment strategy as designed in this statement of investment policy. The Board of Directors defines risk as:

The probability of not meeting the Fund's objectives.

## Liquidity

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Board of Directors will periodically provide investment counsel with an estimate of expected net cash flow. The Board of Directors will notify the investment consultant in a timely manner, to allow sufficient time to build up necessary liquid reserves.

The amount of Fund assets maintained in cash or cash equivalents is determined by the asset strategies established for the different types of funds (endowed, quasi-endowed, project, operating).

Type of Fund	Cash Balance
Endowed funds	Zero
Quasi-endowed funds (Type 1)	Zero
Quasi-endowed funds (Type 2)	20%
Project funds (including Agency projects)	100%
Operating funds (except reserve)	100%

Type 1 quasi-endowed funds make grants either infrequently or at a rate not greater than 10% of fund assets in a year. Type 2 quasi-endowed funds make frequent grants and/or grants in excess of 10% of fund assets in a year. Agency projects are non-profit organization funds that are partnering with ACF for cash and gift management services.

The cash balances of quasi-endowed and project funds are maintained in the money market account. If the fund has a cash balance exceeding \$500,000 that is to be held for a period of at least 3 months the balance may be invested in short-term commercial paper or similar. Operating funds maintain their cash balances in either or both the checking account or the money market account.

## Marketability of Assets

The Board of Directors requires that all Fund assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently, with minimal impact on market price.

## Investment Guidelines

### **Allowable Assets**

- Cash Equivalents
- Treasury Bills
- Money Market Funds
- STIF Funds
- Commercial Paper
- Banker's Acceptances
- Repurchase Agreements
- Certificates of Deposit
- Fixed Income Securities
- U.S. Government and Agency Securities
- Corporate Notes and Bonds
- Mortgage Backed Bonds
- Preferred Stock
- Fixed Income Securities of Foreign Governments and Corporations
- Equity Securities
- Common Stocks
- Convertible Notes and Bonds
- Convertible Preferred Stocks
- American Depository Receipts (ADRs) of Non-U.S. Companies
- Stocks of Non-U.S. Companies (Ordinary Shares)
- Mutual Funds
- Mutual Funds which invest in securities as allowed in this statement, including open and closed end funds and EFTs (Exchange Traded Funds).
- Commodity Traded Advisors (CTAs)

### **Alternative Investments:**

The Investment Committee may consider investments involving actively managed funds that include financial instruments that are elsewhere prohibited by this policy. Such managed investment pools include Commodity Trading Advisors (CTA's) and hedge funds.

These funds will include investments that provide some down-side protection in bad markets, and investment opportunities in volatile markets.

Alternative investments are considered to be in the equity portions of ACF portfolios, and should not exceed 10% of invested assets.



### **Derivative Investments**

Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, CMOs (PAC bonds, IOs, POs, residual bonds, etc.), and interest rate swaps, among others. The Board of Directors feels that many derivative securities are relatively new and therefore have not been observed over multiple economic cycles. Due to this uncertainty, the Board of Directors will take a conservative posture on derivative securities in order to maintain its risk averse nature. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form a general policy on derivatives. Unless a specific type of derivative security is allowed in this document, the Investment Manager(s) must seek permission from the Board of Directors to include derivative investments in the Fund's portfolio. The Investment Manager(s) must present detailed information as to the expected return and risk characteristics of such investment vehicles.

### **Stock Exchanges**

To ensure marketability and liquidity, investment advisors will execute equity transactions through the following exchanges: New York Stock Exchange; American Stock Exchange; and NASDAQ over-the-counter market. In the event that an Investment Manager determines that there is a benefit or a need to execute transactions in exchanges other than those listed in this statement, written approval is required from the Board of Directors.

