



## Endowment Policy

Effective Date: February 17, 2010

### I. STATEMENT OF PURPOSE

The purpose of this Endowment Policy is to assist the Trustees of Kellogg-Hubbard Library (“Trustees”) in fulfilling their duties to prudently manage the investment of the Library’s Endowment Fund (“Endowment”) in furtherance of the Library’s mission, and to provide guidance to investment managers employed to manage such assets. This statement represents the philosophy of the Library with regard to the Endowment and shall be reviewed regularly to ensure that it continues to reflect the appropriate expectations, goals, and objectives of the Library for the Endowment.

### II. OBJECTIVES

The purpose of the Endowment is to support the Library and its mission over the long term. Accordingly, the primary investment objectives of the Endowment are to:

- (1) Preserve the value of the assets of the Endowment
- (2) Provide a stable source of income to support the Library’s operational needs
- (3) Achieve long-term growth of the Endowment
- (4) Incur costs appropriate and reasonable in relation to the foregoing.

In order to preserve the value of the assets of the Endowment and make funds available to meet the Library’s budgetary needs, the long-term annualized total rate of return objective for the Endowment is six percent (6%) (“Total Return Objective”). To achieve the Total Return Objective, the Endowment relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and from current yield (interest and dividends). Asset allocation targets established by the Trustees and implemented by the Library’s Investment Manager or Managers are intended to ensure adequate diversification in order to reduce overall portfolio risk and the volatility of investment returns.

### III. AUTHORITY

**Trustees:** The Trustees of the Library retain overall responsibility for maintaining and implementing this Policy. The Finance Committee of the Board (“Committee”) is

authorized by the Trustees to manage and monitor the investment of the Endowment and report thereon to the full Board.

The Committee shall identify, implement and monitor an investment and expenditure strategy for the Endowment consistent with this Policy and appropriate to the operational and long-term needs of the Library, taking into account recommendations from the Asset Manager(s) and other relevant factors such as, economic conditions, expected income return, budget-to-actual operating projections, budgeted distribution, and preservation of the Endowment. As such, the Committee shall:

- Select and oversee, one or more Investment Managers to directly manage Endowment assets;
- Retain the right to deny authority to the Investment Manager(s) to invest Library assets into such specific investments which the Committee believes is not consistent with the Library's philosophy of public good;
- At least annually, review the investment portfolios of the Endowment's assets, including a review of asset allocation, asset quality, duration and return;
- At least annually, meet with each Investment Manager to review investment strategy and portfolio performance;
- Determine the allocation of Endowment assets among Investment Manager(s), if more than one;
- Work with the Library's Executive Director and the Board of Trustees to recommend appropriate amounts of withdrawals from the Endowment to meet the budgetary needs of the Library and the preservation of the Endowment; and
- Present reports to the Trustees at least annually, providing an overview of investment strategy, asset allocation, asset quality, duration, and return.

#### **IV. TARGET ASSET ALLOCATION**

The general policy shall be to diversify investments among both fixed income and equity securities so as to provide a balance that will enhance total return while avoiding undue risk. To accomplish this objective, the Library will employ one or more Investment Managers, at a reasonable cost, that provide non-profit organizations with appropriate investment alternatives.

To achieve the Total Return Objective, Endowment assets shall be allocated among a number of asset classes. These asset classes may include: domestic equity, domestic fixed income, international equity, international fixed income, and cash and cash equivalents. Refer to Appendix A for additional explanation related to asset classes.

The following Target Asset Mix Table defines the Endowment's target asset allocation. It is the intent of the Trustees that the Target Asset Mix Table shall not be changed unless results over time require action to preserve the Endowment. The Trustees

hereby acknowledge that investment returns will fluctuate from year to year and accept that one annual reduction in asset valuation alone is not sufficient reason to automatically adjust the Target Asset Mix. The Target Asset Mix Table below, approved by the Trustees, reflects the minimum and maximum allocation limits of each asset class:

### Target Asset Mix Table

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Fixed Income Securities	30%	35%	80%
Equity Securities	20%	60%	65%
Cash and Equivalents	0%	5%	10%

The investment policies, guidelines and restrictions in this policy are a framework to help the Trustees and the Library's Investment Managers achieve the investment objectives at a level of risk deemed acceptable. The Endowment will be diversified both by asset class and within asset classes. Within each asset class, securities will be diversified among economic sector, industry, duration, and size. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the performance of the total fund. As a result, the risk level associated with the portfolio investment is reduced.

### Restrictions

The Committee may waive or modify any of the restrictions in these guidelines in appropriate circumstances. Any such waiver or modification will be made only after a thorough review performed by the Investment Manager(s) of the investment strategy involved. An addendum supporting such investments will be maintained as a permanent record of the Committee. All waivers and modifications will be reported to the Trustees at the meeting immediately following the granting of the waiver or modification.

Any investment that is made in a mutual fund and/or commingled fund will be reviewed and approved by the Committee on a case by case basis and if approved, may vary from this Policy. For mutual and other commingled funds, the prospectus or Declaration of Trust documents of the fund(s) will govern the investment policies of the fund investments. While the Committee understands that such funds have their own stated guidelines, which cannot be changed for individual investors, in principle and spirit, those guidelines should be similar in nature to the guidelines stated above. To the extent that a fund allows any or all of the above stated restrictions, the Committee must be aware of their possible use and be confident that the Investment Managers thoroughly understand the risks being taken, has demonstrated expertise in their usage of such securities, and has guidelines in place for the use and monitoring of those securities.

