

Greater Tacoma Community Foundation

Endowment Pool Investment Policy Statement

Approved May 17, 2023

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I. DEFINITIONS

A. Purpose

The purpose of this Investment Policy Statement (“IPS”) is to establish a clear understanding of the investment objectives and philosophy for the Greater Tacoma Community Foundation (“Foundation”). This policy will describe the standards utilized by the Investment Committee (“Committee”) in monitoring performance, as well as, serve as a guideline for any investment manager retained.

While shorter-term results will be monitored, adherence to a sound long-term investment policy, which balances short-term distributions with preservation of the real, inflation-adjusted value of assets, is crucial to the long-term success of the Foundation.

B. Scope

This policy applies specifically to Long-Term Endowment Pool assets. The Committee is also responsible for other pools of money with separate investment policies.

C. Investment Objective

The primary investment objective of the Endowment Pool is to achieve an annualized total return (net of fees and expenses), through capital appreciation and income, equal to or greater than the rate of long-term inflation (as measured by the Consumer Price Index) plus any spending and administrative expenses thus intending to maintain principal of the Endowment Pool.

D. Fiduciary Duty

In seeking to attain the investment objectives set forth, the Committee shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires fiduciaries to apply the standard of prudence “about each asset in the context of the portfolio of investments, as part of an overall investment strategy.” All investment actions and decisions must be based solely on the interest of the Foundation. Fiduciaries must provide full and fair disclosure to the Committee of all material facts regarding any potential conflicts of interests.

As summarized for the purposes of this Investment Policy Statement, UPMIFA states that the Committee is under a duty to the Foundation to manage the Foundation’s endowment as a prudent investor would, considering the purposes, scope, objectives and other relevant circumstances. This standard requires the exercise of reasonable care, skill, and caution while being applied to investments not in isolation, but in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Foundation. In making and implementing investment decisions, the Committee has a duty to diversify the investments unless, under special circumstances, the purposes of the Foundation are better served without diversifying.

In addition, the Committee must conform to fundamental fiduciary duties of loyalty and impartiality. This requires the Committee to act with prudence in deciding whether and how to delegate authority, in the selection and supervision of agents, and incurring costs where reasonable and appropriate.

E. Description of Roles

1. Investment Committee

The Committee is responsible for adopting the provisions of this Investment Policy. This responsibility includes approving investment strategy; hiring and firing of investment managers, custodians, and investment consultants; monitoring performance of the Endowment Pool at least quarterly; and maintaining sufficient knowledge about the Endowment Pool and its managers to be reasonably assured of their compliance with the IPS.

2. Investment Consultant(s)

The investment consultant is responsible for assisting the Committee and Vice President, Finance in all aspects of managing and overseeing the investment portfolio. The consultant is the primary source of investment education and investment manager information. On an ongoing basis, the consultant will:

- a. Report current asset allocation in relation to the IPS
- b. Provide proactive recommendations
- c. Supply the Committee with reports (e.g., asset allocation studies, investment research and education) or information as reasonably requested
- d. Monitor the activities of each investment manager or investment fund
- e. Provide the Committee with quarterly performance reports
- f. Review this Investment Policy Statement with the Committee

Asset allocation and individual funds implemented at the recommendation of the consultant are expected to conform to guidelines of this Policy Statement. However, underlying investment fund managers have no knowledge of this IPS or ability to adhere strictly to policies defined within.

F. Annual Payout/ Portfolio Total Return Goal

Annual Payout /Return Goal = Spending rate (4.3% of 16-quarter rolling average) + Administrative Fee to GTCF (1.2%) + Inflation (CPI)

II. INVESTMENT PHILOSOPHY

A. Strategy

The Committee understands the long-term nature of the Foundation and believes that investing in assets with higher return expectations outweighs their short-term volatility risk. As a result, most assets will be invested in equity or equity-like securities:-

Fixed income, private capital and absolute return strategies may be used in an effort to lower short-term volatility. Cash is not a strategic asset of the Endowment Pool, but is residual to the investment process and used to meet short-term liquidity needs.

B. Investment Parameters

Investments in the equity or debt securities of any one company shall not exceed 8% of the portfolio. Reasonable asset allocation and diversification shall be maintained, with no more than 25% of the entire portfolio invested in the securities of any one sub-asset class (i.e. U.S. large cap, small cap, international developed markets, emerging markets).

