

# Investment Policy Statement

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## Introduction

This Investment Policy Statement applies to certain investment programs of the Oklahoma City Community Foundation (OCCF). Investment programs that are covered by this Investment Policy Statement are listed under the appendices. Throughout this document, covered investment programs are collectively referred to as the “Investment Programs.” From time to time OCCF may add other investment programs to be covered under this policy.

## The Mission

The mission of the Oklahoma City Community Foundation is to receive and prudently administer charitable funds, to distribute earnings on those funds to further the advancement of health, education, social services and civic organizations in the Oklahoma City area, and to provide an ongoing source of support for such charitable activities. To further this mission, the Board of the Foundation has appointed an Investment Committee and has authorized that committee to administer the investment of the Foundation’s assets through the selection and review of Investment Managers and the allocation of assets among them. The investments will be governed by the following policies and guidelines.

## Investment Objective

- A. Capital Preservation. The portfolio of securities should be of high quality, with only a moderate but assumable level of risk of loss of principal. Diversification between and within asset classes is essential to this objective, and any significant exposure to high-risk investments is to be avoided.
- B. Inflation Protection. The long-term nature of the Foundation, which for investment purposes should be considered perpetual, requires as an investment objective the protection from inflation of the purchasing power of the principal of, and the income earned on, the invested assets. It is believed that a significant exposure to the equity markets is essential to meeting this objective.
- C. The Community Foundation, by accepting charitable funds which are intended to provide annual, endowment-type support for a number of charitable organizations, requires a continuing source of investment income to provide this support.
- D. Performance. The total return, including both income earned and market appreciation, measured over a three- to five-year period, should place the Foundation’s investment performance in the top one-third of a universe of similarly-managed peer funds.
- E. In seeking to attain the investment objectives set forth in the policy, the Investment Committee and Trustees, shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). All investment actions and

decisions must be based solely in the interest of the foundation. Fiduciaries must provide full and fair disclosure of all material facts regarding any potential conflict of interest. Investment Managers must be a Bank, Trust Company, Insurance Company or Registered Investment Advisor (RIA) or another entity specifically approved by the Board of Trustees.

### **Performance Benchmarks**

Performance benchmarks are necessary to properly measure and evaluate the success of each Investment Program and strategic asset class utilized. Performance will be based on quarterly time-weighted returns, gross of investment management and investment consultant fees, unless otherwise stated. The specific benchmarks for each of the Investment Programs are provided in Appendices A-C.

Performance benchmarks are also necessary to properly measure and evaluate the success of each investment manager. Performance of investment managers will be based on quarterly time-weighted returns, gross of investment fees unless otherwise stated.

Style appropriate benchmarks and peer groups will be determined when each investment manager is retained. Over rolling five- and ten-year periods, net of fee returns should outperform the style specific benchmark and peer group.

### **Spending Policy**

The foundation exercises a spending policy of 5% of the average market value of the fund over the past twelve quarters unless special circumstances exist or the fund agreement has established a different spending policy.

### **STANDARDS FOR INVESTMENT MANAGERS**

The Foundation will enter into a written investment agreement with any investment manager it retains, including investment managers recommended by donors. The agreement must provide that:

- The Foundation is the sole owner of assets held in the fund;
- All such assets are and must remain under the Foundation's sole control;
- The manager's actions and performance will be overseen by the Investment Committee;
- The manager will adhere to the Foundation's asset allocations , risk tolerance, and rebalancing requirements;
- The manager will not purchase securities on margin or sell securities short without the advance approval of the Investment Committee or its designee;

- The manager will rebalance as necessary to fall within the described target ranges for the investment pool or fund under management. The manager will review the need for rebalancing at least quarterly.
- The manager agrees to fees that are reasonable and consistent with what the Foundation pays other money managers for similar services;
- The agreement may be terminated at any time and assets will be transferred to the Foundation immediately upon termination.

Funds will be invested in accordance with state law regarding prudent investing.

The manager will maintain an account with the Foundation's master custodian. The manager will provide statements of performance. The Investment Committee or its designee may request additional information from time to time as it deems necessary to measure performance.

The manager must agree to distribute to the Foundation such sums as the Foundation may request from time to time, including the Foundation's administrative fee for any fund under separate management and distributable income.

The Foundation will not pay any investment professional or any other party for referring a donor to the Foundation and no existing funds of the Foundation will be transferred to such a person as compensation for a referral.

Investment managers will advise the Foundation promptly of any event that is likely to adversely affect the management, professionalism, integrity or financial position of the manager's firm or its progress toward the goals and objectives of this policy.

