



## INVESTMENT POLICY

Adopted by the Nebraska Community Foundation Board of Directors

February 15, 2002

As Amended June 1, 2018

### I. Purpose and Scope

The purpose of this document is to communicate the investment objectives and guidelines established by the Board of Directors of the Nebraska Community Foundation (“Board”). It is intended to provide a clear and accurate understanding of all investment objectives, investment guidelines, and the criteria by which investment manager performance will be measured.

The investment policies set forth in this document were established after a thorough review of the Nebraska Community Foundation’s (“NCF” or “Foundation”) unique needs and circumstances, and a careful evaluation of the risk and potential returns from various mixes of equity, fixed income, cash equivalent and other securities.

This policy shall apply to all assets of the Nebraska Community Foundation and its affiliated funds that are held in funds and/or accounts (accounts may also be referred to as “sub-funds”) that are designated as endowed. The types of endowments are as follows:

- A. Permanent Endowment – A fund or account that, pursuant to donor-imposed restrictions, is to be maintained in perpetuity and which may not be expended in its entirety. It is invested for the purpose of producing income and capital appreciation in perpetuity to fund grantmaking.
- B. Quasi-Endowment – A fund or account that the Fund Advisory Committee (in the absence of donor-imposed endowment restrictions) designates to function as an endowment in that the principal is to be retained and invested. However, the entire principal and income may be spent in full with the advance approval of, and subject to terms established by, the NCF Board of Directors. This may also be referred to as an “FAC Endowment” (or in the case of an agency fund, a “Board Endowment”).
- C. Term Endowment – A fund or account that, pursuant to donor-imposed restrictions, is established to function as an endowment, except that, upon the passage of a stated period or the occurrence of a particular event, may be expended in full.

### II. General Objectives

The general objectives of the Nebraska Community Foundation for the investment of its endowed assets are to:

- Strive to preserve the purchasing power of the portfolio
- Invest in diversified portfolios using a long-term investment horizon and a total return approach
- Provide a relatively predictable and stable stream of income and/or capital appreciation sufficient to meet the grantmaking and operational needs of the Foundation
- Achieve a competitive investment performance relative to appropriate benchmarks

### III. Foundation Responsibilities

- A. The Board is ultimately responsible for implementation of this Investment Policy. The Board may delegate to a Board committee responsibility for selecting Primary Investment Manager(s), approving criteria for engagement of Alternative Investment Managers, monitoring compliance with the Investment Policy, recommending changes to the Policy and reporting to the Board of Directors.
- B. Foundation management will be responsible for review of monthly investment results, communication with investment managers, purchases and liquidations of investments, approval of investment recommendations made by Alternative Investment Managers and engagement of Alternative Investment Managers consistent with criteria set forth within this Policy.
- C. Each person responsible for managing and investing NCF assets governed by this Policy shall manage and invest such funds in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

### IV. Investment Manager Responsibilities

- A. Each investment manager shall discharge its responsibilities using the highest standards of fiduciary care, in accordance with all applicable laws and with the care an ordinarily prudent person in a like position would exercise under similar circumstances, taking into consideration the special skills or expertise of such investment manager.
- B. Investment managers will invest in accordance with this Policy.
- C. Primary Investment Managers (PIMs) are those managers selected by the Board to manage a substantial part of the Foundation's endowed assets. PIMs are expected to apply their own judgment concerning asset allocation, security selection and portfolio diversification, within the parameters set forth in this policy for the portion of the portfolio they have been selected to manage.
- D. Alternative Investment Managers (AIMs) are those managers selected by the Foundation in accordance with Article XI of this Policy to manage the endowed assets held in one or more affiliated funds or accounts. AIMs are expected to make investment recommendations to NCF management both when monies are available for investment and to rebalance the portfolio. All recommended investments must meet the terms of this Investment Policy.
- E. Each investment manager is expected to provide reports and any other reasonable information requested by the Foundation. Investment managers may be asked to meet with the Board of Directors or its designee periodically to review investment performance and philosophy.

