

OUTER BANKS COMMUNITY FOUNDATION
Investment Policy Statement

I. Long-Term Investment Policy

Purpose

Outer Banks Community Foundation (OBCF), as stewards of community resources, invests for the long-term benefit of the donors and community. The primary objective of the Long-Term Investment Pool of the OBCF will be to provide for consistent long-term growth of principal and income. The investment objective is to achieve a total return including appreciation, which will satisfy the current financial needs of the various funds and to protect and preserve their long-term inflation adjusted value. The OBCF will strive to match investment returns comparable with the mean return of other foundations with similar investment guidelines and achieve a total return over a 10-year period of at least 7.5%. Investment policies are applied equally to all named funds, component funds, and undesignated assets unless the fund purpose or donor specification requires a different fund-balance ratio.

Consistent with the mission of the OBCF to increase charitable giving in the area and to manage charitable funds for individuals and organizations, the OBCF will provide donors with the best services available with regard to asset investment options, on-going asset management and charitable giving. The OBCF has consciously chosen to outsource its investment management to an Outsourced Chief Investment Officer (OCIO).

Strategy

In order to achieve the return objectives, the following strategies will be used:

1. Diversification of assets between equities, fixed income, cash and other asset classes will be employed to ensure that adverse results from one asset, or asset class, will not have an unduly detrimental effect on the entire portfolio. The OBCF and its financial partners are free to determine the degree and nature of the diversification of invested assets, subject to the ranges below. However, the total securities position (debt and equity) in any one company shall not exceed 5% of the portfolio. Reasonable sector allocations and diversification shall be maintained.

Asset Class	Target	Benchmark
Equities	50-80%	
US Equities		
Large Cap	25-60	
<i>Large Cap Growth</i>		CRSP US Large Cap Growth Index
<i>Large Cap Value</i>		Russell 1000 Value Index
Small Cap	0-20	
<i>Small Cap Growth</i>		CRSP US Small Cap Growth Index
<i>Small Cap Value</i>		Russell 2000 Value Index
International Equities		
Developed Markets	10-30	
<i>Large Cap Markets</i>		MSCI World EX US Index Net USD Index
<i>Small Cap Markets</i>		MSCI World EX US Index Small Net USD Index
Emerging Markets	0-15	MSCI Emerging Markets Net USD Index
Fixed Income	20-50%	
US Fixed Income	0-50	
Intermediate Term Bond		Bloomberg AGGR Bond Index Comp Index
Short Term Bond		ICE Bloomberg AGGR Corp 1-5
International Bonds	0-10	Non-USD WLD Govt
Cash	0-2%	Lipper Institutional US Treas Money Market Index
Real Estate	0-5%	S&P Global REIT (net)
Alternatives	0-15%	

* The addition of Alternative investments requires the OBCF's approval due to liquidity concerns.

2. Exposure to equities will represent a range of 50-80% of the market value of the total fund assets. The term "equities" includes common stock, as well as large, small, and international stocks, REITs, or a combination thereof.
3. Exposure to fixed income securities will be limited to a range of 20-50% of the market value of the total fund assets. The term "fixed income" includes bonds of investment grade, high yield, and international developed and emerging markets.
4. Re-balancing in asset classes, if not performed more frequently by the OCIO, will be adjusted on an annual basis, subject to review by the Finance Committee.
5. Cash is not a strategic asset of the portfolio, but is a residual to the investment.

Performance

1. To evaluate investment performance in each of the asset subclasses, the OBCF and its OCIO will use the specific benchmarks listed above. The OBCF's return will be compared to a benchmark comprised of the above indices and weighted in the same proportion as the asset classes that are represented in the account.
2. All investment decisions regarding investment management, asset allocation and diversification are reviewed quarterly by the OBCF Finance Committee and the Board of Directors.
3. The portfolio investment will be reviewed to ensure consistency with the OBCF investment policies and the intent of the donor. This review is to be conducted annually by the Finance Committee, 60 to 90 days following completion of the annual audit.
4. Investment balances are monitored on a monthly basis by staff, and reviewed quarterly by the Finance Committee.
5. The OCIO and their performance will be formally reviewed every 3 to 5 years. The Finance Committee will adjust as needed to ensure the goals of the OBCF are achieved.
6. The OBCF will strive to match investment returns comparable with the mean return of other foundations with similar investment guidelines and achieve a total return over a 10-year period of at least 7.5%.
7. Upon request by a donor, the OBCF may enter into a contract with an individual investment manager or management firm to manage assets given to the OBCF by said donor, if minimum requirements are met, and if approved by the Board of Directors. In these cases, the donor-recommended investment manager is required to follow the investment parameters set forth in this Investment Policy Statement. Further details are contained in the OBCF's Donor Recommended Investment Manager Policy.

Role of the Finance Committee

The Finance Committee recognizes that its role is supervisory, not advisory, and that discretion is delegated to the OCIO as long as they adhere to general guidelines established by the OBCF. The primary roles of the Committee are to:

- establish performance goals
- identify appropriate asset mix guidelines
- review the results of the endowment on a regular basis
- select, monitor, and if necessary, replace the OCIO
- review these guidelines as deemed necessary, recommending changes as needed

Outsourced Chief Investment Officer

The OBCF reserves the right to select OCIO's who meet the following general criteria to provide:

- a high level of consultant services to the OBCF
- a consistent and high level of investment performance as measured by agreed-upon benchmarks
- the necessary accounting services required by the OBCF, to help address current Financial Accounting Standards Board (FASB) accounting standards
- flexibility in investment options and services
- a reasonable investment fee for its services
- custodial services

II. Intermediate Investment Policy

Purpose

The primary investment objectives for the Intermediate Investment Pool accounts shall be the preservation of capital and the maximization of income without undue exposure to risk.

