



***Scranton Area Foundation, Inc.***

**Statement Of Investment Policy**

**Objectives & Guidelines**

**Amended 2016**

## **Statement of Investment Policy, Objectives, and Guidelines**

### **GENERAL INFORMATION**

**Fund name:** The Scranton Area Foundation, Inc.

**Fund's adoption date:** 1988

### **SCOPE OF THIS INVESTMENT POLICY**

This statement of investment policy reflects the investment policy, objectives, and constraints of the entire Scranton Area Foundation, Inc.

### **PURPOSE OF THIS INVESTMENT POLICY STATEMENT**

This statement of investment policy is set forth by the Board of Governors/Investment Committee of the Scranton Area Foundation, Inc. in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives of Fund assets.
3. Offer guidance and limitations to all Investment Advisors, including Medallion Partners, regarding the investment of Fund assets.
4. Establish a basis for evaluating investment results.
5. Manage Fund assets according to prudent standards as established in common trust law.
6. Establish the relevant investment horizon for which the Fund assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

### **DELEGATION OF AUTHORITY**

The Board of Governors/Investment Committee of the Scranton Area Foundation, Inc. is a fiduciary, and is responsible for directing and monitoring the investment management of Fund assets. As such, the Board of Governors/Investment Committee is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. Chief Investment Officer. The Chief Investment Officer may assist the Board of Governors in: establishing investment policy, objectives, and guidelines; selecting Investment Advisors; reviewing such advisors over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.

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2. Investment Advisor. Each Investment Advisor has discretion to purchase, sell, or hold the specific securities that will be used to meet the Fund's investment objectives.
3. Custodian. Each custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts.
4. Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants, and others may be employed by the Board of Governors/Investment Committee to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

The Board of Governors/Investment Committee ("BOG/IC") will not reserve any control over investment decisions, except for: (A) the specific limitations described in this statement; and (B) if the BOG/IC, for the purpose of the Fund, deems it necessary to give specific direction to an Investment Advisor. Each Investment Advisor will be expected to achieve the objectives herein stated. While it is not believed that the limitations will hamper Investment Advisors, each Advisor should request modifications which they deem appropriate.

If such experts employed are also deemed to be fiduciaries, they must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the Fund as deemed appropriate and necessary.

### **DEFINITIONS**

1. "Fund" shall mean the Scranton Area Foundation, Inc.
2. "Board of Governors/Investment Committee" shall refer to the governing board of Scranton Area Foundation, Inc. and a committee of that board established to administer the Fund as specified by the bylaws of Scranton Area Foundation, Inc.
3. "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Fund assets.
4. "Investment Advisor" shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Fund assets, including a Medallion Partner (unless otherwise indicated in this Statement).
5. "Securities" shall refer to the marketable investment securities which are defined as acceptable in this statement.
6. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Fund is 10 years.

7. “Medallion Partner” shall mean an individual or entity that is a professional financial advisor and that has been designated as Medallion-Approved by the Investment Committee.
8. “Chief Investment Officer” shall mean the entity that has been designated as such by the Board of Governors.
9. “Custodian” shall mean any individual or entity that has been engaged for the purpose of safekeeping all or part of the assets of a Fund.

## **ASSIGNMENT OF RESPONSIBILITY**

### **Responsibility of the Investment Advisors**

Each Investment Advisor must acknowledge in writing its acceptance of responsibility as a fiduciary. Each Investment Advisor will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the Investment Advisor include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
2. Reporting, on a timely basis, quarterly investment performance results, and meet with the Investment Committee when requested to do so, to review reports and strategies.
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 Fund's investment management.
4. Informing the Board of Governors/Investment Committee regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
5. Voting proxies, if requested by the Board of Governors/Investment Committee, on behalf of the Fund, and communicating such voting records to the Board of Governors/Investment Committee on a timely basis.

### **Responsibility of the Investment Committee**

1. Development and periodic review of investment policy.
2. Conducting Investment Advisor searches when necessary.
3. Monitoring the performance of the Investment Advisors to provide the Board of Governors with the ability to determine the progress toward the investment objectives.
4. Communicating matters of policy, Investment Advisor research, and Investment Advisor performance to the Board of Governors.

5. Reviewing Fund investment history, historical capital markets performance and the contents of this investment policy statement to any newly appointed members of the Board of Governors/Investment Committee.
6. Making certain that assets of the Foundation are managed prudently and properly maintained with qualified and well-established institutions.
7. Reviewing and approving Medallion Partners as Investment Advisors

**Responsibility of the Chief Investment Officer.**

1. Monitor the performance of every Investment Advisor including Medallion Partners, and report that performance to the Investment Committee.
2. Other responsibilities as set forth in an agreement between Scranton Area Foundation and the Chief Investment Officer.

