

Coeur d'Alene Rotary Endowment Foundation, Inc.

Investment Policy

I. Statement of Purpose

The revenue of the Coeur d'Alene Rotary Endowment Foundation, Inc. (the Foundation) is used to fund the Foundation's charitable programs and to defray its operating costs. The revenue consists of donations and income from the Foundation's invested funds (Investment Funds). A continuing, growing income stream from the Investment Funds is important to the Foundation, to support its programs and to meet current grant requests. Growth of the corpus of the Investment Funds also is important to meet projected future needs.

It shall be the investment policy of the Foundation to invest the Investment Funds with the goals of safety of principal, growth of principal, maximization of total investment yield in accordance with stated investment objectives, and maintenance of liquidity sufficient to achieve the stated purposes of the Foundation.

In establishing this investment policy, the Board of Directors of the Foundation (the Board) desires to:

- Define and assign the responsibilities of all involved parties.
- Establish a clear understanding for all involved parties of the investment goals and objectives of Operating Funds assets.
- Offer guidance and limitations to all Investment Managers regarding the investment of Operating Funds assets.
- Establish a basis for evaluating investment results.
- Manage Operating Funds assets according to prudent standards as established by law.
- Establish the relevant investment horizon for which the Operating Funds 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 towards the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

II. Definitions

Investment Horizon – shall be the time period over which the investment objective, as set forth in this statement, is expected to be met.

Investment Manager – shall mean any organization and/or individual employed to manage Investment Funds of the Foundation.

Equity Investment – shall mean common stocks, convertible stocks, or other securities representing ownership, including alternative investments.

Fixed Income Investment – shall mean securities promising a stated periodic return.

Market Cycle – shall mean a period of three (3) to five (5) years.

III. General Investment Principles

Investments shall be made with the requisite care, skill, prudence, and diligence under the circumstances which prevail from time to time.

Investments shall be made so as to minimize the risk of large losses; provided, however, that short-term fluctuations in investment value shall be considered secondary to long-term investment results.

The Board may employ one or more Investment Managers, using varying styles and expertise, to obtain stated investment objectives.

Cash on hand should be productively employed at all times by investment in short-term cash equivalents.

To prevent a possible loss resulting from the forced sale of investments held in accordance with this policy in order to meet a disbursement obligation, the Foundation shall periodically provide Investment Managers with estimated future net cash flow needs for a reasonable period.

IV. Investment Objectives

The goal of each Investment Manager, over the investment horizon, shall be to:

Meet or exceed the market index, or blended market index, selected and agreed upon by the Board that most closely corresponds to the asset allocation and investment styles(s) employed by the Investment Manager.

Display an overall level of risk in the portfolio that is consistent with the risk associated that the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.

Specific investment goals and constraints for each Investment Manager, if any, shall be incorporated as part of this statement of investment policy. Each manager shall receive a written statement outlining his specific goals and constraints.

Market benchmarks utilized for individual asset classes are listed below:

U.S. Equities: A combination of S&P 500, Russell 1000 and/or other asset class indices germane to the mix of U.S. Equities managed by the Investment Manager, as well as alternative investments similar to those used by large pension funds and endowment foundations.

Foreign Equities: MSCI EAFE Index and Emerging Markets Index

Real Estate: NAREIT Real Estate Index

Fixed Income: Lehman Brothers Intermediate Govt./Credit Bond Index

V. Investment Management Policy

Preservation of Capital – Consistent with their respective investment styles and philosophies Investment Managers should make reasonable efforts to preserve capital, understanding that market losses will occur as part of every business cycle.

Risk Aversion – Understanding that risk is present in all types of securities and investment styles, the Board recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Foundation Fund's objectives. However, the Investment Managers 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.

Adherence to Investment Discipline – Investment Managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

VI. 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 will periodically provide the Investment Manager with an estimate of expected net cash flow. The Board will notify the Investment Manager 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 requires that a minimum of 1% of Operating Funds assets shall be maintained in cash or cash equivalents, including money market funds or short-term U.S. Treasury bills.

VII. Marketability of Assets

The Board requires that Operating Funds assets generally be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Operating Funds, with minimal impact of market price. The Board must approve any illiquid asset the Investment Manager wants to buy.

VIII. Investment Guidelines

A. Allowable Assets

1. Cash Equivalents
 - a. Treasury Bills
 - b. Money Market Funds
 - c. Commercial Paper
 - d. Banker's Acceptances
 - e. Repurchase Agreements
 - f. Certificates of Deposit
2. Fixed Income Securities
 - a. U.S. Government and Agency Securities
 - b. Corporate Notes and Bonds
 - c. Mortgage Backed Bonds
 - d. Preferred Stock
 - e. Fixed Income Securities of Foreign Governments and Corporations
 - f. Planned Amortization Class Collateralized Mortgage Obligations (PAC CMOs) or other early tranche CMOs
3. Equity Securities
 - a. Common Stocks
 - b. Convertible Notes and Bonds
 - c. Convertible Preferred Stocks
 - d. American Depository Receipts (ADRs) of Non-U.S. Companies (Exception: emerging growth)
 - e. Stocks of Non-U.S. Companies (Ordinary Shares)
4. Mutual Funds which invest in securities as allowed in this statement
5. Derivative Securities (limited as noted below)
6. Other Assets
 - a. GIC's – Guaranteed Insurance Contracts

