

# Investment Policy Statement

## Community Foundation for Northern Virginia

Adopted 04/15/2021

### About the Community Foundation for Northern Virginia

The mission of the Community Foundation for Northern Virginia (the “Community Foundation”) is to grow philanthropy to respond to critical needs, seed innovation, and lead and convene the community. Comprised of donor-advised funds, permanent funds, and other charitable giving vehicles, the Community Foundation helps to connect donors to the community and to promote more equitable and inclusive prosperity.

### Purpose and Background

The Community Foundation Board of Directors (“Board”) is ultimately responsible, as a fiduciary, to manage all of the Community Foundation’s assets and investments. In order to carry out these responsibilities, the Board has established an Investment Committee (“IC”).

The IC is responsible for establishing the Investment Policy Statement (“IPS”) to guide the investment of the Community Foundation’s assets. The IPS describes the overall investment guidelines and the framework, including the degree of overall investment risk that the IC deems appropriate, using prudent investment principles while achieving the long-term target total return to fund the Foundation’s ongoing annual operational and grantmaking budget in perpetuity.

The purpose of this IPS is to assist the Board of the Community Foundation and its IC in effectively managing the investments of the Community Foundation’s assets. It defines and assigns the responsibilities of all involved parties, articulates the framework in which the portfolios will be managed as it relates to risk and return objectives as well as constraints, and establishes a basis for evaluating performance.

This IPS addresses the following issues:

- The general goals of the Community Foundation
- The specific investment objectives of the Community Foundation
- Asset allocation and rebalancing policies
- Measurement and evaluation of investment performance and applicable benchmarks
- Policies and guidelines for Investment Advisors (IA’s)

### Policy

The investment goal of the Community Foundation is to earn a total return that will provide long-term preservation and growth of the Community Foundation’s invested assets. To meet this goal, the Community Foundation maintains a diversified total portfolio that is invested in various asset classes and investment styles.

As a prudent investor, the Community Foundation's IPS takes into account general economic conditions, the possible effect of inflation or deflation, the role that each investment or course of action plays within the overall investment portfolio of the Community Foundation, any special relationship or value of an investment to the mission of the Foundation, the expected total return of the portfolio, including both income and appreciation of investments, other resources of the Community Foundation, and the Community Foundation's needs to make grants in furtherance of its mission.

## Roles and Responsibilities

The Community Foundation's IC is authorized by the Board to act on its behalf subject to this IPS. The IC, in turn, is authorized to delegate certain responsibilities to one or more professional experts in various fields, including the flexibility to retain, terminate, or replace any outsourced, third-party Investment Advisor (IA). This delegation of authority allows for enough flexibility in the management process to capture any investment opportunities as they arise. Further responsibilities are detailed below.

The IC is responsible for:

1. Establishing, reviewing, and maintaining the IPS and target asset allocations
2. Monitoring the net-of-expenses performance and risk profile of the investment portfolio of the Community Foundation as a whole
3. Reviewing the IA's implementation of the IPS
4. Hiring, terminating, or replacing any IA
5. Briefing the Board at least annually on the investment performance of the Community Foundation's assets.

The Investment Committee may delegate any of its responsibilities from time to time in writing (email) to either the President or the Director of Finance in order to implement the IC's goals, responsibilities, and tasks.

Each of the Community Foundation's third-party IA's are responsible for:

1. Reviewing, disclosing, and addressing all potential conflicts of interest
2. Selecting, rebalancing, terminating, and making tactical shifts between IMs
3. Monitoring the appropriateness of each IM's strategy given the Community Foundation's overall investment strategies, philosophies, and objectives
4. Monitoring the investment performance of each IM compared to the benchmark established for that manager
5. Overseeing the investment of the Community Foundation's assets entrusted to them
6. Preparing and delivering quarterly performance reports, within 15 days after the end of each quarter, reflecting the status of the Community Foundation's investments to the IC and/or Board and written statements which will include a summary of the actions taken with respect to the Community Foundation's assets under management and the rationale behind those actions.

## Types of Investment Assets

The Community Foundation's invested assets are currently comprised of the following:

The Permanent Fund for Northern Virginia (Endowed)

The Permanent Fund for Northern Virginia is a collection of endowed funds that is being developed by the Community Foundation and used for the organization's own discretionary grantmaking across Northern Virginia. Most of the funds that comprise The Permanent Fund are

dedicated to grantmaking in particular fields of interest, for example, poverty relief, child and youth development, the environment, military personnel, and their families, etc. One fund is an operating endowment that may be used by the Community Foundation to supplement its annual operating budget needs. One fund is an entirely unrestricted endowment and may therefore be used by the Community Foundation for any purpose across the region that is recommended by Community Foundation staff and approved by the Board. All of the endowed funds that comprise The Permanent Fund are pooled for investment purposes and intended to be held in perpetuity with a target spend of 5% per year.