**Responsibility of Investment Advisors, including Medallion Partners.**

1. Maintain at all times a business relationship with a company having an electronic delivery platform or related alternative (approved by the Chief Investment Officer) whereby data regarding all activity that occurs by the Medallion Partner or in a fund managed by the Medallion Partner and which was created by a donor of Scranton Area Foundation is shared with that company.
2. Provide information regarding each such account to that company, as set forth in the Section of this Statement entitled "Investment Advisor Performance Review and Evaluation".

**GENERAL INVESTMENT PRINCIPLES**

1. Investments shall be made solely in the interest of the beneficiaries of the Fund.
2. The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
3. Investment of the Fund shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
4. The Board of Governors/Investment Committee may employ one or more Investment Manager and/or Consultant of varying styles and philosophies to attain the Fund's objectives.
5. Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.

## **INVESTMENT MANAGEMENT POLICY**

1. Preservation of Capital - Consistent with their respective investment styles and philosophies, Investment Advisors should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.
2. Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the Board of Governors/Investment Committee recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Fund's objectives. However, the Investment Advisors are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
3. Adherence to Investment Discipline – Each Investment Advisor is expected to adhere to the investment management styles for which he or she was hired. Advisors will be evaluated regularly for adherence to investment discipline.

## **GOAL OF FOUNDATION**

The Board of Governors/Investment Committee believes that grants to be made in the future are as important as grants made today. This is consistent with the philosophy that this Foundation is to exist in perpetuity, and therefore, should provide for grant making in perpetuity. To attain this goal, the objective of this Foundation is to maintain purchasing power. The *minimum* objective is to grow the aggregate portfolio value after fees at a level periodically determined by the Investment Committee (generally at least equal to the rate of inflation plus one year's annual spending). The Foundation's specific investment objectives will be established later in this document. Future giving (contributions) to this Foundation is expected to be inconsistent, and therefore, unpredictable. As a result, the Board of Governors/Investment Committee has set an investment strategy with the objective of maintaining purchasing power of Foundation assets before consideration of gifts. Accordingly, future giving will serve to increase purchasing power.

### **SPENDING – MOVING AVERAGE DETERMINATION**

This Endowment will use the moving average method of determining year to year spending in order to smooth distributions from the aggregate portfolio. The "portfolio value" as mentioned under Spending Policy section and referenced throughout this statement will be determined based on a rolling average of portfolio market value, with a budgeting lead of one year. (That is, the moving average will be determined one year before the fiscal year in which the funds are to be spent.) The Investment Committee has discretion to select from a 3 to 5 year rolling average annually. This policy serves two purposes. First, it provides for more consistent and predictable spending for the programs supported by this Endowment. Second, it allows the Board of Governors/Investment Committee to design an investment strategy which is more "aggressive" with a higher expected return than might be the case if spending were determined by annual investment performance. With the annual determination method, there is a tendency to pay out the "excess" earnings during periods of over-performance, while maintaining a certain absolute dollar floor of spending during periods of underperformance. Over the long-term, this may result in an erosion of real principal. Therefore, by smoothing the spending, the Endowment reduces the likelihood of real principal erosion due to portfolio volatility.

### **EXCESS BUSINESS HOLDINGS**

The Foundation will not accept any gift of an interest in a business enterprise for a donor advised fund that would subject the Foundation to tax under section 4943 of the Internal Revenue code, concerning "excess business holdings." That is, the holdings of a donor advised fund in a business enterprise, together with the holdings of persons who are disqualified persons with respect to that fund, may not exceed any of the following:

- a. Twenty percent of the voting stock of an unincorporated business.
- b. Twenty percent of the profits interest of a partnership or joint venture or the beneficial interest of a trust or similar entity.

Ownership of unincorporated businesses that are not substantially related to the fund's purposes is also prohibited.

Any proposed gifts of business holdings to a Donor Advised Fund shall be referred to the Foundation's legal counsel for an opinion on the possible application of Code section 4943.

### **GIFT ACCEPTANCE POLICY**

Policies regarding the acceptance of gifts are covered in the Foundation's Gift Acceptance Policy.

