

The Hudson Library and Historical Society

Private Funds Investment Policy

Adopted 12/2019

I. Introduction

This statement of investment policies and objectives sets forth the investment objectives, guidelines, procedures, and administrative expectations of the Private Fund. The Hudson Library and Historical Society (“HLHS”) Board of Trustees (“Board”) considers the Private Fund to be a significant vehicle to assist both the short- and long-term financial needs of the Library.

The Private Fund has been established for holding and dispersing private monies that are separate from the public tax monies or the state contributions which flow to the Library’s General Fund. The sources of the Private Fund include donations, bequests, memorials, fund-raising proceeds, and the earnings on those amounts. Projects or disbursements funded by the Private Fund are not governed by the same statutory restrictions as the General Fund. However, the Board will manage and account for the Private Fund with the same level of fiscal responsibility.

While the monies comprising the Private Fund may reside in one or more external investment accounts, for internal purposes the monies comprising the Private Fund fall into four separate categories:

1. Endowments
2. Reserves
3. Unrestricted
4. Flow-through Donations

1. Endowments

This category consists of that portion of the Private Fund which is set aside by either donor(s) or the Board. “Donor Restricted” Endowments must be invested and spent for specific uses per donor instructions, as documented in the gift instrument. “Board Designated” Endowments consist of those monies from the Private Fund that are earmarked by the Board to be retained and managed as Endowments. Designations by the Board are considered “permanent” unless changed by a majority vote of the Board.

Unless instructed differently by a donor, the principal, or “corpus”, of endowment funds are to be left untouched, with only the earnings being available for use. In the case of a catastrophic situation, the Board may approve use of the principal. Therefore, the Endowments fund may be invested with a long horizon, allowing the investments to “ride out” fluctuations in the market over time.

The Fiscal Officer shall keep the record of all Endowments to share with the Finance Committee and Board.

The Hudson Library and Historical Society

Private Funds Investment Policy

Adopted 12/2019

2. Reserves

This category consists of that portion of the Private Fund monies which is set aside for the purpose of maintaining sufficient funds to meet a financial emergency or investment opportunity. The Reserves is not a separate group of investments so much as a portion of the Private Fund which is left untouched except in a compelling situation, as determined by the Board. Should a situation arise where the Reserves need to be used, the exact amount of the Reserves will need to be carefully assessed by the Finance Committee and approved by the Board.

The Reserves would need to be accessed quickly if a situation arises when they may be needed. At such a time, a shorter time horizon and higher liquidity would become necessary for the Reserves.

3. Unrestricted

This category consists of that portion of the Private Fund which may be used at the Board's discretion, though they should always be used judiciously. Unrestricted funds may be used for a wide range of expenses. Examples include but are not limited to capital projects, fund raising expenses, appreciation events, and one-time contributions to collection development.

In 2007, the Board established an annual disbursement of \$35,000 from the Unrestricted funds. This disbursement was established as a promise to the community that dollars raised during the 2006 – 2007 fund raising campaign would be used for programming and collection development. Each January, the Board will vote, based upon a recommendation from the Finance Committee, to disburse these funds for this stated purpose. These funds will be disbursed from the earnings of the Private Fund.

Since the Unrestricted funds must be available as needed, the Board should consider future projects or expected uses when determining the appropriate investment horizon and strategy. If the Unrestricted funds are expected to be used for a major project, the Board would be required to first determine the amount of the total investment that should be held in Endowments or Reserves.

4. Flow-through Donations

This category contains donations that are intended to be spent in their entirety within a short period of time. Though held within the Private Fund, they will normally be kept in the cash account and not treated the same as the rest of the monies within the Private Fund for purposes of investment, consideration of risk tolerance, or asset allocation.

The Hudson Library and Historical Society

Private Funds Investment Policy

Adopted 12/2019

II. Fiduciary Duty

The Board recognizes the importance of sound fiduciary practices in the management of the funds as pertains to this Investment Policy Statement. The generally accepted definition of a fiduciary is defined as anyone acting in a position of trust on behalf of, or for the benefit of, another.

The Board may engage the services of an Investment Consultant. The role of the Investment Consultant is to provide ongoing guidance as it relates to the Private Fund.

In seeking to attain the investment objectives set forth in this policy, the Finance Committee and the investment consultant (“Investment Consultant”) retained by the Board shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Ohio’s version of UPMIFA went into effect on June 1, 2009. This law, found in Sections 1715.51-1715.59 of the Ohio Revised Code, provides statutory rules pertaining to management and investment of funds held by charitable institutions.

All investment actions and decisions must be based solely in the interest of the HLHS. Fiduciaries must provide full and fair disclosure to the Board of all material facts regarding any potential conflicts of interests.

III. Investment Responsibility

Initial investment and subsequent changes of the portfolio shall be recommended by the Finance Committee and documented in the meeting minutes. The Finance Committee Chairperson shall present said recommendations to the Board for approval. Upon Board authorization, the investment or change shall be initiated by the Fiscal Officer and/or Deputy Fiscal Officer.

For the purposes of this Investment Policy wherever it is used, the term “portfolio” refers to a grouping of financial assets such as stocks, bonds, commodities, currencies and cash equivalents, as well as their fund counterparts, including mutual, exchange-traded and closed funds.

IV. Investment Policy Review

The Finance Committee will review this Private Fund Investment Policy and corresponding objectives annually or as needed for their continued pertinence. The current Policy should remain in effect until such time as it is formally modified by the Board.

The Hudson Library and Historical Society

Private Funds Investment Policy

Adopted 12/2019

V. Investment Objective

The primary objective for the investments of the Private Fund is the preservation of capital while providing for the long-term growth of principal without undue exposure to risk. Specifically, the Private Fund objectives are as follows:

- Maintain the real purchasing power of the Private Fund after inflation and advisor fees.
- Provide a stable source of liquidity and financial support for the mission of HLHS.
- Achieve performance which is reasonable when compared to an appropriate benchmark/blended index.