Investment managers shall not invest any part of the Foundation's assets through transactions that involve self-dealing or an actual or perceived conflict of interest.

## **INDIVIDUALLY MANAGED ACCOUNTS**

At the Foundation's discretion, and with its advance approval, the assets of a particular component fund of the Foundation may be managed by an investment manager recommended by the fund's donor or advisor provided the value of the fund meets minimum criteria established by the Foundation and the investment manager satisfies the Foundation's criteria. The minimum fund balance is 5 million. Any such manager must acknowledge and agree to comply with this Investment Policy by signing a copy of this document. The manager must adopt and follow the asset allocations for one of the Foundation's investment pools. Manager performance will be reviewed on the same basis as the Foundation's other investment managers.

Investment Committee approval of a donor's recommended manager is contingent on the execution of a written agreement that meets the Standards for Investment Managers. Upon the death of the fund's original donor, the agreement between the Foundation and the investment manager may continue for a period of up to five years if the donor has so requested in writing. Additional extensions of the agreement must be approved by the Investment Committee.

Donors and fund advisors should not act as investment managers. In Exceptions must be approved by the Investment Committee.

## **PERFORMANCE EVALUATION**

Quarterly performance will be evaluated to measure progress toward the attainment of long-term expected return and adherence to investment style. It is understood that there are likely to be short-term periods during which performance deviates from market indices.

At least annually the Investment Committee will review:

- Each manager's adherence to the investment policy guidelines and portfolio construction
- Material changes in the manager's organization, investment policy and/or personnel
- Comparisons of the manager's results to appropriate benchmarks
- Portfolio based performance attribution
- Portfolio based style analysis
- Portfolio based fundamental review

Managers may be replaced for failure to adhere to the responsibilities outlined in the investment policy, inconsistent execution of the investment mandate, or substantive personnel changes.

Criteria for evaluating the performance of an active equity investment manager include monitoring underperformance relative to benchmarks and peer groups. Occurrences of deficient performance by investment manager consist of two categories.

The "Watch List" category is for short-term or moderate levels of underperformance. Managers on the Watch List will be subject to closer scrutiny and monitoring.

The "Probation" category is for long-term or more extreme shortfalls in performance. An investment manager who underperformance meets the criteria for placement in the "probation" category will make a presentation to the Investment Committee. Probationary status that persists or worsens can result in the replacement of an investment manager.

### **Watch List**

An active equity manager will qualify for inclusion if for cumulative 3-year or 5-year rolling return periods, respective performance is 300 or 150 basis points below the benchmark and/or a peer group ranking falls below the 66<sup>th</sup> or 60<sup>th</sup> percentiles respectively.

If there has been no improvement in performance during six months, the manager will make a presentation to the Investment Committee. Watch list status will end after the performance shortfall no longer exceeds the above criteria. Alternatively, continuing deterioration in performance will warrant review for placement on probationary status.

### **Probation List**

An active equity manager will qualify for inclusion for cumulative 3-year or 5-year rolling return periods, respective performance which is 400 or 250 basis points below the benchmark and/or a peer group ranking which falls below the 75<sup>th</sup> or 66<sup>th</sup> percentiles. Probationary status will end when performance improves to Watch List or better or when the manager is terminated.

## **EXCESS BUSINESS HOLDINGS**

The Pension Protection Act of 2006 amended section 4943 of the Internal Revenue Code to limit ownership of closely-held business interests in a donor advised fund. A fund's holdings, together with the holdings of disqualified persons (donor, advisor, members of their families and businesses they control) may not exceed any of the following:

- 20% of the voting stock of an incorporated business;
- 20% of the profits interest of a partnership, joint venture, or the beneficial interest in a trust or similar entity;
- Any interest in a sole proprietorship.

These limitations do not apply if the donor-advised fund holds an interest that does not exceed two percent of the voting stock and two percent of the value of the business.

Donor-advised funds receiving gifts of interests in a business enterprise have five years from the receipt of the interest to divest holdings that are above the permitted amount, with the possibility of an additional five years if approved by the Secretary of the Treasury (IRS). To prevent a violation of these rules, it is the Foundation's policy is to divest itself of such holdings within five years from the date the Foundation acquired the asset. If that is not possible, the asset will be transferred to a new or existing fund that is not an advised fund.