### **MINIMUM VALUE OF ACCOUNTS**

Every fund account must maintain the following minimum value at all times, beginning with its inception:

- (A) Twenty-Five Thousand Dollars (\$25,000.00) for every account managed by a Medallion Partner;
- (B) Five Thousand Dollars (\$5,000.00) for every other account.

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The foregoing requirements may be waived as to an account by the written consent of the Investment Committee, in its discretion.

### **SPENDING POLICY**

The Board of Governors/Investment Committee will attempt to balance the Foundation's shorter-term grant making obligations with its goal to provide grants into perpetuity, and therefore design a spending policy which is flexible. Since expected investment returns from "riskier" portfolios are not consistent and predictable, the Board of Governors/Investment Committee feels that shorter-term spending in dollar terms must be flexible enough to endure periods of underperformance without excessive deterioration of real principal. Therefore, this Foundation may tend toward a more "aggressive" investment strategy seeking higher long-term investment returns than would be the case if grant making from year to year were less flexible. The Board of Governors/Investment Committee will determine a spending policy equal to a set % (percentage) of the portfolio value, subject to their annual review. This % (percentage) does not include investment expenses.

### **INVESTMENT OBJECTIVES**

In order to meet its needs, the investment strategy of the Scranton Area Foundation, Inc. is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income, minus any fees paid.

Specifically, the primary objective in the investment management for Fund assets shall be:

Long-Term Growth of Capital -To emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index.

The secondary objectives in the investment management of Fund assets shall be:

- (A) Preservation of Purchasing Power After Spending - To achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve purchasing power of Fund assets. Risk control is an important element in the investment of Fund assets; and
- (B) Meet or exceed the market index, or blended market index, selected and agreed upon by the Board of Governors/Investment Committee that most closely corresponds to the style of investment management.

### **SPECIFIC INVESTMENT GOALS**

Over the investment horizon established in this statement, it is the goal of the aggregate Fund assets to exceed:

- The rate of inflation (as measured by the Consumer Price Index) plus one year's spending (typically 5%)



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The investment goal above is the objective of the aggregate Fund, and is not meant to be imposed on each investment account (if more than one account is used). The goal of each Investment Advisor, over the investment horizon, shall be to display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified above.

Specific investment goals and constraints for each Investment Advisor (including Medallion Partners), if any, shall be incorporated in the agreement with that Investment Advisor if they differ from this statement of investment policy. Each Investment Advisor shall receive a written statement outlining his or her specific goals and constraints as they differ from those objectives of the entire Fund.

### **VOLATILITY OF RETURNS**

The Board of Governors/Investment Committee understands that in order to achieve its objectives for Fund assets, the Fund will experience volatility of returns and fluctuations of market value.

### **LIQUIDITY**

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Board of Governors/Investment Committee will periodically provide investment counsel with an estimate of expected net cash flow. The Board of Governors/Investment Committee will notify the Investment Manager and/or Consultant in a timely manner, to allow sufficient time to build up necessary liquid reserves.

To maintain the ability to deal with unplanned cash requirements that might arise, the Board of Governors/Investment Committee requires that a minimum of 2% of Fund assets shall be maintained in cash or cash equivalents, including money market funds or short-term U.S. Treasury bills.

### **MARKETABILITY OF ASSETS**

The Board of Governors/Investment Committee requires that all of Fund assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Fund, with minimal impact on market price.

### **INVESTMENT GUIDELINES**

#### **Allowable Assets**

1. Cash Equivalents
  - Treasury Bills
  - Money Market Funds
  - STIF Funds
  - Commercial Paper
  - Banker's Acceptances
  - Repurchase Agreements
  - Certificates of Deposit with no more than \$250,000.00 (including interest) at any one FDIC depository institution.
2. Fixed Income Securities
  - U.S. Government and Agency Securities
  - Corporate Notes and Bonds
  - Mortgage Backed Bonds

- Preferred Stock
  - Fixed Income Securities of Foreign Governments and Corporations
3. Equity Securities
    - Common Stocks
    - Convertible Notes and Bonds
    - Convertible Preferred Stocks
    - American Depository Receipts (ADRs) of Non-U.S. Companies
    - Stocks of Non-U.S. Companies (Ordinary Shares)
  4. Mutual Funds
  5. Alternative investments of commodities, futures and REITs through mutual funds or managed accounts.
  6. Real Estate investments, but only with prior approval of the Investment Committee, and subject to ratification by the Board of Governors.