### V. General Policies

- A. In order to preserve the purchasing power of the endowed assets of NCF and generate an income stream to provide for the payout of assets for charitable purposes, all endowed funds or accounts are required to be invested using one of the asset allocation models set forth in this Policy.
- B. All transactions undertaken on behalf of NCF will be for the sole benefit of NCF.
- C. Professional investment management firms which are registered investment advisors or which are exempt from registration under the Investment Advisers Act of 1940 as may be amended, shall be retained to manage NCF's permanently endowed assets. Each investment manager will be required to sign a contract or memorandum of understanding that sets forth the manager's responsibilities and performance expectations. A copy of this Investment Policy will be provided to each manager.

- D. NCF may utilize the services of an investment consultant for investment manager performance review, asset allocation studies, manager screening and selection and other matters. The comments and recommendations of any such consultant will be considered by the NCF Board of Directors and management in conjunction with other available information for the purpose of making informed and prudent decisions.
- E. NCF shall strive to administer the investment of its endowed assets at reasonable cost, commensurate with the services being received. Costs to be considered include, but are not limited to, management and custodial fees, advisory fees, consulting fees, transaction costs and other administrative costs.
- F. NCF will operate its investment program in compliance with all applicable federal, state and local laws, including but not limited to the Nebraska Uniform Prudent Management of Institutional Funds Act (“Act”).

## **VI. Asset Allocation Policy**

- A. Based on the investment objectives set forth in Section II above and the factors set forth in the Act, NCF has established strategic asset allocations that include the asset classes of domestic large capitalization (“core”) equities; domestic small/mid-capitalization equities; international equities; core fixed income securities; total return fixed income securities; and cash/cash equivalents.
- B. A target asset allocation is specified below for each asset allocation model. In addition, allowable ranges for each asset class have been established to provide the opportunity to make tactical allocations.
- C. The assets within each investment portfolio should be rebalanced to stay within the allowable range no less frequently than when an allocation reaches the minimum or maximum point in its range. The actual allocation among asset classes shall be monitored frequently by the investment managers to ensure adherence to Policy allocations.
- D. Two different asset allocation models, the “Balanced” and “Equity-Weighted” asset allocation models, will be offered to affiliated funds for their Permanent Endowments and Quasi-Endowments in recognition of the fact that each affiliated fund has differing risk tolerance and needs for distribution from their endowment accounts. The investment managers are required to invest in conformity with the asset allocation model selected by NCF and the affiliated fund. Beginning July 1, 2010, the “Fixed Income-Weighted” asset allocation model will be offered only for Term Endowments or when donor-imposed investment restrictions call for use of this model. Accounts invested in the Fixed Income-Weighted model prior to July 1, 2010 may continue to use this model and to add to the amounts invested therein.
- E. Endowed accounts that are invested solely in the Equity-Weighted asset allocation model may have up to 10% of their assets invested in certificates of deposit (CDs) that are held in banks with a physical location in Nebraska and are purchased in accordance with NCF policies and procedures for CDs. Any such allocation to CDs will not be considered in determining compliance with the asset allocation policy set forth in this section.

## 1. Fixed Income-Weighted Asset Allocation Model

	<i>Target</i>	<i>Allowable Range</i>
Equities, in total	25%	15% to 35%
Core Equity	13%	10% to 20%
Small/Mid Cap	7%	5% to 15%
International	5%	0% to 10%
Fixed Income, in total	75%	65% to 85%
Core Income	55%	45% to 65%
Total Return	15%	10% to 20%
Cash Equivalents, in total	5%	0% to 10%

## 2. Balanced Asset Allocation Model

	<i>Target</i>	<i>Allowable Range</i>
Equities, in total	50%	40% to 60%
Core Equity	25%	15% to 35%
Small/Mid Cap	15%	10% to 20%
International	10%	5% to 15%
Fixed Income, in total	50%	40% to 60%
Core Income	40%	35% to 45%
Total Return	10%	5% to 15%
Cash Equivalents, in total	0%	0% to 10%

## 3. Equity-Weighted Asset Allocation Model

	<i>Target</i>	<i>Allowable Range</i>
Equities, in total	75%	65% to 85%
Core Equity	40%	30% to 50%
Small/Mid Cap	20%	15% to 25%
International	15%	10% to 20%
Fixed Income, in total	25%	15% to 35%
Core Income	15%	10% to 25%
Total Return	10%	5% to 15%
Cash Equivalents, in total	0%	0% to 10%

