



# Greater Tacoma Community Foundation Socially Responsible Investment Policy Statement

## BACKGROUND AND RATIONALE

In 2015 Greater Tacoma Community Foundation began exploring the concept of integrating Socially Responsible Investing (SRI) factors into the security selection process for a portion of the Endowment's assets. The Foundation recognizes that constituents of the Community have an interest in allocating charitable dollars in a fashion that is consistent with their ethics and values. Further, the Foundation recognizes the growing amount of research that suggests that incorporating SRI factors into the security selection process can help uncover unaccounted risk and return characteristics that can benefit the portfolio. For these reasons the Foundation elected to provide an additional investment option for potential donors that desire SRI characteristics in their portfolio.

It is important to note that the Foundation is not stating what values or opinions are appropriate but, rather, recognizing the desire of the Community for an SRI investment option and is providing this additional service.

The Investment Committee recognizes that these goals, while noble, should not detract from the long-term performance of the SRI Investment Pool. If the Investment Committee believes that allocating to a particular manager or asset class would be adversely impacted through applying the specific social considerations then they will not invest.

## PURPOSE

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

While shorter-term investment 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.

## SCOPE

This policy applies to the SRI Investment Pool, which the Committee and investment manager have responsibility to manage prudently.

This IPS adopts many of the core principles as the GTCF Endowment Investment Policy and adds guidelines to address the more specific intent of socially responsible investments. The SRI Pool guided by this IPS will remain separate from the Endowment Pool.

## INVESTMENT OBJECTIVE

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

## **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 investment assets as a prudent investor would, in light of 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.

## **DESCRIPTION OF ROLES**

### **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 SRI Investment Pool at least quarterly; and maintaining sufficient knowledge about the SRI Investment Pool and its managers to be reasonably assured of their compliance with the Investment Policy Statement.

### **Investment Consultant**

The investment consultant is responsible for assisting the Committee in all aspects of overseeing the SRI Pool. 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 mutual fund managers have no knowledge of this IPS or ability to adhere strictly to policies defined within.*

**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, the majority of assets will be invested in equity or equity-like securities, including real assets (real estate and natural resources). Real assets are anticipated to provide the added benefit of inflation protection.

Fixed income strategies will be used in an effort to lower short-term volatility and provide stability, especially during periods of deflation and negative equity markets. Cash is not a strategic asset of the SRI Pool, but is a residual to the investment process and used to meet short-term liquidity needs.

**ASSET ALLOCATION**

Asset allocation will likely be the key determinant of the SRI 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 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 SRI Pool, rather than judging asset categories on a stand-alone basis.

The target asset allocation should provide an expected total return equal to or greater than the primary objective of the Foundation, while avoiding undue risk concentrations in any single asset class or category, thus reducing risk at the overall portfolio level. To achieve these goals the asset allocation for the SRI Pool will be set with the following target percentages and within the following ranges:

| <b><u>ASSET CATEGORY</u></b>   | <b><u>TARGET</u></b> | <b><u>ACCEPTABLE RANGE</u></b> |
|--------------------------------|----------------------|--------------------------------|
| <b>GLOBAL EQUITY</b>           | <b>60%</b>           | <b>35-65%</b>                  |
| U.S. Equities                  | 45%                  | 30-60%                         |
| International Equities         | 15%                  | 5-30%                          |
| <b>GLOBAL FIXED</b>            | <b>30%</b>           | <b>15- 45%</b>                 |
| <b>REAL ASSETS</b>             | <b>10%</b>           | <b>0- 20%</b>                  |
| <b>DIVERSIFYING STRATEGIES</b> | <b>0</b>             | <b>0- 10%</b>                  |

**SRI LIMITATIONS AND AREAS OF EMPHASIS**

Socially responsible investing has grown to more than simply excluding certain stocks or industries. Investors will often not only exclude certain stocks or industries engaged in activities they disapprove of but also reward companies aligned with their interests and mission. It is not anticipated that SRI will adversely impact the performance of the portfolio. The Committee recognizes that there are tangible benefits to environmental stewardship, positive corporate action, and positive employee relations. The Committee further recognizes that it is difficult to dictate specific instruction to a mutual fund and these guidelines are just that, guidelines. Investment managers should seek to adhere to the spirit of these policies. The SRI Pool should be viewed as a holistic approach into responsible investing with a diversified

allocation in region, market cap, economic inputs as well as SRI considerations. While there are no absolute cut and clear delineations within many SRI mandates, below are general descriptions of the broad areas of emphasis for clients to consider.

### **ENVIRONMENTAL ISSUES**

Environmental Screening is associated with the practice of considering environmental and energy matters as a metric of corporate performance. The term “green investing” would be most closely associated with this factor.

Investment Managers shall make best efforts to avoid investing in companies that are involved in:

- Major controversies relating to air, water or land pollution or a history of environmental fines and/or civil suits.
- A pattern of violating federal or state environmental regulations.
- Production of chemicals known to be particularly damaging to the environment and/or human health: (aerosols, plastics, pesticides, etc).
- A history of unsustainable environmental practices that exploit the world’s natural resources.
- Companies significantly involved in the development and commercialization of genetically modified organisms.

Investment Managers shall make efforts to emphasize investment in companies that are involved in:

- Publicly recognizing that global climate change is a real issue and that steps need to be taken to reduce its impact.
- Significantly reducing all waste streams through recycling or closed-loop technologies.
- Developing innovative ways to reduce the emission of toxic or chemical wastes.
- Demonstrating a long-term commitment to the reduction of negative environmental impact through the development of waste reduction and phase out goals.
- Manufacturing of organic products.
- Disclosing the amount of greenhouse gas emissions by the corporation.
- Reducing the impact of nuclear weapons globally
- Emphasizing alternative fuel sources and de-emphasizing usage of traditional fuel sources (coal and oil)
- Nuclear power as a viable power source to replace coal and/or oil.
- The cleaning of traditional fuel sources.
- Research and marketing of alternative energy sources such as wind, solar and hydrogen is important.