While acknowledging the importance of preserving capital, the Board also recognizes the necessity of accepting risk if the Fund is to be able to achieve its long-term investment goals. It is the view of the Board that choices made with respect to asset allocation will be the major determinants of investment performance. The Board shall seek to ensure that the risks taken are appropriate and commensurate with the Private Fund's goals. The Fund currently has a long-term investment horizon.

The objectives shall be accomplished by utilizing a strategy of equities, fixed income and cash equivalents in an allocation which is conducive to participation in a rising market while allowing for adequate protection in a falling market. Due to the inevitability of short-term market fluctuations, which may cause variations in the investment performance, it is intended that the following objectives will be achieved by the fund over rolling three and five year periods.

The investment performance objective of the Fund shall, net of investment advisory fees, strive to exceed the CPI plus 4% over a full market cycle.

VI. Asset Allocation Guidelines

The total portfolio shall be diversified both by asset class (e.g., equities, fixed income, alternative investments and cash equivalents), and by economic sector, industry, quality, size, investment style, geographic location, etc. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total portfolio and to maximize risk adjusted returns.

The asset allocation shall be implemented using a policy portfolio with neutral allocations and ranges for each investment strategy. The asset allocation may be implemented using both active and passive investment vehicles. Due to the need for diversification and the longer funding periods for certain investment strategies, the Board recognizes that an extended period of time may be required to fully implement the asset allocation plan. It is expected that market value fluctuations will cause deviations from the neutral allocations and may need to be periodically rebalanced. The Board will review the asset allocation quarterly and will, within a reasonable period of time, re-allocate within the guidelines below when significant differences occur.

The Hudson Library and Historical Society

Private Funds Investment Policy

Adopted 12/2019

	<u>Minimum</u>	<u>Preferred</u>	<u>Maximum</u>
Equities	60%	70%	80%
Fixed Income & Cash	20%	30%	40%
Large Cap Equities	20%	25%	30%
Mid Cap Equities	10%	15%	20%
Small Cap Equities	5%	10%	15%
International Equities	15%	20%	25%

VII. Rebalancing Guidelines

The purpose of rebalancing is to maintain the Private Fund Investment Policy asset allocation within this Policy's ranges, thereby ensuring that the Fund does not incur additional risks as a result of having deviated from the policy portfolio. More frequent tactical rebalancing of asset classes within their ranges will also be permitted in order to take advantage of shorter-term market conditions, as long as such changes or allocations do not, in the opinion of the Board and Investment Consultant, cause undue risk or expense to the fund. The Finance Committee shall review the portfolio each quarter to determine if rebalancing is needed.

VIII. Allocation of New Capital

Additions to principal shall be allocated by the Finance Committee in accordance to the guidelines established in this Investment Policy Statement.

IX. Risk Expectations/Guidelines

It is recognized by the Board that a certain amount of volatility will be incurred in order to meet the objective of long term growth of capital. However, the annualized standard deviation of the total portfolio shall not be significantly higher than the appropriate benchmark(s). Additionally, each underlying investment will be reviewed for its individual risk profile as measured by modern portfolio theory risk statistics.

X. Investment Restrictions

The following investment restrictions will remain in force unless otherwise deemed permissible by prior approval of the Board. The Board recognizes these investment restrictions will not apply to any mutual fund or pooled investment vehicles. If an investment manager believes that one or more guidelines in this policy will inhibit their performance, it is their responsibility to communicate their views to the Board. This may be communicated through the retained Investment Consultant.

- There shall be no short selling, securities lending, financial futures, margins, options or other specialized investments without the prior approval of the Board.
- There shall be no investments in non-marketable securities, commodities or speculative real estate without the prior approval of the Board.

The Hudson Library and Historical Society

Private Funds Investment Policy

Adopted 12/2019

- The market value of any one issue shall not exceed 10% of the manager's total portfolio, with the exception of securities issued by the U.S. Government and its agencies or mutual funds without prior permission of the Board.
- No equity manager shall purchase any security when that manager's overall current position exceeds 6% of the total shares outstanding in any security without prior permission of the Board.

XI. Performance Measurement

The Portfolio will be monitored by the Investment Consultant on a continual basis for consistency in investment philosophy, return relative to objectives and investment risk as measured by asset concentrations, exposure to extreme economic conditions and market volatility. The Portfolio will be reviewed by the Finance Committee on a quarterly basis, but results will be evaluated over rolling three and five year periods. The Finance Committee will regularly review the investment strategies to confirm that factors underlying performance expectations remain in place. At a minimum, the following performance and risk characteristics should be reviewed quarterly:

- Aggregated portfolio performance
- Individual manager/investment performance
- Overall risk posture
- Individual manager/investment risk posture

The Board will review quarterly the performance and risk characteristics of the overall Portfolio as well as the individual managers and asset classes. The Portfolio should be measured against the overall market as compared to the asset allocation and represented in a custom **Balanced Index**. The custom Balanced Index should consist of:

- 25% Russell 1000 Index
- 15% Russell Mid-Cap Index
- 10% Russell 2000 Index
- 20% MSCI ACWI-EX US Index
- 25% Barclays Aggregate Bond Index
- 5% BofAML 3 Month T Bill Index

The HLHS asset allocation should be measured against a like universe to determine overall performance compared to similar allocations. Additionally, each manager should be individually compared to their appropriate index as well as corresponding **Manager Universe** to determine performance. Individual managers/investments should be measured against, but not limited to, the appropriate indexes as defined by the asset allocation table established in this Private Funds Investment Policy.