**VII. Investment Return Objectives**

- A. The investment return of each portfolio will be measured relative to (1) inflation; and (2) benchmarks established by weighting specific indices appropriate to each of the asset allocation model components. Investment return shall be measured net of investment manager fees. Return relative to inflation and benchmarks is to be judged over a time horizon of no less than three to five years.
- B. Investment return objectives for each asset allocation model
  1. Fixed Income-Weighted asset allocation model

- a) Exceed inflation (as measured by CPI) by 2.25%
  - b) Exceed a benchmark weighted using the following indices:
    - (1) 13% S&P 500 Index
    - (2) 7% Russell 2500 Index
    - (3) 5% MSCI ACWI ex U.S. Index
    - (4) 55% Barclays U.S. Intermediate Government/Credit Index
    - (5) 15% Barclays U.S. Universal Index
    - (6) 5% Citi 3-Month Treasury Bill Index
2. Balanced asset allocation model
- a) Exceed inflation (as measured by CPI) by 3.5%
  - b) Exceed a benchmark weighted using the following indices:
    - (1) 25% S&P 500 Index
    - (2) 15% Russell 2500 Index
    - (3) 10% MSCI ACWI ex U.S. Index
    - (4) 40% Barclays U.S. Intermediate Government/Credit Index
    - (5) 10% Barclays U.S. Universal Index
3. Equity-Weighted asset allocation model
- a) Exceed inflation (as measured by CPI) by 4.75%
  - b) Exceed a benchmark weighted using the following indices:
    - (1) 40% S&P 500 Index
    - (2) 20% Russell 2500 Index
    - (3) 15% MSCI ACWI ex U.S. Index
    - (4) 15% Barclays U.S. Intermediate Government/Credit Index
    - (5) 10% Barclays U.S. Universal Index

#### **VIII. Investment Manager Performance Evaluation**

- A. An Investment Committee of the Board of Directors shall be responsible for evaluating the performance of the Foundation's investment managers and making recommendations to the full Board regarding retention of each manager.
- B. Formal manager evaluations shall take place at least annually, or more often as is deemed necessary and appropriate. Such formal evaluations shall be in addition to the day-to-day oversight and evaluation done by Foundation management.
- C. Evaluation criteria will include, but are not limited to, investment returns; adherence to the Investment Policy; costs; client service; proactivity; and responsiveness.
- D. The Investment Committee shall make a written report to the full Board with respect to the performance of each Primary Investment Manager and Alternative Investment Manager. In addition, each Primary Investment Manager will periodically meet with the full Board as part of the evaluation process. After the written reports and meeting, the Board will make a determination as to the retention of each investment manager.
- E. If circumstances so warrant, an investment manager may be dismissed at a time other than during the annual formal evaluation process.

#### **IX. General Investment Requirements**

- A. NCF is a tax-exempt organization. This tax-exempt status should be taken into account by investment managers when making investments for NCF.
- B. The following transactions are prohibited: purchase of non-marketable securities; purchase of precious metals; purchase of securities on margin; purchase of options; short sales; straddles; letter stock.

- C. Transactions that involve a broker acting as a “principal” where such broker is also the investment manager who is making the transaction are prohibited.
- D. Transactions shall be executed at a reasonable cost, taking into consideration prevailing market conditions and services and research provided by the executing broker.
- E. No more than 5% of the invested assets of any NCF endowed fund or account may be invested in the securities of a single issuer (other than interests in a mutual fund) or in a single asset, excluding securities issued by the U.S. government or its agencies.
- F. No fixed income security in the “Core Income” allocation shall have an equivalent credit quality below investment grade at the time of purchase. “Investment grade” is defined as a rating of at least:
  1. BBB- by Standard & Poor’s for straight bonds and convertibles
  2. Baa3 by Moody’s Investors Service for straight bonds and convertibles
  3. A1 by Standard & Poor’s for short term securities
  4. P1 by Moody’s Investors Service for short-term securities
  5. AAA for money market accounts

In the case of a mutual fund, the securities in the fund must have a weighted-average credit quality that is investment grade. Unrated securities shall be considered below investment grade for purposes of determining the weighted-average credit quality.
- G. Direct real estate investments are not allowed; any investment in real estate must be in the form of a marketable security of a U.S.-based entity.
- H. Any investment, or action with respect to an investment, not expressly allowed by this Policy is prohibited, unless approved in advance by the Board.