- b. Alternative Investments similar to those used by large pension funds and endowment foundations

B. Asset Allocation Guidelines

- 1. Only the assets placed under professional management by the Foundation shall be in accordance with the following asset allocation guidelines:

- a. Aggregate Operating Funds Asset Allocation Guidelines (as market value)

<u>Asset Class</u>	<u>Guideline</u>
Equities	55% of total is preferred, but may vary +/- 15% to as much as 70% or as little as 40% total
Fixed Income	40% of total is preferred, but may vary +/- 15% to as much as 55% or as little as 25% total
Cash and Equivalents	1% of total is preferred, and may be as much as +/- 10% but in general should not be less than 1% of total
Alternative Investments	Shall not exceed 10% of the equity portion of the portfolio

- b. In the event that the above aggregate asset allocation guidelines are violated for reasons including but not limited to market price fluctuations, the Board will instruct the Investment Manager(s) to bring the portfolio(s) into compliance with these guidelines as promptly and prudently as possible. In the event that any individual Investment Manager's portfolio is in violation of its specific guidelines, for reasons including but not limited to market price fluctuations, the Board expects that the Investment Manager will bring the portfolio into compliance with these guidelines as promptly and prudently as possible without instructions from the Board.

- 2. Diversification of Investment Managers

The Board does not believe it is necessary or desirable that securities held in the Investment Funds 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 8% of the total fund should be invested in any one industry. Individual treasury securities may represent 10% of the total fund, while the total allocation to treasury bonds and notes may represent up to 100% of the Foundation Fund's aggregate bond position.

3. Guidelines for Fixed Income Investment and Cash Equivalents

- a. Investment Funds assets may be invested only in investment grade bonds rated BBB+ (or equivalent) or better.
- b. Investment Funds assets may be invested only in commercial paper rated A1 (or equivalent) or better.
- c. Fixed income maturity restrictions are as follows:
 - (1) Maximum maturity for any single security is 25 years.
 - (2) Weighted average portfolio maturity may not exceed 15 years.
- d. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poors, and/or Moody's.

4. Derivative Securities

The use of derivatives is prohibited unless specifically approved and understood by the Board.

IX. Selection of Investment Managers

The Board's selection of Investment Manager(s) must be based on prudent due diligence procedures. A qualifying Investment Manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. The Board requires that each Investment Manager provide, in writing, acknowledgement of fiduciary responsibility to the Foundation.

X. Compensation for Investment Managers

The compensation for the investment managers shall be based on a percentage of the assets managed as opposed to commissions for transactions.

XI. Investment Manager Performance Review and Evaluation

Performance reports generated by the Investment Manger shall be compiled at least quarterly and communicated to the Board. The investment performance of total portfolios, as well as asset class components, will be measured against the benchmarks specified in IV as well as such other commonly accepted performance benchmarks as may be appropriate.

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 policy. The Board shall entertain Requests for Proposals (RFPs) from other investment managers every five years, but reserves the right to terminate a manager for any reason including the following:

1. Investment performance that is significantly less than anticipated given the discipline employed and risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.

Investment Managers 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.

XII. Investment Policy Review

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

XIII. Measurement of Performance

Investment performance shall be measured at least annually on the basis of the total rate of return.

Investment performance shall be related to the overall stated investment objectives and capital market returns as evidenced by the various market indices hereinabove stated.

Investment performance comparisons shall be made for such periods of time as deemed appropriate by the Board; provided, that a complete Market Cycle should be a significant consideration as it pertains to the measurement of performance of an Investment Manager.

XIV. Investment Authority

Except for the guidance, authority, and limitations with respect to the investment of funds as herein provided, it is understood and acknowledged that the Board should not reserve control over investment decisions made by Investment Managers employed, from time to time, by the Foundation. As such, Investment Managers so employed shall be responsible, and/or held accountable, for results achieved on the investment of funds held by the Foundation. Investment Managers are therefore encouraged to request modifications to this investment policy as they may deem necessary and/or appropriate under the circumstances.

XV. Review and Communication

The Board, or its designee, shall review no less than annually, the:

1. Investment results achieved in relation to stated investment objectives and other applicable comparisons.
2. Methods used to achieve investment results.
3. Future investment strategies considering past, present, and prospective economic financial market climates.
4. Adherence to, and compliance with, this investment policy and other guidelines that may be adopted by the Board.

XVI. Endowment Distribution

Distributions from the Rotary Foundation's endowment will occur annually. The Foundation Board shall provide the Board of Directors of the Club the distribution amount no later than October 31 each year based on the corpus of the Foundation's portfolio. The distribution amount shall be determined according to the distribution policies of the community foundation(s) managing the investment portfolios of the Rotary Foundation. The source of distributions shall be interest, dividends, capital gains and other amounts over and above actual donor gifts. No distribution shall be made from the corpus representing donor-designated endowed funds.

Amended July 17, 2018