### **CORPORATE GOVERNANCE ISSUES**

Positive corporate governance considers the short and long-term impact of Board decisions on the shareholders of the firm. Items that fall under monitoring within Corporate Governance include:

- Employee/director remuneration
- Appointment of Directors
- Auditor appointment and independence
- Changes to capital structures that may affect shareholder value

- Voting rights among shareholders
- Significant issues that concern social or environmental matters

Investment Managers shall make efforts to emphasize investment in companies that are involved in:

- Corporations engaging in community charitable contributions in a meaningful manner.
- Corporations providing full transparency of political contributions
- Corporations with independent and non-affiliated Board members
- Corporate Boards maintaining an open and positive relationship with shareholders
- Corporations with prudent executive compensation structures

### **SOCIAL ISSUES**

Social screening is associated with the practice of considering relationships with stakeholders such as employees, customers, communities and governments as a metric of corporate performance. Examples include:

- Employee diversity
- Employee benefits
- Discrimination lawsuits
- Union relations.
- Significant worker involvement and participation in management decision-making.
- Good employee benefits that include programs to help employees balance work and family concerns.
- Representation of women and minorities at all levels of the company.
- Compensation based on performance.
- Employee stock ownership program.
- Job training for employees at all levels.

Investment Managers shall make efforts to emphasize investment in companies that are involved in:

- Lending institutions emphasizing local community investing into areas in need of improvement.
- Lending institutions emphasizing lower income areas that have been underserved by traditional lending sources
- Corporations seeking to identify and rectify any human rights issues within their supply chain.
- Corporations enforcing and seeking to expand human rights issues within their company as well as supply chain.
- Corporations encouraging a positive working atmosphere and provide channels of communication between employees and management.
- Corporations actively enforcing and seeking to expand diversity in the workplace.

Investment Managers shall make best efforts to avoid investing in companies that:

- Have been convicted of major product liability or product safety violations
- Have been fined for significant price fixing, antitrust violations
- Exhibit a pattern of consumer fraud or unfair marketing
- Practice discriminatory hiring practices.

- Practice discrimination against existing employees on the basis of race, age or sexual orientation.
- Fail to comply with minimum wage laws.
- Conduct business in any way that fosters continued human rights issues around the globe (Specifically Sudan).
- Actively participate in predatory lending practices.

### **NEGATIVE SCREENING**

For a variety of reasons clients will often choose to exclude specific products or activities in all aspects of their portfolio.

Investment Managers shall make best efforts to avoid investing in companies that are involved in:

- Receive meaningful revenue from the manufacture of alcohol products.
- Receive meaningful revenue from the manufacture of tobacco products.
- Receive revenue from gaming activities such as casinos, hotels with casinos and the manufacture of gaming devices.
- Engaged in the production of weaponry (bombs, jets, guns, land mines, etc)
- Receive revenue from the production or distribution of pornography
- Engage in the production and/or distribution of genetically modified foods
- Engage in any animal testing beyond what is required testing by the Food and Drug Administration.

### **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.

## **DESCRIPTIONS OF PERMISSIBLE INVESTMENTS**

Assets may be invested in commingled funds, mutual funds or exchange-traded funds and it is understood that the terms and conditions in the prospectus or similar governing documents of such funds prevail over these guidelines. However, commingled or mutual funds should be selected that generally conform to the expectations provided in the investment guidelines. The following security classifications are permissible for investment:

**Domestic Equity Securities:** Publicly traded common and preferred stocks, convertible preferred stocks and convertible debentures. Equity securities may be chosen from the NYSE, Regional Exchanges and the National over the Counter Market. All assets must have readily ascertainable market values and be fully liquid.

**International Equities:** Investment in non domestic publicly traded common stocks or mutual funds. These funds provide diversification to the portfolio.

**Debt Instruments:** United States Government, Agency obligations and Corporate obligations must have a BBB or better agency rating by one of the major rating agencies. Maturity structure will be left to the discretion of the Investment Manager who will manage to a short and intermediate duration not to exceed three years.

**Cash and Equivalents:** Cash reserves may consist of individual fixed income securities such as commercial paper, U.S. Treasury Bills, and other similar instruments with less than one year maturity and/or money markets funds. Cash reserves should be free from risk and instantly liquid.

## **REBALANCING**

The Committee and Consultant will monitor the asset allocation structure of the SRI 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.

## **EVALUATION & PERFORMANCE MEASUREMENT**

### **TOTAL FUND BENCHMARKS**

The Committee seeks to outperform its benchmarks over full market cycles and does not expect that all investment objectives will be attained in each year. Furthermore, the

Committee recognizes that over various time periods, the SRI Pool may produce significant deviations relative to the benchmarks.

***The current Broad Policy Benchmark is:***

| <b>Weight</b> | <b>Index</b>                    | <b>Asset Categories</b> |
|---------------|---------------------------------|-------------------------|
| 40%           | Russell 3000                    | U.S. Equity             |
| 5%            | Russell 2000                    | U.S. Equity             |
| 15%           | MSCI ACWI ex-US                 | International Equity    |
| 25%           | Barclays Capital Aggregate Bond | Global Fixed Income     |
| 5%            | Bloomberg Corp High Yield       | Global Fixed Income     |
| 5%            | NAREIT Index                    | Real Estate             |
| 5%            | S&P Natural Resources           | Real Assets             |

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