### Donor Established Funds (Endowed)

These are donor-established funds that include endowed donor-advised funds (“DAFs”), scholarship funds, designated funds, agency endowments, and the like. All donor-established endowed funds are intended to be held in perpetuity with a target spend of 5% per year.

### Donor Established Funds (Unendowed Pass-Through)

These are also donor-established funds but have been created as “pass-through” funds, meaning that their entire balance is available for grantmaking or scholarship distribution at any moment in time. Donors who establish a pass-through fund may request that all or a portion of the fund balance be invested in the market. Because these funds are “pass-through” in nature, they are not intended to be held in perpetuity.

## Investment Goals and Objectives

The Community Foundation’s investment goals and objectives for its invested assets are as follows:

### The Permanent Fund for Northern Virginia (Endowed):

- All funds that comprise The Permanent Fund are endowments and are intended to be held in perpetuity.
- The investment goal for The Permanent Fund is, therefore, to earn a total return that will provide long-term preservation and growth of these assets.
- The overall investment strategy will emphasize safety and preservation of corpus over return and protection of the corpus. Professional IA management of The Permanent Fund will at all times use highly diversified, low-cost, proven investment strategies and investment managers.
- Investment Time Horizon: +10 Years

### Donor Established Funds (Endowed):

- All endowed donor established funds are intended to be held in perpetuity.
- The investment goal for such funds is therefore identical to the investment goal for The Permanent Fund for Northern Virginia as described in the preceding paragraph above.
- Time Horizon: +10 Years

### Donor Established Funds (Unendowed – Pass-Through):

- The investment goals for unendowed pass-through donor established funds are long-term growth consistent with the liquidity required for grantmaking over the time-horizon outlined by each pass-through donor-established fund.

**Benchmarks and Returns for The Permanent Fund and Endowed Donor Created Funds:**

The expected return objective for The Permanent Fund and for endowed donor-created funds, measured over rolling five-year and seven-year periods, is to provide a nominal annualized total return of seven percent (7%), net of advisory fees.

**Equity Benchmarks**

- To be determined by the IC in conjunction with the IA’s that are selected to manage Community Foundation investment assets.

**Fixed Income Benchmarks**

- To be determined by the IC in conjunction with the IA’s that are selected to manage Community Foundation investment assets.

**Asset Allocation**

Diversification across the permitted asset classes is a core principle of prudent portfolio management. All Community Foundation asset portfolios shall be broadly diversified in a manner that is in keeping with fiduciary standards to limit the impact of large losses in individual securities on the total invested assets. The IC will evaluate IPS asset allocation targets and ranges for the Community Foundation and will review each at least annually.

The IC defines primary real risks as follows:

- For The Permanent Fund and for endowed donor-created funds, the primary real risk is a loss below the value of the endowments when originally established and potential erosion of value through inflation.
- For all Community Foundation invested assets, the primary real risk is an unreasonable loss by IA’s relative to specified IPS benchmarks:

**Target Asset Allocations**

<b>Equity</b>	<b>0-80%</b>
US	0-80%
Developed Intl	0-30%
Developing Intl	0-25%
<b>Fixed Income</b>	<b>10-40%</b>
Corp	0-100%
Govt	0-100%
<b>Cash</b>	<b>5%-10%</b>

Target Asset Allocations may be further refined by the IC in conjunction with selected IA’s.

**Liquidity**

Liquidity is required to meet the grantmaking needs of the Community Foundation’s investment assets.

- For those who manage The Permanent Fund assets and endowed donor-created fund assets, liquidity needs are 5% of the value of the funds for grantmaking, plus liquidity to cover administrative and advisory fees.
- For those who manage unendowed pass-through donor-created funds, liquidity needs will vary according to the grantmaking activity level of the donors who created them. IA's should therefore keep abreast of such needs on a donor-by-donor basis and manage the portfolio accordingly.

## Asset Class Guidelines

### Cash

Cash is the principal source of liquidity for grantmaking for the Community Foundation. It will be invested in only the safest assets, including Treasury bills, Agency notes, or very safe money market instruments that focus on Treasury bills and equivalents. The focus is on safe, highly liquid assets as opposed to generating significant yield.