## V. DISTRIBUTION

It is the Library's objective to distribute annually not more than five percent (5%) of a trailing three-year average of the Endowment's total asset value, with the understanding

that this distribution rate will normally not exceed the Total Return Objective measured over the three-year period. If approved by the Trustees, distributions in excess of the five percent (5%) amount may be made in a year where necessary to meet operational expenses consistent with the annual budget.

Distributions from the Endowment account will be taken from the Temporarily Restricted earnings portion first. Any portion (earnings) of the endowment fund that is not classified as permanently restricted is classified as temporarily restricted (time restricted) until "appropriated for expenditure" by the Library. In the event that there are not sufficient funds in the Temporarily Restricted portion, the Library will then draw down from the Unrestricted Net Assets.

## **VI. MANAGERS REPORTING AND EVALUATION**

The Investment Managers will provide reports, at least quarterly, on the performance of the portfolio, including comparative returns for the funds and their appropriate benchmarks. Also included will be a complete accounting of all transactions involving the endowment during the quarter, together with a statement of beginning market value, fees, capital appreciation, income, and ending market value, for each account.

A representative of each Investment Manager should meet with the Committee at least annually and at such other times as the Committee deems necessary.

The Investment Manager(s) will report performance in both absolute and relative terms over trailing three, five, and ten year periods, or in such other format approved by the Committee. Absolute results will determine the rate of fund growth, while relative results over a three and five-year period will provide a view of investment performance compared to the broad securities markets and to the results attained by other investment managers.

## **VII. REBALANCING**

It is the Library's policy to rebalance within the stated ranges on a regular basis so as not to cause undue expense to be allocated to the portfolio. The purpose of rebalancing is to control portfolio risk and maintain the Endowment's asset allocation within the targeted ranges. It is the Library's policy to rebalance back to within the stated target allocations at least annually, or whenever large cash inflows or withdrawals occur.

## **VIII. REVISION HISTORY**

This policy supersedes any Library policies and practices in existence prior to its effective date. All earlier revisions of this document are superseded by this revision. The Kellogg-Hubbard Library Board of Trustees reviewed and approved this procedure on November 15, 2023.

<b>Date</b>	<b>Revision #</b>	<b>Modification</b>
2023-11-15	5.0	Updated with edits due to administrative changes
2019-09-18	4.0	Updated with edits due to administrative changes
2017-05-24	3.0	Section V revised with suggested language from the auditors.
2016-06-15	2.0	Revised as recommended by the Committee, including the segregation of certain explanatory language into Appendix A, and as approved by the Kellogg-Hubbard Library Board of Trustees. Renamed from Investment Policy Statement to Endowment Policy.
2015-06-10	1.0	Allocation structure changed per Board of Trustees vote.
2010-02-17	0.0	New Policy approved by Kellogg-Hubbard Library Board of Trustees.

# Endowment Policy

Effective Date: June 15, 2016

## APPENDIX A

This Appendix provides general explanations related to the asset classes and investment categories that may currently be, or may become, part of the Library's portfolio. It is not intended to replace more detailed and specific investment information provided by the Asset Manager(s) or specific investment prospectuses.

### Fixed Income Securities

Domestic and International fixed income investments provide diversification and a dependable source of current income. Diversification within fixed income investments will be flexibly allocated among maturities of different lengths according to interest rate prospects and the goals of the fund. Fixed income instruments should reduce the overall volatility of the Endowment's assets, and provide a deflation or inflation hedge, where appropriate.

Fixed income includes both the domestic fixed income market and the markets of the world's other developed economies. It includes, but is not limited to, U.S. Treasury and government agency bonds, non-U.S. dollar denominated securities, public and private corporate debt, mortgages and asset-backed securities, and non-investment grade debt. Fixed income also includes money market instruments, including, but not limited to, commercial paper, certificates of deposit, time deposits, bankers' acceptances, repurchase agreements, and U.S. Treasury and agency obligations. The Investment Managers must take into account credit quality, sector, duration, and issuer concentrations in selecting an appropriate mix of Fixed Income securities. Investments in fixed income securities may be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums.

Within the above guidelines and restrictions, the Investment Managers have complete discretion over timing the sale, purchase, and selection of fixed income securities.

### Equity Securities

The purpose of equity investments, both domestic and international, in the Endowment is to provide capital appreciation, growth of income, and current income. This asset class carries the assumption of greater market volatility and increased risk of loss, but also provides a traditional approach to meeting portfolio total return goals. This component includes domestic and international common stocks, and convertible stocks traded on recognized stock exchanges or over-the-counter markets.

Public equity securities shall generally be restricted to liquid, readily marketable securities of corporations that are traded on the major stock exchanges, including NASDAQ. Decisions as to individual security selection, number of industries and holdings, current income levels and turnover are left to broad manager discretion, subject to the standards of fiduciary prudence. However, no single economic sector shall

represent more than 200% of underlying benchmark sector weight and no single security shall represent more than five percent of the Endowment's total equity market value, unless approved by the Committee.

Within the above guidelines and restrictions, the Investment Managers have complete discretion over the timing and selection or sale of equity securities.

### **Cash and Equivalents**

The Investment Managers are restricted to investment Grade commercial paper, repurchase agreements, Treasury Bills, certificates of deposit, and money market funds to provide income, liquidity for expense payments, and preservation of the Endowment's principal value.

Uninvested cash reserves shall be kept to a minimum since short term, cash equivalent securities are usually not considered an appropriate investment vehicle for long-term investments. However, such vehicles are appropriate as a depository for income distributions from longer-term investments, or as needed for temporary placement of funds directed for future investment to the longer-term capital markets. Also, such investments are the standard for contributions to the current fund or for current operating cash.

Within the above guidelines and restrictions, the Investment Managers have complete discretion over timing the purchase, sale, and selection of cash equivalent securities.