

 <p>COMMUNITY FOUNDATION OF MIDDLE TENNESSEE</p>	POLICY
	<b>Endowed Investment Policy</b>

## **I. INTRODUCTION**

The Board of Directors holds fiduciary responsibility for all funds held by the Community Foundation of Middle Tennessee (hereafter “Foundation”) for the purpose of carrying out its charitable mission. In addition to its own policies that guide and direct both investment and spendable allocations of its component funds, the Foundation conforms to Tennessee laws that address investment and management of institutional funds including endowment funds. This policy addresses the investment and management of assets of the Foundation.

The Foundation recognizes that the pooling of invested assets reduces administrative and investment-related expenses and thereby allows more money to go toward the charitable good. For this reason, the Foundation has established guidelines for situations when a donor wishes to recommend a specific investment manager (“Recommended Manager”) to manage his or her fund.

At the same time, the donor acknowledges the Recommended Manager must make investments only pursuant to the approval of the Foundation and within the Foundation’s Investment Policy and Guidelines which is included as part of this document. The Recommended Manager must understand the Foundation has complete fiscal control over all gifts and assets.

## **II. PURPOSE**

This policy governs investment of both endowed investment pool (Pool) as well as assets managed by external investment managers as afforded by the Foundation under certain circumstances.

- A. Outline the investment-related responsibilities of various parties.
- B. Establish a formal, yet flexible, investment policy to enable and control investment strategy and management to produce sufficient income to meet the annual grant and operating costs of the Foundation as well as to offset the effects of inflation.
- C. Provide a framework for regular communication.
- D. Establish prudent risk parameters, appropriate asset allocation guidelines, and realistic return objectives.

## **III. DEFINITIONS**

**Donor** – An individual or organization who establishes a fund with a donation to fund charitable giving.

**Independent Investment Consultant** – shall mean an independent organization retained to advise the Foundation which does not receive any compensation, directly or indirectly, from any Investment Agent or investment service provider which it may recommend or from any Investment Agent of investment service provider which is retained by the Foundation.

**Investment Agent** – an Agent to which the Foundation delegates investment functions in compliance with the Uniform Prudent Management of Institutional Funds Act or an agent to which

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investment functions or Funds held in trust are delegated in compliance with the Tennessee Uniform Trust Code (Chapter 15 of Title 35 – Fiduciaries and Trust Estates).

**Investment Manager** – a person or organization responsible for managing investments on behalf of the donor and the Foundation.

**Uniform Prudent Management of Institutional Funds Act (UPMIFA)** – UPMIFA was promulgated in Tennessee 2007 and superseded guidance provided under the Uniform Management of Institutional Funds Act (UMIFA) pertaining to the HDV of a fund. Specifically, UPMIFA removed the restriction under UMIFA that prohibits spending below HDV. Instead, UPMIFA requires spending that is prudent, considering seven factors: 1) the duration and preservation of the endowment fund; 2) the purposes of the institution and the endowment fund; 3) general economic conditions; 4) the possible effect of inflation and deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the institution; 7) and the investment policy of the institution.

**Investment Strategy** – the Foundation’s investment allocation targets for individual investments and asset classes as determined by the Investment & Finance Committee consistent with the Investment Policy.

**Real Target Rate of Return** – Investment income plus capital appreciation minus the consumer price index minus costs incurred for the Independent Investment Consultant, Investment Agents, and Investment Managers.

#### **IV. RESPONSIBILITIES**

- A. The Board of Directors has overall fiduciary responsibility of the Foundation and must act prudently and for the best long-term interest of the Foundation. The Board’s specific duties include approving investment policy, reviewing and approving the Foundation’s spending policy, appointing and empowering an Investment & Finance Committee, and selection of an Independent Investment Consultant and Investment Agents.
- B. The Investment & Finance Committee of the Board has advisory responsibility to the Board. It is charged with reviewing and recommending the investment policy and Investment agents to the Board of Directors. The Investment & Finance Committee develops investment strategy and oversees the work of the Foundation staff and Independent Investment Consultant for compliance with policy and execution of the investment strategy.
- C. The Independent Investment Consultant advises the Foundation in developing the investment policy, strategy, and investment management processes, performs due diligence and advised the Foundation on the selection and retention of Investment Agents, assist the Foundation in establishing performance benchmarks and monitoring the performance of Investment Agents and their compliance with all applicable legal requirements and Foundation policy, provides quarterly reporting including, but not limited to, reporting asset flow and allocations, comparative performance, Investment Agent status, policy and style

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compliance, and risk and cost analysis, and provides ad hoc research for the Foundation's Board of Directors and Investment & Finance Committee may request.

**V. INVESTMENT OBJECTIVES**

The performance objective of the Pool is to meet or exceed a Real Target Rate of Return of 5.0%.

Secondarily, the performance objective of the Pool is to outperform the risk-adjusted return, net of fees, of a composite benchmark index outlined below. This objective should be met over a full market cycle, encompassing both a down and an up leg of the benchmark index in either order wherein each leg is at least two consecutive legs in duration.