### Fixed Income

The purpose of the Fixed Income allocation is to create some measure of diversification for managed funds. Preservation of principal is a core emphasis of this allocation. A current risk for cash and high-quality fixed income is the possibility of negative real returns or returns which are less than the rate of inflation

### Global Equities

The purpose of the allocation to Global Equities is to provide long-term capital appreciation and diversification. Equity managers will be selected with the objective of building a portfolio that is diversified by geographic region, economic sector, industry, and market capitalization. The objective in selecting equity managers is to generate average annual compounded returns higher than those of relevant broad market indices (i.e., the S&P 500, the Russell 1000, MSCI EAFE, MSCI World, etc.), net of fees, over full market cycles (7-10 years).

### Alternative Asset Classes – Hedge Funds, Private Equity,

The IA will not invest in these asset classes without the written authorization of the IC Chair and the CEO of CFNOVA

### Real Assets

In general terms, Real Assets allocations seek to deliver long-term results that are a premium to public equity market returns and also protect long-term purchasing power. Real Assets investments may include real estate, energy, timber, and commodities. Real estate may be comprised of properties or REITs in various operating segments - office, retail, hotel, industrial, and multi-family. Global energy, timber, and commodity investment funds commit capital to investments that develop resource opportunities or to companies that provide services to the sector, such as gas processing or contracted drilling. Across the Real Assets sectors, managers generally seek some balance between income, stability, and risk, which can drive capital appreciation. Any allocation to Real Assets will be considered part of the equity asset allocation targets and must be made in publicly traded securities only.

## Foundation's Spending Policy

The Community Foundation has a Board approved spending policy for grantmaking assets to help ensure a reasonable, predictable, and sustainable structure that supports the mission of the Community Foundation. A copy of the Spending Policy is available upon request. The policy applies to all endowed funds. It does not apply to unendowed pass-through funds. It is designed to ensure that the Community Foundation remains a perpetual and meaningful provider of grant support and civic leadership services to the community by seeking preservation and growth of all endowed assets. Spending related to any endowed fund is also subject to limitations of the Virginia Uniform Prudent Management of Institutional Funds Act (UPMIFA).

- **Spending Limitations:** In the year a new endowed fund is established, charitable distributions will be limited to 5% of the Fair Market Value (FMV) of the fund on the date of the last quarterly report. Annual spending from existing funds for charitable distributions will not normally exceed 5% of the average principal value of each fund on June 30 of the preceding 3 years (or up to 11 quarters if the fund has been in existence for less than three years).
- **Periodic Review:** The spending policy will be periodically reviewed and is subject to change by the Board in order to fulfill the Community Foundation's goals and objectives.

## Rebalancing

At times, markets may move in such a way that normal cash flows will be insufficient to maintain the actual asset allocation within the permissible minimum and maximum ranges as set forth in this IPS. In these cases, on a quarterly basis, rebalancing should take place, and resulting proceed balances will be transferred as necessary between the asset types to bring the allocations back within the permissible ranges as described herein.

Interest and dividends generated by invested assets will be re-invested according to the IA's judgment unless otherwise directed by the IC. The IA will be responsible for making recommendations to the IC about additions or withdrawals to or from different IMs, as per Roles and Responsibilities.

## Monitor / Meeting / Review Schedule

The IC and IA's will meet in person or via a video conference call to review the performance and the IA's compliance with objectives and guidelines at least once/year or as otherwise determined necessary and advisable by the IC.

The IC will utilize the most recent quarter IA reporting to review compliance with stated investment policies along with since-inception, one, three, and five-year portfolio investment performance on a quarterly basis in conjunction with scheduled Board meetings.

The overall health of the portfolio will be monitored by comparing the performance of the Community Foundation's invested assets against the selected benchmarks in the IPS. This IC should review such performance with the Board at least annually at Board meetings.

## Conflict of Interest Policy

Any individual IA retained by the Community Foundation to manage its invested assets must be independent of the Community Foundation and its Board members and should not have any conflict of

interest. All potential conflicts of interest will be fully disclosed, discussed, and decided by the Board in consultation with the IC.

## Policy Review

This Investment Policy Statement will be reviewed periodically by the IC. Any amendments thereto suggested by the IC will be brought to the Board for discussion and vote

## Approval

This Investment Policy Statement has been approved by the Board on April 15, 2021.