The General Reserve Fund

The Intermediate Investment Policy was adopted by the OBCF in 2023 for the creation of the General Reserve Fund. The General Reserve Fund was created using \$500,000 of funds that were segregated from the OBCF's Community Fund. The purpose of the fund is to address unforeseen future contingencies (e.g. shortfall in the Operating Fund due to an unforeseen economic downturn) or for future special projects and/or other funding needs for the OBCF. All disbursements from the Fund will require OBCF Board approval and a mechanism for replenishing the fund is to be identified within 90 days of utilizing fund assets. To support the ongoing sustainability of the fund and ensure it has adequate liquidity to promptly address identified needs, the following guidelines will be utilized by the OCIO in investing the fund balance.

Return objective:

To earn a return sufficient to cover management fees and inflation. The Federal Reserve has stated that it is targeting 2% for long-term inflation.

Investment Time horizon:

The OBCF views the General Reserve Fund overriding investment time horizon as "intermediate."

Risk tolerance:

As it is anticipated that these funds will occasionally be tapped for use and even though there is a need to maintain a greater degree of liquidity, there is, however, the opportunity for the fund to bear some manageable risk and volatility. The "intermediate" time horizon indicates a lower willingness to bear risk and volatility and should be associated with this fund.

Liquidity needs:

The possibility of needing to draw on the account means investments that can easily be converted to cash.

Permissible Investment Assets:

Asset Class	Target
Money Market Accounts	0 – 100%
Bank Certificates of Deposit	0 – 100%
United States Treasury Bills (T-Bills)	0 – 100%
Investment Grade Bonds	0 – 75%
Equity Investments	0 – 15%

III. Spending Policy for Endowed Funds

Background and Purpose

The Outer Banks Community Foundation (OBCF) recognizes that the establishment and consistent application of a Spending Policy is essential to the long-term growth and success of the OBCF. The Spending Policy applies to donor-advised funds, designated/organizational funds, field of interest funds, scholarship funds, and other endowed funds.

Objectives

The Spending Policy has been adopted to preserve and build the OBCF's endowment funds, while at the same time, maximizing funds available today so that these resources can be distributed back into the community. The policy is intended to:

- Establish reasonable and prudent spending to support the OBCF's mission
- Ensure that the charitable dollars entrusted to us are available in perpetuity
- Maintain consistent grant levels during periods of down markets
- Realize long-term growth of the endowment principal

Spending Policy for Endowed Funds

The amount which the OBCF makes available for unrestricted grants for the coming year is based on a percentage of the market value of the fund, measured over the past 12 quarters. For endowed and quasi-endowed funds, the calculation of the distribution amount for each fund for any given calendar year will be determined as of September 30th of the previous year.

Unless otherwise designated in a fund agreement, no more than 5% of the average of those values will be made available for grants. In 2025 and thereafter, the rate will be 4%. Each fund's available distribution amount will be provided to fund advisors in the fund's annual statement in the first quarter of each year.

Fund advisors will be given the opportunity to make additional spendable gifts to income at any time in order to allow their fund to make immediate and/or additional disbursements above and beyond what the spending policy allows.

Newly-established funds will be eligible for grant distributions in the year after the fund reaches its minimum balance, measured over the number of quarters that the fund has been active.

There will be no distributions available from funds whose fair market value is less than the original gift amount to the fund.

Approved, 12/98

Amended, 12/99 – Equity/fixed income mix of max 65% and min 45% equities

Amended, 9/01 – Minor word revisions

Format revised, 2/04

Amended, 3/06 – Equity/fixed income mix of max 70% and min 30% equities

Amended, 6/06 – Add Spending Policy

Amended, 9/06 - Added subclasses and benchmarks

Amended, 12/09- revise investment wording, set target ranges and updated spending policy

Amended, 9/15 – Equity class max 75%; cash max 2%; Alternatives up to 15% upon OBCF Board approval; updated fund names and added addendum to align benchmark names with abbreviations per performance reports

Amended 12/17 – Equity class 50%-80%; Fixed Income class 20% - 50%

Amended 12/18 to include an addendum to limit ownership of closely-held business interests in a donor-advised fund

Amended 3/21 to change from “Executive Director” to “CEO.”

Amended 9/23

Investment Policy Addendum: Excess Business Holdings

The purpose of this addendum to the OBCF's Investment Policy Statement is to limit ownership of closely-held business interests in a donor-advised fund.

Pursuant to the Pension Protection Act of 2006 amended section 4943 of the Internal Revenue Code, a donor-advised fund's holdings, together with the holdings of disqualified persons (i.e., donors, advisors, 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 or 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 interest 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. To prevent a violation of these rules, it is the OBCF's policy to divest itself of such holdings within five years from the date the OBCF acquired the asset. If that is not possible, the asset will be transferred to a new or existing fund that is not a donor-advised fund.

Because they are not "business enterprises," this policy will not apply to most gifts of real property, except for undeveloped land that 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—and are excluded from this policy—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.