#### **X. Payout Policy for Permanent Endowments and Quasi-Endowments**

- A. Determination of Payout Rates
 

The Board of Directors shall periodically review the payout policy and make adjustments to the Payout Rates necessary to attempt to preserve the purchasing power of the endowed assets. Under certain circumstances, the Board may determine that a Payout Rate in excess of the current investment return is appropriate and warranted. All such Payout Rates determined by the Board of Directors shall be documented in Addendums to this Investment Policy.
- B. Payout Amount
 

The Payout Amount for a fiscal year will be calculated as the Payout Rate multiplied by the Asset Base. Any portion of a Payout Amount not spent may be set aside and carried forward to be spent in the subsequent fiscal year to the extent consistent with procedures set forth by NCF.
- C. Payout Rate
 

The Payout Rate shall be expressed as a percentage of the Asset Base. While the Board will consider the impact of fees in determining the Payout Rate, the Payout Rate will be stated exclusive of fees. A separate Payout Rate will be established for each asset allocation model.
- D. Asset Base Calculation
 

The Asset Base used for determining the Payout Amount for a fiscal year will be the average quarterly market value of the assets (less any amounts set aside pursuant to B. above) over twelve quarters. In the sole discretion of NCF management, illiquid assets may be excluded from the Asset Base.
- E. The Asset Base used for determining the Payout Amount for an endowment account that has not been in existence for twelve quarters will be the average quarterly market value of the assets over the number of quarters that the account has been in existence.

## **XI. Donor Recommendations Regarding Alternative Investment Managers**

- A. A donor who makes an outright gift during his/her lifetime may make a recommendation regarding the use of an investment representative (“Alternative Investment Manager” or “AIM”) other than the Primary Investment Manager when all of the following conditions are present:
  - 1. The recommendation relates to the management of a single gift of \$250,000 or more;
  - 2. The gift is free from material restrictions; and
  - 3. The gift is to a donor-advised fund or designated fund that is permanently endowed.
- B. A donor who makes a gift by testamentary bequest or beneficiary designation may make a recommendation regarding the use of an AIM when all of the following conditions are present:
  - 1. All of the requirements of A. above are met; and
  - 2. The donor has, during his/her lifetime, made his/her gift intentions and recommendation regarding the use of an AIM known to NCF in writing, in a form acceptable to NCF.
- C. A donor’s recommendation regarding the use of an AIM is advisory only and does not obligate NCF to use such investment representative. The Board or its designee may approve, in its sole discretion, the use of an AIM.
- D. Prior to engagement, each AIM selected by the Board or its designee shall sign the contract or memorandum of understanding described in Article V, Section C of this Policy.
- E. Use of an AIM for a particular donor’s gift shall not continue longer than the tenure of the individual investment representative recommended by the donor. Once the recommended investment representative is no longer the representative of record, management of the assets shall move to NCF’s Primary Investment Manager. Notwithstanding the foregoing, NCF retains the right to terminate the services of any investment representative at any time.

## **XII. Exceptions**

Any exceptions to this Policy must be approved in advance by the Board.

## **XIII. Review and Modification of Investment Policy**

The NCF Board of Directors will review this Investment Policy from time to time to determine if modifications are necessary. When modifications are made, they shall be promptly communicated to all investment managers.

## **XIV. Adoption**

Approved by the Board of Directors February 15, 2002.

Amended May 16, 2003.

Amended February 13, 2004.

Reviewed and Affirmed by Board of Directors November 11, 2005.

Amended and restated November 6, 2008.

Amended June 4, 2010.

Amended June 8, 2012.

Amended November 6, 2015.

Amended June 1, 2018.