



Lake County's Community Foundation

## **Legacy Foundation External Advisor Program**

### **Investment Policy Statement**

#### **Background**

From time to time, Legacy Foundation ("Legacy") will delegate to external portfolio advisors ("External Advisors") whole portfolios (the "Portfolios") consisting of at least one entire charitable fund as an alternative to creating a trust or co-mingling the assets in one of Legacy's existing internal portfolios.

The Portfolios covered by this Investment Policy Statement ("Statement") have been established to provide an investment vehicle for component charitable funds of Legacy that have a long-term or perpetual time horizon, and which are part of Legacy's corporate trust structure. The External Advisors are tasked as a delegated fiduciary of Legacy regarding the assets placed in their care.

The Board and Investment Committee of the Legacy has written and approved a Statement for the investment portfolios under their supervision. These investment objectives and guidelines are consistent with best practices in the institutional management of endowment and foundation portfolios and are designed to meet all requirements of the Uniform Prudent Management of Institutional Funds Act.

The Investment Committee of Legacy has established the investment objectives and guidelines below as standards for any portfolios managed under the External Advisor Program. These guidelines and objectives are designed to be consistent with those of the Legacy Foundation Main Portfolio.

#### **Investment Objective**

The primary long-term investment objective is to achieve a total net annual return greater than the Consumer Price Index plus 5.0% plus administrative expenses.

#### **Investment Guidelines**

The Investment Committee and External Advisor shall adhere to the following guidelines while investing the Foundation's assets:

1. **Total Return:** The External Advisor will be evaluated on total return, which the Investment Committee will consider to be the aggregate return from capital appreciation and dividend and interest income.
2. **Risk:** The Investment Committee believes that any person or organization involved in the process of managing the Foundation assets should understand the Foundation's objectives and investments strategy as designed in this Statement. The Investment Committee defines risk as the possibility of losing value or purchasing power, and the possibility that the investment returns of a portfolio fails to meet or exceed its return objectives over the investment horizon.

The investment Committee has established the following asset class targets and ranges for portfolios managed under the External Advisor Program.

**ASSET ALLOCATION TARGETS AND RANGES**

<b>RISK ASSETS</b>	<b>TARGET</b>	<b>RANGE</b>
US EQUITY	37%	17% - 57%
INTERNATIONAL DEVELOPED EQUITIES	18%	0%-38%
EMERGING MARKET EQUITIES	8%	0%-18%
LIQUID REAL ASSETS*	10%	0%-20%
<b>SUBTOTAL</b>	<b>73%</b>	<b>53%-83%</b>
<b>RISK CONTROL ASSETS</b>		
	18%	10%-38%
INVESTMENT GRADE FIXED INCOME**	8%	0%-18%
HIGH YIELD FIXED INCOME	1%	0%-15%
CASH/MONEY MARKETS		
<b>SUBTOTAL</b>	<b>27%</b>	<b>17%-47%</b>
<b><u>TOTAL</u></b>	<b>100%</b>	

\* LIQUID REAL ASSETS INCLUDES MUTUAL FUNDS AND ETF'S FOCUSED ON REAL ESTATE, INFRASTRUCTURE AND NATURAL RESOURCES. AN ADVISOR MAY CHOOSE TO NOT HOLD LIQUID REAL ASSETS AND INVEST INSTEAD IN OTHER RISK ASSET OPTIONS.

\*\* INVESTMENT GRADE FIXED INCOME INCLUDES U.S. INFLATION-LINKED FIXED INCOME AND INVESTMENT GRADE NON-US FIXED INCOME.

- Risk Assets include: U.S. Equity, International Developed Equity, Emerging Market Equity, High-Yield Fixed Income, and publicly traded investments focused on a specific sector or industry (natural resources, REITs, etc.)
- Risk-Control Assets include: US. Fixed Income, International Investment-Grade Fixed Income, Inflation-Linked Treasury Securities (TIPS), and money-market funds.

In the event that the above asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Investment Committee will instruct the Investment Manager to bring the portfolio(s) into compliance with these guidelines as promptly and prudently as possible.

Committee Discretion

Portfolios falling outside of the stated asset allocation ranges will be reviewed for acceptance by the Investment Committee.

### Allowable Investments

Fixed income securities and other low volatility strategies (e.g. absolute return hedge funds, etc.) will be used to lower the short-term volatility of the portfolio and to provide stability, especially during periods of low or negative equity markets. The Investment Committee agrees that investing in securities with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities.

It is the intent of the Foundation to be fully invested. Therefore, cash is not a strategic asset of the portfolio, but is residual to the investment process. Cash reserves outside of the Pool shall be maintained in appropriate short-term investments for the purposes of capital preservation. Allowable investments include mutual funds and ETFs. External Advisors are directed to use investment vehicles that are most cost-efficient for Legacy Foundation, and to not hold investments that provide direct or indirect compensation to the Advisor. If an Advisor has questions regarding allowable investments, they should contact Legacy Foundation directly.