C. Asset Allocation

Asset allocation will likely be the key determinant of the Endowment Pool returns over the long-term. Therefore, diversification of investments across multiple markets that are not similarly affected by economic, political, or social developments is highly desirable. A globally diversified portfolio, with low correlation of returns across various assets, should reduce the variability of returns over time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories shall be based on the impact to the total Endowment Pool, rather than judging asset categories on a stand-alone basis. The asset allocation for the Endowment Pool, excluding the amount designated by the Board of Directors for the Impact Investing Portfolio and assets in Externally Managed Portfolios, will be set with the following target percentages and within the following ranges:

	Target	Range (Low - High)	
Global Equity	64%	50%	75%
U.S. Equity	40%	30%	50%
International Equity	24%	15%	35%
Global Fixed Income	22%	10%	30%
U.S. Fixed Income	18%	10%	30%
International Fixed Income	4%	0%	10%
Real Estate	6%	0%	10%
Private Assets	8%	0%	15%
Total	100%		

E. Impact Investing Portfolio

In 2013 the Foundation established a dedicated portfolio designated for local impact investments. Local impact investments may represent up to 3% of the long-term pool portfolio. These investments may take the form of low-interest loans, loan guarantees, fixed income, private equity, etc. but all are designed to provide a modest rate of return as well as enhance the impact of the Foundation's dollars on the community. While these investments will remain segregated from the Endowment in terms of performance monitoring, the Committee will maintain oversight of investment performance and approval of new impact investments.

F. Active vs. Passive Management

The asset allocation will be implemented using both active and passive investments. Those areas of the market that the Committee and consultant believe are better suited to gain passive exposure to the asset class will do so using primarily index funds and enhanced index strategies. This is due to the low probability of traditional active management outperforming an appropriate benchmark in these asset classes.

G. Rebalancing

The Committee and consultant will monitor the asset allocation structure of the Endowment Pool and attempt to stay within the ranges identified for each asset category. If the portfolio moves outside of the ranges the Committee, with advice from the investment consultant, will develop a

plan of action to rebalance. In many cases the additions of new money or withdrawals for spending will be used to rebalance in a cost-effective manner.

H. Liquidity

A goal of the Endowment Pool is to maintain a balance between investment goals and liquidity needs. Liquidity is necessary to meet the spending policy payout requirements and any extraordinary events. The Committee understands that in some instances, compelling investment options may come with liquidity constraints. The tradeoff between appropriateness and liquidity will be considered throughout the portfolio construction process.

- The Committee and consultant shall strive to maintain at least 80% of the portfolio in liquid securities convertible to cash within a matter of days.
- The Committee and consultant shall strive to have no more than 20% of the portfolio allocated to illiquid or semi-liquid securities (i.e. private capital, hedge funds).

I. Illiquid and Semi-Liquid Investments (Private Assets)

Illiquid investments include private equity, private debt, private real estate, and natural resources.

Each investment will require a signed Subscription Agreement and Limited Partnership Agreement. The Foundation may wish to have these documents reviewed by independent legal counsel. As these investments are typically private limited partnerships or offshore corporations, the Committee cannot dictate policy. The Committee, however, can request side letters for revisions or addendums to the Limited Partnership Agreement. The manager is ultimately responsible to manage investments in accordance with the Private Placement Agreement (PPM) and Limited Partnership Agreement.

The Foundation is a tax-exempt organization, but certain investments may be subject to taxation on Unrelated Business Taxable Income (UBTI). Given that net risk-adjusted returns are the primary objective of the Foundation, potential tax ramifications must be considered during the investment analysis and selection process. The Foundation shall seek to minimize UBTI by selecting investment structures and geographic locations most beneficial to the Foundation.

1. Private Assets

The objective of the private asset allocation is to outperform, over the long-term, the public equity markets, net of fees. The return premium exists due to the higher risk, lack of liquidity, and the uneven distribution of information and access inherent in private markets.

For the private asset allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to top-quality managers and be diversified. Individual funds may be concentrated in a particular sector, stage, or geographic region, but the overall private asset allocation should be diversified.

2. Private Debt

The objective of the private debt allocation is to outperform, over the long-term, the public fixed income markets, net of fees. The return premium exists due to the higher risk, lack of liquidity, and the uneven distribution of information and access inherent in private markets.

For the private debt allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to top-quality managers and be diversified. Individual funds

may be concentrated in a particular sector, stage, or geographic region, but the overall private debt allocation should be diversified.

3. **Private Real Estate**

The objective of the private real estate allocation is to provide low correlation to the public equity and fixed income markets.

For the real estate allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to top-quality managers and be diversified. Individual funds may be concentrated in a particular region or property type, but the overall real estate allocation should be diversified and classified as core.

4. **Natural Resources**

The objective of the natural resources allocation is to provide low correlation to the public equity and fixed income markets and serve as an inflation hedge. These investments should be primarily in the private markets, which offer inefficiencies that can be exploited.

