DRAFT
COMMUNITY FOUNDATIONS OF THE HUDSON VALLEY
INVESTMENT POLICY
November 21, 2019
(Approved by Board of Trustees May 21, 2009; amended September 19, 2013, May 15, 2014, and March 17, 2016, November 9, 2016, September 7, 2017, November 21, 2019)
(Addition of NYPMIFA Fund Spending Policy on March 17, 2011)

Investment Objectives:

The primary objective of the portfolio is to achieve long-term capital appreciation with a moderate level of risk. The secondary objective is to provide current income to support the Foundation's mission. It is the goal that, over time, the portfolio will achieve growth of principal and income sufficient to preserve and increase the portfolio's purchasing power.
The Foundations recognizes that its assets are exposed to risk and may be subject to fluctuations in market value. This performance is acceptable, as long as it is consistent with the benchmark performance of each asset class and of the portfolio as a whole over time.

Spending Policy:

Payout Rate

The Community Foundations' spending policy, also known as its payout rate, is used to determine the amount to be paid in grants from each endowment fund. The current annual payout rate is equal to the average market value through March 31 of the longer of the past 20 quarters or the date of the fund's opening multiplied by 4%.

Funds open less than 1 year will be allocated a prorated payout.

New York Prudent Management of Institutional Funds Act (NYPMIFA) Fund Spending

A fund is affected by NYPMIFA if it is a donor-restricted permanent fund where the donor is absent and unable to modify the original expenditure guidelines in order to accommodate fluctuations in the fund's value.

In the event that the endowment fund value falls below historic dollar value*, spending from the fund will be limited to a tiered payout rate. This tiered rate will be equal to the then current board payout policy times the ratio of the March 31st 20 quarter average divided by the historic dollar value. For example, if the March 31st 20 quarter rolling average is 10% below the value of the historic dollar value, the revised payout percentage will be 3.6% (90% times 4%).

In the event that the endowment fund value exceeds the historic dollar value (disregarding adjustment for inflation), the Board Payout policy will be applied to the fund from that point forward.

*Historic dollar value is defined as the dollar amount originally donated plus any subsequent gifts to the fund.

Responsibility/Authority:

The Investment Committee's responsibility and authority are contained in the Foundations' By-Laws.

Investment Strategies:

In order to obtain economies of scale of management costs, the Foundations shall manage all the Endowment Funds [with the exception of funds that have been approved to use their own investment manager(s)] on a commingled basis. The Foundations will maintain the necessary sub-accounting on all commingled, pooled funds. The Foundations may establish separate investment entities with separate investment strategies and/or managers.

Investments of the Fund shall be diversified across asset classes, geographies, and individual securities so as to minimize the risk of large and/or unrecoverable losses.

Foundations Investment Portfolio

Asset allocation between equities and fixed income instruments shall be one method of diversification of investments of Endowment Funds.

Asset Allocations and Benchmarks:

Asset Class/Investment Style	Minimum	Target Average	Maximum	Benchmark
US Equity – Large Cap Growth	11.0	14.0	17.0	S&P 500
US Equity – Large Cap Value	11.0	14.0	17.0	Russell 1000 Value
US Equity – Micro and Small Cap	9.0	12.0	15.0	Russell 2000
US Equity - Real Estate Securities	4.0	5.0	6.0	Dow Jones U.S. Select (REIT)
Total US Equity	35	45	55	Russell 3000
International Equity	20	25	30	MSCI EAFE
Total Equity	65	70	75	
Fixed Income	25	30	35	Barclay’s Capital Interm. Gov't /Credit Bd
Cash and Cash Equivalents	0		10	

Composite Benchmark for the Portfolio*:

Asset Class/Investment Style	Minimum	Target Average	Maximum	Benchmark
Total US Equity		45		Russell 3000
International Equity		25		MSCI EAFE
Fixed Income		30		Barclay’s Capital Interm. Gov't /Credit Bd

*The benchmark against which total performance of the portfolio will be measured is **a weighted average** of the returns of the Russell 3000 (45%), MSCI EAFE (25%), and the Barclay’s Capital Interm. Gov't /Credit Bond (30%).

Performance will be reviewed on a quarterly basis. The performance of the Portfolio and each of its managers or funds will be measured against the performance of the respective benchmark for the Portfolio and for the various asset classes for the following periods: the quarter just ended; the fiscal year-to-date (July 1 through the end of that last quarter); and the one year, three year, five year, and ten year periods ended with that quarter.

Socially Responsible Investment Portfolio

For the general commingled pool of investments, the Foundations does not employ any social screens. However, the Foundations may choose to invest funds in a socially responsible manner. To this end, for this pool of funds the Foundations seeks selectively to avoid investing in companies that promote usage of tobacco, alcohol, other non-medical drugs and gambling and to avoid investment in companies that are rated poorly (by such screening device as the Manager or Foundations may reasonably choose) in the areas of diversity, treatment of employees, corporate governance and care for the environment. As social screening will always affect the composition of a portfolio, the Foundations recognizes that the screened portfolios may not follow the same asset allocations as the general pool and are likely to have risk and return characteristics that are somewhat different from a comparable, unscreened portfolio.