- 16.0% Barclays Capital U.S. Aggregate Index (Fixed Income)
- 31.5% Wilshire 5000 Index (U.S. Equity)
- 23.0% MSCI ACWI ex U.S. Index (Non-U.S. Equity)
- 9.0% NFI ODCE Index (Real Estate)
- 9.0% 50% S&P 500 & 50% 91 Day T-Bills (VRP)
- 7.5% Cambridge Private Equity Index (Private Equity)
- 3.0% Credit Suisse Leveraged Loan Index (Private Debt)
- 1.0% 91 Day T-Bills (Cash & Cash Equivalents)

Each Investment Agent is expected to outperform an individual comparative benchmark, outlined in Addendum A, net of investment management fees, over a typical market cycle.

**VI. INVESTMENT GUIDELINES**

In establishing investment guidelines, the Foundation has considered the long-term nature of the pool, assets under management, and cash flow needs. In addition, the Foundation considers, on an ongoing basis, the risk and return characteristics of the various asset classes available to institutional investors and the advice of its Independent Investment Consultant.

By investing in diverse asset classes through qualified Investment Agents, the Foundation's goal is to insulate the Pool from the effects of substantial losses in any single security or sector of the market.

**A. PERMISSIBLE INVESTMENTS**

Commingled, mutual, collective, or pooled funds, and limited partnerships may be used.



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**B. TARGETS AND ALLOWABLE RANGES**

<b>ASSET CLASS</b>	<b>TARGET</b>	<b>MINIMUM*</b>	<b>MAXIMUM*</b>
Broad U.S. Fixed Income	16.0%	11.0%	35.0%
<b>Total Fixed Income</b>	<b>16.0%</b>	<b>11.0%</b>	<b>35.0%</b>
U.S. Large Cap Core	22.5%	17.5%	27.5%
U.S. Mid-Cap Core	5.0%	0.0%	10.0%
U.S. Small Cap Core	4.0%	0.0%	9.0%
<b>Total U.S. Equity</b>	<b>31.5%</b>	<b>21.5%</b>	<b>41.5%</b>
Non-U.S. Large Cap	20.0%	15.0%	25.0%
Non-U.S. Emerging MKT	3.0%	0.0%	8.0%
<b>Total Non-U.S. Equity</b>	<b>23.0%</b>	<b>13.0%</b>	<b>33.0%</b>
<b>Core Real Estate</b>	<b>9.0%</b>	<b>4.0%</b>	<b>14.0%</b>
<b>Equity Alternative</b>	<b>9.0%</b>	<b>4.0%</b>	<b>14.0%</b>
<b>Private Equity</b>	<b>7.5%</b>	<b>0.0%</b>	<b>10.0%</b>
<b>Private Debt</b>	<b>3.0%</b>	<b>0.0%</b>	<b>6.0%</b>
<b>Cash &amp; Cash Equivalents</b>	<b>1.0%</b>	<b>0.0%</b>	<b>5.0%</b>
<b>Total</b>	<b>100.0%</b>		

- \* The totals of the minimum and maximum ranges do not equal 100%.

**C. ASSET ALLOCATION BALANCING**

The portfolio will be rebalanced on an as needed basis to bring the asset allocation in line with the investment strategy. On-going cash flows from operations (contributions, grants, and distributions) will be used in addition to transfers between investments to balance the portfolio to strategy targets.

**D. INVESTMENT STRATEGY EVALUATION**

The Independent Investment Consultant will evaluate the Investment Strategy on a quarterly basis, in addition to performance and compliance evaluation, and report in writing and in person to the Investment & Finance Committee. In the event of a circumstance in the market or with an individual Investment Agent, wherein action is recommended between quarterly reviews, the Independent Investment Consultant will notify the Foundation's CFO and/or the



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Foundation’s CEO, who will notify the Treasurer and the Board of Directors to initiate appropriate actions consistent with Foundation policy.

**ADDENDUM A – BENCHMARK INDICES**

<b><u>Asset Class</u></b>	<b><u>Primary Index</u></b>	<b><u>Secondary Index</u></b>
U.S. Large Cap Equity	S&P 500 Index	
U.S. Mid Cap Equity	CRSP U.S. Mid Cap	Russell Mid Cap
U.S. Small Cap Equity	Russell 2000	
Non-U.S. Equity	MSCI ACWI ex. U.S.	MSCI EAFE
Emerging Markets Equity	MSCI Emerging Markets	
Fixed Income – Core	Bloomberg Barclays U.S. Aggregate	
Volatility Risk Premium	50% S&P 500/50% 91 Day T-Bills	CBOE Combo
Private Equity	Cambridge PE	
Real Estate	NFI-ODCE	
Private Debt	Credit Suisse Leveraged Loan	BoFA US High Yield Master II
Cash	91 Day U.S. Treasury Bills	

This policy supersedes all previous policies.

Adopted by the Board June 26, 2024.

**REVISION RECORD**

<b>REVISION</b>	<b>DESCRIPTION</b>	<b>REVISION DATE</b>
<b>1</b>	<b>Changed the name from “Investment Policy” to “Endowed Investment Policy”</b>	<b>04/30/2025</b>

**REVIEW RECORD**

<b>REVIEW DATE</b>