Because they are not "business enterprises," the rule will not apply to most gifts of real property, although undeveloped land may become a business enterprise under some circumstances. Interests in investment partnerships and LLCs—including family partnerships, hedge funds, REITs, and so forth—are excluded from the definition of business enterprise as long as 95 percent or more of the entity's income is from passive sources. Examples of other property gifts that are excluded because they are not business enterprises include: oil and gas interests (non-working); life insurance; tangible personal property (as long as it is not inventory); and remainder interests in personal residences and farms.

## **REPORTING**

In order to ensure that the Board of Directors and the Committee are able to fulfill their duties with respect to prudent management of the portfolio, the Foundation's staff will provide detailed reports at least quarterly to the Committee. Such reports shall include, though not be limited to, performance of the Foundation's investment portfolio, actions taken with respect to the investment portfolio, and expected changes in investments.

The Chair of the Committee will report on the status of the investment portfolio and any actions taken to the Board of Directors at each Board meeting

## Appendix A

### Endowment Pool

**Investment Objective:** Preserve the purchasing power of assets by investing in a diversified pool targeting capital growth for long-term grant making.

**Risk Profile:** Achieve targeted long-term performance expectations while accepting some level of short-term capital volatility.

#### Strategic Asset Allocation Policy:

<u>Asset Class</u>	<u>Asset Allocation Range</u>	<u>Target Benchmark</u>
<b>Domestic:</b>		
Large Cap Value	20-40% of equities	Russell 1000 Value Index
Large Cap Growth	20-40% of equities	Russell 1000 Growth Index
Large Cap Core	33-60% of equities	Russell 1000 Index
Mid Cap Value	20-40% of equities	Russell Mid Cap Value Index
Mid Cap Growth	20-40% of equities	Russell Mid Cap Growth Index
Mid Cap Core	20-40% of equities	Russell Mid Cap Index
Small Cap Value	20-40% of equities	Russell 2000 Value Index
Small Cap Growth	20-40% of equities	Russell 2000 Growth Index
Small Cap Core	20-40% of equities	Russell 2000 Index
<b>International:</b>		
Developed Markets	5-15% of equities	MSCI EAFE Index
Emerging Markets	5-10% of equities	MSCI Emerging Market Index
<b>Alternatives:</b>		
REITS	3-8% of total portfolio	MSCI US Reit Index
MLP's	3-8% of total portfolio	Alerian MLP Index
<b>Fixed Income:</b>		
Domestic Fixed Inc	27.5%-37.5% of total Aggregate Bond Ind	Bloomberg Barclay's US

#### Total Fund Benchmark Composition:

Blended benchmark comprise of the Russell 3000 Index (50%), MSCI ACWI Index minus US (15%) and Barclays US Aggregate Index (35%).

## Appendix B

### 100% Equity Fund

**Investment Objective:** To mirror the equity investments of the Endowment Pool. This fund is only available to Donor Advised Funds and Affiliated funds with a balance of \$250,000 or greater.

**Risk Profile:** Achieve targeted long-term performance expectations while accepting increased capital volatility.

#### **Strategic Asset Allocation Policy:**

<u>Asset Class</u>	<u>Asset Allocation Range</u>	<u>Target Benchmark</u>
<b>Domestic:</b>		
Large Cap Value	20-40% of equities	Russell 1000 Value Index
Large Cap Growth	20-40% of equities	Russell 1000 Growth Index
Large Cap Core	33-60% of equities	Russell 1000 Index
Mid Cap Value	20-40% of equities	Russell Mid Cap Value Index
Mid Cap Growth	20-40% of equities	Russell Mid Cap Growth Index
Mid Cap Core	20-40% of equities	Russell Mid Cap Index
Small Cap Value	20-40% of equities	Russell 2000 Value Index
Small Cap Growth	20-40% of equities	Russell 2000 Growth Index
Small Cap Core	20-40% of equities	Russell 2000 Index
<b>International:</b>		
Developed Markets	5-15% of equities	MSCI EAFE Index
Emerging Markets	5-10% of equities	MSCI Emerging Market Index

#### **Total Fund Benchmark Composition:**

85% Russell 3000 and 15% MSCI ACWI Index



## Appendix C

### **Growth Pool**

**Investment Objective:** Preserve the purchasing power of assets by investing in a diversified pool targeting appreciation and capital growth. This fund is only available to Donor Advised Funds and Affiliated funds with a balance of \$250,000 or greater.