Short-Term Investments

The Community Foundations is committed to supporting a wide variety of program activities and grantmaking. This includes projects that have finite and short-term funding schedules, such as holding funds for specific projects of other not-for-profit organizations and charitable pass-through funds. Funds created through memorial contributions will be invested in Short-Term Investments until the purpose is defined and a fund agreement executed. For the purpose of this policy, a short-term investment period will be defined as five years or less. Any fund that is expected to exist for five years or less will generally not be invested in the endowment pool as these funds do not require the diversification and long-term investment returns that endowments need to stay viable.

For these reasons, the Foundations has established a separate Short-Term Investment Pool that is managed to achieve the objective of minimizing loss of principal. Assets in the short-term pool will be invested in cash and cash equivalents. Three possible alternatives are provided for fund holders:

1. For project funds requiring FDIC insurance: These project funds will be invested in an insured bank or brokerage money market or CD. Laddered CDs may be used when a project’s time frame is known. For projects with accumulations of $250,000 or more, separate accounts will be established in order to keep the money FDIC insured or the funds will be deposited in a CDARS program money market or CD account.

2. For project funds not requiring FDIC insurance: These project funds may be invested in the Foundations' Money Market Account. This investment is particularly attractive for large project funds, due to the fact that separate accounts do not need to be created.

Permitted Investments:

Domestic Securities

The securities purchased shall be registered with the Securities and Exchange Commission and traded on a recognized U.S. exchange.

Equity securities include: common stocks, real estate securities, and securities convertible into common stock of U.S. based companies.

Real estate securities include: Equity REITs, mortgage REITs, CMO or mortgage-related securities REITs, Health Care REITs, and equities of real estate operating companies. Equity REITs are those securities that meet the National Association of Real Estate Investment Trust's (NAREIT) asset mix definition of an equity REIT (currently, equity REITs are those where 75% of the assets are equity financed properties). REITS may be perpetual life REITs or finite life REITs.

Convertible securities include: securities that are convertible into the common stock of U.S. based companies.

Fixed income securities include: Domestic fixed and variable rate bonds and notes issued by the U.S. Government and its Agencies, U.S. corporations, Yankee bonds and notes (bonds or notes issued by non-U.S. based corporations and governments but traded in the U.S.), securitized mortgages (e.g. GNMAs, FNMAs, FHLMCs), collateralized mortgage obligations, asset-backed securities, taxable municipal bonds, and preferred stock. Private placement issues may **not** be purchased, except in cases of mission related investments.

International Securities

Allowable international securities are:

- sponsored and unsponsored American Depositary Receipts (ADRs) or American Depositary Shares (ADSs) or other depositary securities of non-U.S. based companies traded in the U.S. and closed-end country funds.
- equities of foreign domiciled companies that are traded in the U.S. so long as the securities are registered (or filed) with the Securities and Exchange Commission and traded on a recognized national exchange or over-the-counter market.
- non-U.S. dollar denominated equity securities traded on recognized national or regional exchanges or over-the-counter markets outside the U.S.

Alternative Asset Classes

Mission related investments
The Board of Trustees has approved a maximum of $500,000 that can be directed towards Mission Related Investing (MRI). Such investments must be aligned with the mission of the Foundations and seek a positive return on investment. These investments will be in the form of loans. The Board, in concert with the Investment Committee, will exercise oversight over decision-making for all MRIs.

Hedge funds include: funds that employ short selling and leverage as primary investment strategies; and funds that engage in currency hedging. Hedge funds are not permitted at this time, based on the asset size and goals of the Foundations.

Private equity investments are not permitted at this time, based on the assets size and goals of the Foundations.

Diversification Requirements:

To minimize the risk of large losses, each investment manager shall maintain adequate diversification in his/her portfolio. Subject to the constraints outlined in this investment policy, each investment manager shall have the discretion to determine their portfolio's individual security selections.

Equities:
The equities portfolio is diversified among various mutual funds. The diversification within the mutual funds is managed by the investment manager.

Fixed Income:

- Fixed income securities (except for those listed below) shall be rated investment grade or higher ("BBB" or its equivalent) by a nationally recognized statistical rating agency at the time of purchase. The minimum dollar-weighted average credit quality rating of the fixed income portfolio is "A." Asset backed securities, mortgage backed securities, and CMOs shall be rated "AA" (or its equivalent) by a nationally recognized statistical rating agency at the time of purchase.

- Fixed income securities of a single issuer or issue, with the exception of U.S. Government and Agency securities, are limited to no more than 5% of the market value of the fixed income portfolio.