### Prohibited Investments and Gift Acceptance Policy

The Investment Committee requires that all assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for each portfolio, with minimal impact on market price. Prohibited investments include, but are not limited to, the following:

1. Commodities and Commodities Futures Contracts unless used within a Mutual Fund or Common Trust Fund
2. Private Placements
3. Direct Venture-Capital Investments
4. Direct Ownership of Real Estate properties

Per gift acceptance policies, the Foundation may accept donations of real estate and tangible personal property if it is in the best interests of the Foundation to do so. If donations of real estate or tangible personal property are accepted, the goal of the Investment Committee is to liquidate such assets as quickly as possible for fair market value. While the ownership of real estate is vested in the Foundation, the Investment Committee may delegate duties regarding the real estate to property managers, appraisers, and other consultants.

### Directed Commissions

External Advisors shall use their best efforts to ensure that portfolio transactions are placed on a "best execution" basis. Additionally, arrangements to direct commissions shall only be implemented by specific authorization of the Committee with the expectation that any associated benefit ("soft dollars") would accrue to the Portfolios.

### Ownership and Custody

The External Advisor acknowledges that Legacy is the owner of the fund, and takes instructions, either written or verbal, only from authorized staff of Legacy. The External Advisor serves as custodian for the fund or establishes the fund with a qualified custodian in the name of "Legacy Foundation," with a reference to the fund name.

## Assignment of Responsibility

### **Responsibility of the External Advisor**

The External Advisor will have discretion to make investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as defined in this Statement. Specific responsibilities of each External Advisor include:

1. Discretionary investment management including decisions to buy, sell, or hold individual investments within the guidelines established in this Statement.
2. Reporting to the Investment Committee on a timely basis the quarterly investment performance results and detailed listing of each transaction.
3. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objective progress of the Foundation's Investment Committee.
4. Informing the Investment Committee regarding any qualitative change to investment management organization, such as changes in portfolio management personnel, ownership structure, investment philosophy, etc. For unanticipated changes Legacy should be notified within 5 business days.
5. Voting proxies on behalf of the Foundation and communicating such voting records to the Investment Committee on a timely basis, if requested by the Investment Committee.
6. Immediate notification, confirmed in writing, to the Foundation and its Investment Consultant (if any) of any exceptions to this Statement with a recommended plan of action to correct the violation.

### **Responsibility of the Custodian**

The Committee recognizes that accurate and timely completion of custodial functions is necessary for effective investment management and accurate records. Following are the basic duties of the Custodian:

1. Provide complete custody and depository services for the designated accounts.
2. Implement in a timely and effective manner the investment actions as directed by the External Advisor(s).
3. Provide timely monthly and annual accounting statements for each portfolio, including all transactions; these should be based on accurate security values both for cost and market value.
4. Report to the Committee or its designee situations where security pricing is either not possible or subject to considerable uncertainty.
5. Distribute to the External Advisor or its designees in a timely manner all proxy materials for voting.
6. Provide assistance to the Legacy staff to complete such activities as the annual audit, regulatory filings, transaction verification or unique issues.

## Fees

All advisory and/or investment management fees must be clearly disclosed, and the External Advisor must offer fair market, competitive pricing with the application of any discounts the advisor and/or the advisor's firm would offer any client with a similar size account and relationship. The External Advisor must also disclose all fee sharing arrangements. The externally managed fund will bear all of its own investment expenses as well as any costs incurred by the Foundation that are directly related to the separate investment.

## Monitoring and Reporting

All goals, objectives and policies set forth in this statement are in effect until modified by the Committee and will be reviewed at least annually for their continued appropriateness.

If at any time an External Advisor believes that any guideline inhibits investment performance, it is the External Advisor's responsibility to communicate this view in writing to the Committee.

The Portfolios will be monitored on a continual basis for consistency in each External Advisor's investment philosophy, return relative to objectives, investment risk as measured by asset concentrations, exposure to extreme economic conditions, and market volatility.

External Advisors have the sole responsibility and fiduciary duty in the oversight and monitoring of Sub-Advisors.

## Termination

With written notice to the External Advisor and Donor, Legacy, may, at any time, revoke the privilege of the External Advisor due to any facts or circumstances that Legacy, in good faith, believes warrant such termination. Such facts and circumstances will include, but not be limited to, a determination that the External Advisor has failed to operate in accordance with the provisions of this Statement or any other applicable policy; has failed to meet the benchmark requirements set forth herein, including any amendments that may be made from time to time; has failed to perform comparably to other advisors; has charged fees that are not commensurate with services provided; has failed to adhere to Legacy's investment instructions, advice or guidance; or has otherwise failed to perform as requested by Legacy.

Legacy, with notice to the External Advisor and Donor, may transfer the fund assets to the Legacy Foundation Main Portfolio or another investment advisor if: 1) the Advisor dies, retires or leaves the profession of financial management, or 2) the Advisor's firm ceases to exist, is purchased by or merges with another company, or 3) the Advisor leaves the firm at which the Advisor was associated at the time the portfolio was established.

**Advisor Acknowledgement:**

Name of Investment Management Firm: \_\_\_\_\_

Name of Investment Manager  
Responsible for Foundation Account: \_\_\_\_\_

Email: \_\_\_\_\_ Phone: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

I acknowledge I have received a copy of the Foundation's External Advisor Program Investment Policies, have read and understood the policies and am able to comply with the requirements.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date