**Risk Profile:** Achieve performance expectations while accepting some level of short-term capital volatility.

#### **Strategic Asset Allocation Policy:**

<u>Asset Class</u>	<u>Target Benchmark</u>
Vanguard Total World Stock ETF (VT)	FTSE Global All Cap Index
Vanguard Total Bond Market ETF (BND)	Bloomberg Barclays US Aggregate Float Adjusted Index

#### **Total Fund Benchmark Composition:**

Blended benchmark comprise of the 80% Vanguard Total World Stock Index and 20% Vanguard Total Bond Market Index

## Oklahoma City Community Foundation Investment Guidelines

Approved November 15, 2018

**The selection of individual issues is the responsibility of the Investment Manager, subject, however to the following guidelines:**

- a. Domestic Stocks. Investments will be restricted to issues of companies with an identifiable three-year operating record that is meant to include, but not be limited to, firms that either were private, were the subsidiary of another company, or were the predecessor of a merged entity. Issues of non-U.S. companies trading on a major U.S. exchange will be considered as domestic equities. Equity investments will be limited to publicly-traded, unrestricted stock listed on one of the following major exchanges: New York Stock Exchange (NYSE), American Stock Exchange (AMEX) or NASDAQ National Market System. Managers may additionally invest in publicly traded, unrestricted stock listed on other exchanges provided that notice is given to the Investment Committee or its Investment Counsel, prior to the initial investment. Such additional investments are expected to be consistent with the Manager's normal investment criteria, including research access, quality and liquidity. The maximum allocation to such additional investments shall be no more than 10 percent of the manager's portfolio.
  
- b. Domestic Fixed Income. Investments will be restricted to at-purchase, investment grade U.S. Treasury and Agency obligations, corporate debt issues; taxable and tax-exempt municipal securities and commercial paper. Investment grade rating must be established by any SEC-registered nationally recognized statistical rating organization (NRSRO). Investments held in an account which are down-graded to a category less than allowed by this policy by all applicable services should be disposed of within a time-frame which is reasonable and prudent and which protects the overall value of the portfolio. Convertible bonds held primarily for their equity potential should be considered equity-type investments. A substantial degree of interest rate risk is to be avoided; the effective duration of the fixed income portfolio, assessed on a quarterly basis, should not exceed  $\pm 20\%$  of the designated benchmark's duration or any such index as might be selected by the Committee.
  
- c. Domestic High Yield Fixed Income. This portfolio is designed to take advantage of opportunities in lower quality, high yield fixed income securities predominantly rated "non-investment grade" by Nationally Recognized Statistical Rating Organizations (NRSROs) such as S&P, Moody's and Fitch and for which the average credit quality ranges between B-/B3/B- and BB+/Ba1/BB+. Investments in unrated securities will be limited to 10% of the portfolio's assets and these securities shall be assumed to be rated below B3. A substantial degree of interest rate risk is to be avoided; the effective duration of the fixed income portfolio should not exceed  $\pm 20\%$  of the Credit Suisse First Boston (CSFB) High Yield Index's duration. The

debt issues of any one corporation, including subsidiaries thereof, shall not exceed 5% of the manager's 'total portfolio at the time of purchase.

- d. International Fixed Income. Issues representing direct or indirect obligations of foreign sovereigns, agencies, supras and quasis and the direct obligations of corporations domiciled outside of the U.S. will not be permitted unless they are U.S. dollar pay and unless they otherwise qualify under these guidelines. Investments will be restricted to investment-grade issues as rated by any SEC-registered NRSRO. Allocation to any individual issuer will be limited to an aggregate value of \$1 million. Finally, not more than 10% of the portfolio market value in the aggregate may be allocated to issues in this category.
- e. International Equities. All equity-type issues of any company domiciled outside of the U.S. and not trading on a major U.S. exchange, but including open-end or closed-end investment companies with over 25% of their portfolio invested in companies domiciled outside of the U.S., whether or not these issues trade on a major U.S. exchange, shall be considered international equities. Such investments will, however, be restricted to issues of companies or funds with an identifiable three-year operating record that is meant to include, but not be limited to, firms that either were private, were the subsidiary of another company, or were the predecessor of a merged entity. Restrictions equivalent in substance to those applicable to Domestic Equities shall apply to International Equities.
- f. Alternative Assets. While traditional exchange-traded equities and bonds will make up the majority of the Foundation's investment portfolio, the Investment Committee recognizes that "alternative assets" can contribute to enhancing the long-term total return of the Foundation's portfolio. These assets offer diversification benefits by exhibiting low relative correlations over longer periods to traditional assets. As a result, the Foundation's portfolio may experience lower volatility and higher total returns by including alternative assets.

At this time, the Investment Committee is permitting the use of marketable alternative investments only. The specific investments must be exchange-traded and should be designed so as to mimic the returns of well recognized indices. In real estate, the goal is to closely track the return of the MSCI US REIT Index. In midstream energy master limited partnerships, the goal is to closely track the return of the Alerian MLP Index.