For the natural resource allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to top-quality managers and be diversified. Individual investments may be concentrated in a particular region, production stage, or commodity exposure, but the overall allocation should be diversified.

III. **EVALUATION & PERFORMANCE MEASUREMENT**

A. **Benchmarks**

The Endowment Pool seeks to outperform its benchmarks over full market cycles and does not expect that all investment objectives will be attained in each performance measurement period. Furthermore, the Committee recognizes that over various time periods, the Endowment Pool may produce significant deviations relative to the benchmarks. For this reason, investment returns will be evaluated over a full market cycle (for measurement purposes: 5+ years).

1. The primary objective of the Endowment Pool is to achieve a long-term total return, net of fees, equal to or greater than:

Spending Policy (4.3% of 16-quarter rolling average account balance) + Administrative Fees (1.2%) + Consumer Price Index

2. A secondary objective is to achieve total return exceeding the Broad Policy Benchmark.

The current Broad Policy Benchmark is:

WEIGHT	INDEX	ASSET CATEGORIES
45%	CRSP U.S. Total Market	U.S. Equity
20%	MSCI ACWI ex- U.S.	International Equity
35%	Bloomberg U.S. Aggregate Bond Index	Fixed Income

3. Another investment objective is to achieve total return exceeding the Target Weighted Benchmark comprised of each asset category benchmark weighted by its target allocation.

The current Target Weighted Benchmark is:

WEIGHT	INDEX	ASSET CATEGORY
40%	CRSP U.S. Total Market	U.S. Equities
24%	FTSE Global All Cap ex-U.S.	International Equities
18%	Bloomberg U.S. Aggregate Bond Index	U.S. Fixed Income
4%	Bloomberg Global ex-US Aggregate	International Fixed Income
6%	MSCI U.S. REIT	U.S. Real Estate
8%	Russell 2000 + 2%	Private Assets

B. Manager Evaluation

1. Each investment manager will be reviewed by the consultant and Committee on an ongoing basis and evaluated upon the criteria listed below. The Committee expects the managers to outperform the relevant benchmarks over a full market cycle (for measurement purposes: 5+ years). The Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, investment managers may produce significant underperformance. Each investment manager will be reviewed on an ongoing basis and evaluated on the following criteria:
 - Maintaining a stable organization
 - Retaining key personnel
 - Avoiding regulatory actions against the firm, its principals, or employees
 - Adhering to the guidelines and objectives of this Investment Policy Statement
 - Avoiding a significant deviation from the style and capitalization characteristics defined as “normal” for the manager
 - Exceeding the return of the appropriate benchmark and, for equity managers, produce positive alpha (risk-adjusted return) within the volatility limits set in the “Summary of Quantitative Performance Objectives” table
 - Exceeding the median performance of a peer group of managers with similar styles of investing
2. Although there are no strict guidelines that will be utilized in selecting managers, the Committee will consider the criteria above, as well as, the length of time the firm has been in existence, its track record, assets under management, and the amount of assets the Foundation already has invested with the firm.

IV DIVERSITY, EQUITY, INCLUSION COMMITMENT

Greater Tacoma Community Foundation connects people, knowledge, and funding to build a racially equitable, accessible, inclusive Pierce County, now and for generations to come. GTCF's mission guides the committee to advance equity through its Investment Policy Statement.

To fulfill GTCF's vision of a racially equitable, accessible, inclusive Pierce County where all people can shape and activate the systems that affect our communities, we intentionally remove system barriers and build processes that support access and inclusion.

We seek out partners who align with GTCF's vision and mission. We have agreed as a committee to actively engage with our investment manager(s) at least once a year to see what actions their organizations have taken in the realms of equity, accessibility and inclusion. We do acknowledge the pace and scale may vary between managers but as long as there is a clear demonstration of commitment and action, we will welcome the changes and will look forward to a continuing dialogue to see how we might help shape the partnership.

We propose to ask managers to report back on a range of efforts, including:

- Increasing percentage of women employees and managers
- Increasing percentage of employees and managers who identify as underrepresented
- Active engagement with minority-owned sub-advisors
- Portfolio managers who identify as belonging to one of the classes of interest
- Diverse teams supporting our community foundation
- Ongoing diversity & inclusion training/education
- Any company initiatives to help disenfranchised groups
- Any company initiatives to recruit from non-traditional sources

Finally, It is our intent to work with various managers who help us invest the foundation's assets and who align with GTCF's values. GTCF is a learning organization, committed to the continuous transformation necessary to address and remove system barriers. With this policy, we want to learn alongside our investment partners about how they effectively implement actions to advance equity, access, and inclusion.