- No more than 30% of the market value of an investment manager's portfolio may be invested in a single sector of the corporate fixed income market. Sector definitions shall be according to the investment manager's own classifications, which should be provided to the Investment Committee upon request.

- The maximum effective maturity of any single security should not exceed 10 years.

- Mortgage backed securities may be purchased on a "when issued" or "TBA" basis (a forward contract transaction for mortgage backed issues that are to be issued in the near term). A short-term investment can back a "when issued" commitment as long as its effective duration does not exceed 180 days. These short-term investments should be considered within the fixed income allocation of the portfolio.

- Collateralized mortgage obligations are limited to securities that are currently paying interest, receiving principal paydowns, and do not contain leverage. CMOs are limited to no more than 10% of the market value of the fixed income portion of the portfolio.

- Purchases of mortgage securities whose payments represent the coupon payments on the outstanding principal balance of the underlying mortgage-backed security and pay no principal (e.g. interest only securities) are prohibited.

- Mortgage securities whose payments represent the principal payments on the outstanding principal balance of the underlying mortgage-backed security and pay no interest (e.g. principal only securities) are prohibited.

- Purchases of mortgage securities whose payment of interest is determined by an index opposite to the changes in a market index (e.g. inverse floaters) are prohibited.

General:

- It is generally expected that the investment manager will remain fully invested in equity and/or fixed income securities: however, it is recognized that de minimis cash reserves may be utilized from time-to-time to provide liquidity or to implement some types of investment strategies.

Exclusions:

Portfolio assets may not be used for the following purposes:

- Short Sales

- Purchases of letter stock, private placements (including 144A securities), or direct payments

- Leveraged transactions

- Commodities transactions

- Puts, calls (except covered calls), straddles, or other option strategies

- Direct purchases of real estate, oil and gas properties, or other natural resource related properties

- Investments in limited partnerships except for publicly traded Master Limited Partnerships and debt issued by real estate investment trusts

- Investments in futures, use of margin, or investments in any derivatives not explicitly permitted in this policy statement

- Investments by the investment managers in their own securities, their affiliates, or subsidiaries (excluding money market or other commingled funds as authorized by the Investment Committee)

<u>Manager and Custodian/Advisor Responsibilities and Reporting/Communications Requirements:</u>

***Managers will*:**

- Comply with all guidelines and instructions contained in this Investment Policy.

- Assume broad discretion in the selection of individual securities or investments, subject to fiduciary standards and the investment objectives and policies outlined in this Investment Policy.

- Notify the Investment Committee immediately of any changes in the ownership of the firm, changes in responsibilities of key investment professionals, departures of investment professionals, or other significant matters.

- Notify the Investment Committee of any material changes in the investment manager's outlook, investment policy, and tactics.

- Make all trades on a best-execution basis.

- Meet with the Investment Committee as requested to review and explain their portfolio's investment results, key decisions of the period and the underlying rationale, general outlook and specific actions which may affect the Foundations' portfolio, expected changes in strategy, and review portfolio holdings.

Custodians/Advisors will:

- Provide monthly statements of assets and transactions.

- Provide written performance reports for their portfolio. Performance results must be reported net of fees and must include comparative data for the relevant benchmarks for each asset class as defined earlier in this Policy in the "Asset Allocation and Benchmarks" chart and for their portfolio as a whole with comparative data utilizing the results of the "Composite Benchmark for the Portfolio" as defined earlier in this Policy.

- Provide, on a quarterly basis, performance reports for the following periods:

  The quarter just ended
  The fiscal year-to date (July 1, 20xx through the end of the last quarter)
  The one year period as of the end of that quarter
  The three year period as of the end of that quarter
  The five year period as of the end of that quarter
  The ten year period as of the end of that quarter

- Provide, on an annual basis, a complete accounting of direct and indirect fees.

<u>Donor Recommended Investment Manager Policy</u>

The Donor Recommended Investment Manager Policy applies when a donor recommends that the Foundations engage a specific investment manager or management firm for his or her fund. This Investment Policy does not apply to any funds that are established and managed under the Donor Recommended Investment Manager Policy. The Investment Committee will approve each recommended manager's proposal for investing assets, the objectives of the fund, the benchmarks used to measure performance, as well as any requests for changes of manager, managing firm, or investment style. Investment returns applicable to any funds that are established and managed under the Donor Recommended Investment Manager Policy will be reported separately and not comingled with the Foundations-managed investment portfolio.

Review and Evaluation:

The Investment Committee will monitor and review the performance of the portfolio and the portfolio managers in accordance with the policy outlined above. The Investment Committee reserves the right to terminate an investment manager and to take action at any time with Board of Trustees approval. The Investment Committee will submit to the Board of Trustees a quarterly review of the portfolio's performance.

The Investment Committee will monitor and review the performance of donor recommended investment managers, not in accordance with this investment policy, and determine if the relationship between the Foundations and the donor recommended investment manager should continue.