From time to time, the Foundation may take ownership of holdings of mineral interests, real estate and other non-marketable alternative assets. The long-term policy shall be to sell such assets over a reasonable length of time. It is recognized, however, that such assets may, from time to time and for valid reasons, constitute a

significant and important holding for the Foundation because of their importance to the community.

V. ASSET ALLOCATION - MANAGER SPECIFIC.

- A. Domestic Equity. Unless otherwise approved by the Investment Committee, and making allowances for temporary trading float and initial investment programs, domestic equity portfolios are never to be less than 90% invested and to be no less than 95% invested in stocks or convertible bonds as defined in Section IV., B., and a. for more than two consecutive month ends. The portfolio shall be prudently diversified by industry, and the investment at cost in any one company shall not exceed 5% of the portfolio's market value at the time or times of purchase. At no time should the market value of the securities in any one company exceed 10% of the market value of the portfolio.
- B. International Equity. Unless otherwise approved by the Investment Committee, and making allowances for temporary trading float and initial investment programs, international equity portfolios are never to be less than 90% invested and to be no less than 95% invested in stocks or convertible bonds as defined in Section IV., B., and d. for more than two consecutive month ends. The portfolio shall be prudently diversified by country, and the investment at cost in any one company shall not exceed 5% of the portfolio's market value. At no time should the market value of securities in any one company exceed 10% of the market value of the portfolio. Currency hedging is permitted, but the amount of any individual currency hedge shall not exceed 50% of the value of the securities held in that currency.
- C. Fixed Income. Unless otherwise approved by the Investment Committee, or unless specifically structured to manage portfolio duration, fixed income portfolios shall be no less than 80% invested in obligations with maturities in excess of one year. There shall be no limit on the percentage of the portfolio which may be invested in U.S. Treasury or Agency obligations, but the debt issues of any one corporation, including subsidiaries thereof, shall not exceed 5% of the total fixed income portfolio at the time of purchase.
- D. Balanced Portfolios. It is recognized that, from time to time, Investment Manager may be instructed to manage balanced portfolios. In those cases, the Investment Committee shall assign the Manager specific equity and fixed income ratios. The Manager will be expected to manage the portfolio consistent with those assignments, but subject also to the other restrictions and objectives set forth herein.
- E. Cash Equivalents. Subject to the limitations set for in Sections V. A. – D., there shall be no restrictions as to the amount that can be invested in any one cash equivalent investment.

- F. Alternative Assets. Unless otherwise approved by the Investment Committee, and making allowances for temporary trading float and initial investment programs, alternative asset portfolios are never to be less than 100% invested

## VI. OTHER

- A. Mutual Funds and Exchange Traded Funds. With the permission of the Investment Committee, investments may be made in shares of Exchange Traded Funds and no-load Regulated Investment Companies. Mutual Funds should have an identifiable three-year operating record and no less than 75% of the assets of such funds should be invested in issues which would otherwise qualify as domestic equities, domestic fixed income or international equities as defined above. In addition, manager fees should be adjusted by an amount equal to the total management fees, including 12b-1 fees, charged by the Investment Company.
- B. No investments shall be initiated by any Manager in any venture capital fund or other high-risk, speculative investment which would violate the objective of capital preservation.
- C. Investments in derivatives are permitted, but shall be limited to the following:
  - a. Equities.
    - i. Shares of tracking stocks trading on a major U.S. exchange.
    - ii. Exchange-traded Index Put and Call Options used specifically to protect general market position during implementation of major buy or sell programs.
  - b. Fixed Income. Callable bonds, government-sponsored agency mortgage-backed securities (MBS) pass-through, zero coupon bonds or synthetic bonds composed of U.S. Treasury STRIPS. Also, a maximum of 25% of a managed fixed income portfolio may be invested in government-sponsored agency collateralized mortgage obligations (CMO's). In addition, a maximum of 15% of a managed fixed income portfolio may be invested in non-agency CMO's and asset backed securities (ABS). Non-agency MBS, CMO's & ABS purchased may not be rated below BBB (investment grade) by any Nationally Recognized Statistical Rating Organization (currently Moody's, S&P, Fitch, AM Best, and Dominion.) In addition, the following tranche types are not permissible investments: accrual (Z) bonds, inverse floaters, interest or principal only, and residuals. Finally, no MBS or CMO's backed by subprime, home equity loans, or home equity lines of credit are permitted.