

**COMMUNITY FOUNDATIONS OF THE HUDSON VALLEY  
INVESTMENT POLICY**

**Revised December 8, 2021**

(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 goal of the portfolio is to preserve and increase its value by earning a rate of return, net of fees, equal to at least the annual Consumer Price index (CPI) plus 5%. 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%. The payout rate is reviewed and confirmed annually by the Trustees based on the Investment Committee's recommendation.

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 31<sup>st</sup> 20 quarter average divided by the historic dollar value. For example, if the March 31<sup>st</sup> 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. Members must be aware of their fiduciary responsibility to the Foundations. Per the Foundations policies, Committee members must be free from actual and perceived conflicts of interest and sign annual disclosure statements.

**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 pools with separate investment strategies and/or managers.

To cut the risk of large losses, each investment manager will maintain adequate diversification in his/her portfolio. Subject to the constraints outlined in this investment policy, investment managers have discretion to select individual securities.

### Foundations Managed Funds Investment Portfolio

Asset allocation between equities and fixed income instruments shall be one method of diversification of investments of Endowment Funds. The Committee will review the allocation policy from time to time, and the investment manager will suggest ranges, target averages, and benchmarks for each asset class.

Currently, the Managed Funds asset allocation is set at 70% equities and 30% fixed income.

#### **Current Managed Funds Asset Allocations and Benchmarks:**

Asset Class/Investment Style	Minimum	Target Average	Maximum	Benchmark
US Equity – Large Cap Blend	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	<b>35</b>	<b>45</b>	<b>55</b>	Russell 3000
International Equity	<b>20</b>	<b>25</b>	<b>30</b>	MSCI EAFE
Total Equity	65	70	75	
Fixed Income	<b>25</b>	<b>30</b>	<b>35</b>	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%).

### Managed Funds Rebalancing

Adherence to the current allocation plan by asset class will be reviewed quarterly and rebalancing will be required if the asset class varies from its target average by greater than 5%. Partial rebalances are permitted.

Investment results 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 at least annually 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

An Environmental, Social and Governance (ESG) Fund will be made available for donors who seek socially screened investments.

While the Foundations will attempt to identify a fund that approximates the asset allocation of the endowment portfolio, it recognizes that manager selection and social screening characteristics will always affect the composition of a portfolio and that the screened portfolios 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. 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.

Both US Government insured accounts and bank or brokerage-based money market accounts will be offered to provide low-risk and high liquidity for both grant making and program activities.

### **Permitted Investments:**

#### **Domestic Securities**

The securities purchased shall be registered with the Securities and Exchange Commission and traded on a recognized U.S. exchange. They may take the form of individual securities, and active and passive funds, including mutual funds and ETFs.

*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. GNMMAs, FNMMAs, FHLMMCs), 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***

Currently, 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 future MRIs.

*Hedge funds* include: funds that employ short selling and leverage as primary investment strategies; and funds that engage in currency hedging.

##### ***Private equity***

#### **Diversification Requirements:**

Equities:

The equities portfolio is diversified among various individual securities, and index, ETF, and 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 investment grade or higher (“BBB” or its equivalent) at the time of purchase. Securities which are downgraded to a rating below BBB will be sold as soon as is practicable. 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.

## **Exclusions:**

Portfolio assets may not be used for the following purposes:

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

## **Appointment of Professional Advisors/Advisor Responsibilities and Reporting/Communications Requirements:**

The Trustees of the Foundations, with advice and recommendation of Investment Committee, may approve the appointment of professional investment manager(s) and/or an investment consultant. The selection of either will be subject to a competitive review process among firms with experience, favorable recommendations by comparable foundations, and include a review of the diversity, equity, and inclusion characteristics of the competing firms.

Investment manager(s) have the authority and fiduciary responsibility to change the investment portfolio within the scope and limitations of this Investment Policy. The manager(s) will report monthly on transactions and quarterly on performance. The manager recommends asset allocation and has flexibility among the permitted investments with the approval of the Investment Committee and Trustees.

## ***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 an annual accounting of direct and indirect fees, and a risk analysis of the portfolio including standard deviation information.
- Provide current year performance reports as well as historical performance information.
- Provide, on an annual basis, a complete accounting of direct and indirect fees.

**Donor Recommended Investment Manager Policy**

The Donor Recommended Investment Manager Policy (attached) applies when a donor, whose fund balance is \$500,000 or more, recommends a specific investment manager or firm for his or her fund. This Investment Policy does not apply to any funds 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.

At least annually the Investment Committee will monitor and review the performance of donor recommended investment managers that are not in accordance with the investment policy outlined above.