### **Derivative Investments**

Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, CMOs (PAC bonds, IOs, POs, residual bonds, etc.), and interest rate swaps, among others. The Board of Governors/Investment Committee believes that many derivative securities are relatively new and therefore have not been observed over multiple economic cycles. Due to this uncertainty, the Board of Governors/Investment Committee will take a conservative posture on derivative securities in order to maintain its risk averse nature. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form a general policy on derivatives. **Unless a specific type of derivative security is allowed in this document, the Investment Advisor must seek permission from the Board of Governors/Investment Committee to include derivative investments in the Fund's portfolio. The Investment Advisor must present detailed information as to the expected return and risk characteristics of such investment vehicles.**

### **Stock Exchanges**

To ensure marketability and liquidity, investment advisors will execute equity transactions through the following exchanges: New York Stock Exchange; American Stock Exchange; and NASDAQ over-the-counter market. In the event that an Investment Advisor determines that there is a benefit or a need to execute transactions in exchanges other than those listed in this statement, written approval is required from the Board of Governors/Investment Committee.

### **Prohibited Assets**

Prohibited investments include, but are not limited to the following:

1. Private Placements
2. Options

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3. Limited Partnerships
4. Venture-Capital Investments
5. Real Estate Properties (unless expressly approved by the Investment Committee and the Board of Governors)
6. Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs

### **Prohibited Transactions**

Prohibited transactions include, but are not limited to the following:

1. Short Selling
2. Margin Transactions

### **Asset Allocation Guidelines**

Investment management of the assets of the Scranton Area Foundation, Inc. shall be in accordance with the following asset allocation guidelines (Note: The guidelines represent organizational objectives for the total assets of Scranton Area Foundation. Notwithstanding these guidelines, 1) the Investment Committee can provide individual guidelines applicable to an Investment Advisor, including a Medallion Partner and 2) The Investment Committee can authorize the maximum limit in an asset class to be exceeded on a temporary basis, e.g. exceeding 10% in cash equivalents during a time of extreme volatility).

#### Aggregate Fund Asset Allocation Guidelines (at market value)

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Target</u>
Equities	60%	80%	70%
Fixed Income	15%	35%	25%
Cash Equivalents	2%	10%	8%
Alternatives	0%	5%	3%

### **Diversification for Investment Advisor**

The Board of Governors/Investment Committee does not believe it is necessary or desirable that securities held in the Fund represent a cross section of the economy. However, in order to achieve a prudent level of portfolio diversification, the securities of any one company or government agency should not exceed 5% of the total fund, and no more than 25% of the total fund should be invested in any one industry, unless approved in writing by the investment committee. Individual treasury securities may represent 100% of the total fund, while the total allocation to treasury bonds and notes may represent up to 100% of the Fund's aggregate bond position.

### **Guidelines for Fixed Income Investments and Cash Equivalents**

1. Fund assets may be invested only in investment grade bonds.
2. Fund assets may be invested only in commercial paper rated A1 (or equivalent) or better.
3. Fixed income maturity restrictions are as follows:

- Maximum maturity for any single security is 15 years.
  - Portfolio duration may not exceed 8 years.
4. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor's, and/or Moody's.

#### **SELECTION OF INVESTMENT ADVISORS**

The Board of Governors/Investment Committee' selection of Investment Advisors must be based on prudent due diligence procedures. A qualifying Investment Advisor must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. The Board of Governors/Investment Committee requires that each Investment Advisor provide, in writing, acknowledgment of fiduciary responsibility to the Scranton Area Foundation, Inc. (including an agreement to be bound by this Investment Policy Statement and any other specific direction prescribed by the Board of Governors or the Investment Committee).

#### **INVESTMENT ADVISORS PERFORMANCE REVIEW AND EVALUATION**

Performance reports generated by the Investment Advisor (including a Medallion Partner) shall be compiled at least quarterly and communicated to the Board of Governors/Investment Committee for review. An Investment Advisor will provide to an electronic delivery platform provider, an electronic transmission of transactions and asset information in each account having a relationship with Scranton Area Foundation, so that that provider can forward that information to the Chief Investment Officer. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Board of Governors/Investment Committee intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate an Investment Advisor for any reason at any time.

Investment Advisor(s) shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

#### **INVESTMENT POLICY REVIEW**

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Board of Governors/Investment Committee plans to review investment policy at least annually.

**The Board of Governors of the Scranton Area Foundation, Inc. has adopted this investment policy on September 14, 2005.**

**The Board of Governors of the Scranton Area Foundation, Inc. has adopted this amended investment policy on March 10, 2011.**

**The Board of Governors of the Scranton Area Foundation, Inc. has adopted this amended investment policy on September 8, 2011.**

