



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

**Revised July 30, 2024**

(Initially approved by Board of Trustees May 21, 2009)  
(Addition of NYPMIFA Fund Spending Policy on March 17, 2011)

**Investment Objectives:**

The primary objective of the Investment Portfolio (the Portfolio) is to preserve and increase its value by earning a rate of return, net of fees, consistent with the Portfolio's benchmarks. The secondary objective is to provide current income sufficient to support Community Foundations of the Hudson Valley's (CFHV) mission. While recognizing that the Portfolio assets may be exposed to some risk and market fluctuations, this is mitigated by the regular oversight of the Portfolio conducted by CFHV, as detailed in this Policy below.

**Spending Policy:**

**Payout Rate**

CFHV's spending policy, also known as its payout rate, is used to determine the amount to be paid in grants from endowed funds. The current annual payout rate is equal to the average market value through March 31<sup>st</sup> of the past 20 quarters (or in the case of a fund with less than 20 quarters of history, the number of quarters since inception), multiplied by 4%. Funds open less than one year will be allocated a prorated payout. The payout rate is reviewed and confirmed annually by the Board of Trustees (the Board) based on the Investment Committee's (the Committee) recommendation.

**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 an 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 an 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 Committee’s responsibilities and authorities are contained in CFHV’s By-Laws. Members must be aware of their fiduciary responsibility to CFHV. Per CFHV policies, committee members must be free from actual and perceived conflicts of interest and sign annual disclosure statements.

### **Investment Strategies:**

To obtain economies of scale of management costs, CFHV shall manage all funds (with the exception of funds that have been approved to use their own investment manager(s)) on a commingled basis. CFHV will maintain the necessary sub-accounting on all commingled, pooled funds. CFHV 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 their portfolio. Subject to the constraints outlined in this Investment Policy, investment managers have discretion to select individual securities.

### **CFHV Managed Funds Investment Portfolio:**

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

### **Composite Benchmark for the Portfolio\***

Asset Class/Investment Style	Minimum	Target Average	Maximum	Benchmark
Total US Equity	45	50	55	Russell 3000
International Equity	15	20	25	MSCI EAFE
Total Equity	60	70	80	
Fixed Income	25	30	35	Barclay’s Capital Intern. Gov’t /Credit Bd

\*As of 6/30/2024, the benchmark against which total performance of the portfolio will be measured is a **weighted average** of the returns of the Russell 3000 (50%), MSCI EAFE (20%), and the Barclay’s Capital Intermediate Government/Credit Bond (30%).

(Prior to 6/30/2024, the benchmark against which total performance of the portfolio was measured was a **weighted average** of the returns of the Russell 3000 (45%), MSCI EAFE (25%), and the Barclay’s Capital Intermediate Government/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 benchmarks 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) Pool will be made available for donors who seek socially screened investments.

While CFHV will attempt to identify a pool that approximates the asset allocation of the primary investment 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**

CFHV is committed to supporting a wide variety of program activities and grantmaking. Any fund that is expected not to exist for the long-term 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 grantmaking 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. GNMA's, FNMA's, FHLMC's), 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**

**Permitted international securities** are:

- sponsored and unsponsored American Depositary Receipts (ADRs) or American Depositary Shares (ADSs) or other depository 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.

### **Othe Permitted Investments**

#### **Alternative Asset Classes**

Alternative asset strategies are a broad classification of investments that includes any investment that is considered non-traditional, such as private equity, venture capital, hedge funds, distressed or private debt, and “real assets,” such as real estate, oil and natural gas, timber, and commodity funds. The Full Board has approved use of these - although the allocation is currently less than 1 % and is made up of mission-related investments and a Hudson Valley start-up fund focused on funding entrepreneurship in the Hudson Valley. The Board 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 CFHV and seek a positive return on investment. These investments will be in the form of loans. The Board, in concert with the Committee, will exercise oversight over decision-making for all future MRIs.

**Hedge funds** and **Private Equity securities** may be allowed with Board approval.

The performance for other permitted investments will be measured outside the composite benchmarks.

### **Diversification Requirements:**

#### **Equities:**

The equities portfolio is diversified among various individual securities, 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 (this will change if hedge funds are used);
- investments in limited partnerships except for publicly traded Master Limited Partnerships and debt issued by real estate investment trusts; or
- investments by the Investment Managers in their own securities, their affiliates, or subsidiaries (excluding money market or other commingled funds as authorized by the Committee).

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

The Board of CFHV, with advice and recommendation of the Committee, may approve the appointment of professional outside 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.

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

### ***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 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 Committee of any material changes in the Manager(s) outlook, investment policy, and tactics.

- Make all trades on a best-execution basis.
- Meet with the Committee as requested to review and explain their portfolio's investment results, key decisions of the period and the underlying rationale, general outlook, specific actions which may affect CFHV's 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 their fund. This Investment Policy does not apply to any funds managed under the Donor Recommended Investment Manager Policy.

The 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 CFHV-managed Portfolio.

**Review and Evaluation:**

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

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