### **Prohibited Assets**

Prohibited investments include:

- Commodities and Futures Contracts
- Private Placements
- Options
- Limited Partnerships
- Venture-Capital Investments
- Real Estate Properties
- Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs
- Auction Based Securities

### **Prohibited Transactions**

Prohibited transactions include, but are not limited to the following:

- Short Selling
- Margin Transactions

### **Asset Allocation Guidelines**

Investment management of the assets of the Alaska Community Foundation shall be in accordance with the following asset allocation guidelines:



### **Aggregate Fund Asset Allocation Guidelines (at market value)**

Asset Class	Minimum	Maximum
Domestic Large Cap Equities	25%	40%
Domestic Mid Cap Equities	5%	20%
Domestic Small Cap Equities	5%	15%
International Equities	14%	30%
Fixed Income	30%	50%
Alternative Investments	0%	10%

### **Asset Allocation for Equity Managers**

Asset Class	Minimum	Maximum
Domestic Large Cap Equities	35%	55%
Domestic Mid Cap Equities	5%	25%
Domestic Small Cap Equities	5%	20%
International Equities	20%	40%
Alternative Investments	0%	13%

Nothing in these guidelines prevents the temporary investment in cash.

### **Benchmarks to be used in evaluating performance include the following:**

- Standard & Poor's 500 Index
- Russell 1000 Growth Index
- Russell 1000 Value Index
- Russell 2000 Equity Index
- Russell Midcap Index
- MSCI AC World Index ex USA (gross)
- MSCI EM (Emerging Markets) (gross)
- 50% S&P 500 / 50% LB Govt/Credit Bonds Index
- 90-Day Treasury Bill Index
- Lehman Aggregate



The Board of Directors may employ investment managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Fund, such disciplines must fit within the overall asset allocation guidelines established in this statement. Such investment managers will receive written direction from the Board of Directors regarding specific objectives and guidelines.

In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Board of Directors will instruct the Investment Manager(s) to bring the portfolio(s) into compliance with these guidelines as promptly and prudently as possible. In the event that any individual Investment Manager's portfolio is in violation with its specific guidelines, for reasons including but not limited to market price fluctuations, the Board of Directors expects that the Investment Manager will bring the portfolio into compliance with these guidelines as promptly and prudently as possible without instruction from the Board of Directors.

### **Diversification for Investment Managers**

The Board of Directors does not believe it is necessary or desirable that securities held in the Fund represent a cross section of the economy. However, in order to achieve a prudent level of portfolio diversification, the securities of any one company or government agency should not exceed 5% of the total fund, and no more than 20% of the total fund should be invested in any one industry. Individual treasury securities may represent 10% of the total fund, while the total allocation to treasury bonds and notes may represent up to 100% of the Fund's aggregate bond position.

### **Guidelines for Fixed Income Investments and Cash Equivalents**

- Fund assets may be invested only in investment grade bonds rated BBB (or equivalent) or better.
- Fund assets may be invested only in commercial paper rated A1 (or equivalent) or better.

Fixed income maturity restrictions are as follows:

- Maximum maturity for any single security is 30 years.
- Weighted average portfolio maturity may not exceed + or – 20% of the index
- Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poors and/or Moody's.

### **Selection of Investment Managers**

The Board of Directors' selection of investment manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. The Board of Directors requires that each investment manager provide, in writing, acknowledgment of fiduciary responsibility to the Alaska Community Foundation.

### **Investment Manager Performance Review and Evaluation**

Performance reports generated by the investment manager(s) shall be compiled at least quarterly and communicated to the Investment Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The



Investment Committee and the Board of Directors intend to evaluate the portfolio(s) over at least a three year period, but reserve the right to terminate a manager for any reason including the following:

- Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
- Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
- Significant qualitative changes to the investment management organization.
- Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.
- The Investment Committee will review the investment reports on a quarterly basis and, at least annually, will have a meeting with the investment manager(s). The Investment Committee will report on a periodic basis to the Board including a report on the annual meeting with the Investment Manager(s).

### **Investment Policy Review**

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Investment Committee plans to review investment policy at least annually and to recommend any changes to the Board of Directors.