

# THE TRUSTEES OF DONATIONS, TOWN OF CONCORD

## INVESTMENT POLICY STATEMENT

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### GENERAL INFORMATION

The purpose of this investment policy statement (IPS) is to provide criteria to ensure the effective supervision, monitoring, and evaluation of the Town Donations (the "Fund"). Specifically, the IPS is intended and designed to:

1. Articulate objectives, guidelines and expectations for the investment of the endowment assets;
2. Set forth an investment structure for managing the Fund which includes various asset classes, asset allocations and acceptable ranges of assets that in total are expected to produce a desired level of total return at an acceptable level of risk;
3. Establish formalized criteria to monitor, evaluate, and compare performance results on a regular basis;
4. Encourage effective communication between the Trustees and the investment manager;
5. Comply with all fiduciary, prudence, and due diligence requirements, consistent with the nature of these funds, that experienced investment professionals would utilize.

### THE TRUSTEES OF DONATIONS

The Trustees of Donations, will set the overall investment policy, choose the investment manager, review investment reports, and evaluate investment performance.

At least annually, the Trustees will review this Investment Policy Statement, and determine whether it should remain as written or be modified.

### INVESTMENT OBJECTIVES

1. The primary long-term objective is to preserve the real (i.e., inflation-adjusted) purchasing power of the endowment.
2. The secondary objective is to seek to meet or exceed the respective benchmarks for each appropriate asset class.

The investment objectives are based on a ten-year time horizon; interim fluctuations should be viewed with appropriate perspective.

### INVESTMENT POLICIES

1. Risk tolerance is moderate given the Fund's objectives and recognizing the principals of prudent fiduciary investment management. However, the Trustees recognize that some risk must be assumed to achieve all objectives.
2. The portfolio should be diversified both by asset class: equities, bonds, alternatives, and cash equivalents; and within asset class: economic sector, industry, and quality. The purpose of diversification is to ensure that no single security or class of security will have a disproportionate impact on the total portfolio.
3. The purpose of fixed income investments is to provide a source of current income and to reduce the volatility of the total market value of the portfolio.

4. The purpose of equity investments is to provide growth of principal as well as some dividend income. It is recognized that these investments may entail the assumption of greater market volatility and risk than fixed income securities.

## INVESTMENT GUIDELINES

Asset Allocation: The Trustees, along with the investment manager, will determine the overall asset allocation target. Currently the asset allocation limits are:

50%-70% Equity / 30%-50% Fixed Income

The Trustees should be notified by the manager before any strategic asset allocation change of 5% or more is implemented.

Equity Investments: The equity allocation will consist of a portfolio of high quality companies diversified by market capitalization and economic sector. Single stock positions are generally not to exceed 5%. To achieve an optimal risk/return profile, the equity portfolio should be further diversified across market segments, within the following permissible target ranges:

<u>Market Segment</u>	<u>Target Range (of equities)</u>	<u>Index</u>
Large cap stocks	55%-80%	S&P 500
Mid cap stocks	0%-20%	S&P 400
Small cap stocks	0%-20%	S&P 600
International (developed)	0%-20%	MSCI EAFE
International (emerging)	0%-10%	MSCI EMF

Investments in mid, small and international stocks may be effected through high quality mutual funds, as appropriate, to achieve effective diversification.

Fixed Income Investments: The fixed income allocation will consist of:

- (1) Well-diversified investment grade securities consistent with the following criteria:

Overall average quality	AA or better
Minimum credit quality	Baa (issuer)
Maximum Baa exposure	Not to exceed 20% of the overall bond portfolio
Single issuer exposure	Not to exceed 5% for Corporates and 15% for U.S. Agencies; no limit for U.S. Treasuries.
Portfolio duration	+/- 20% of the benchmark

- (2) Short duration securities that are designated for near-term distributions will be invested in money market funds, which in turn are primarily invested in Commercial Paper rated A1 or P1, and securities issues or guaranteed by the U.S. Government or its agencies.

Fixed income investments may be effected through high quality mutual funds if the manager determines that funds represent a more efficient means to achieve effective diversification.

Trading: The manager will execute all transactions on the most favorable terms and in the most effective manner possible.

Investment Restrictions: As no list of investment instruments or strategies can be all-inclusive, the investment manager should seek guidance before employing new types of instruments or strategies.

## PERFORMANCE MEASUREMENT

*Total portfolio return will be measured against a blended return of the S&P 500 and the Lehman Aggregate Indices.*

The Trustees have adopted this benchmark in recognition of the primary objective of the endowment-- to preserve real purchasing power over time. It is expected that long-term (five to ten years) the total investment return will at least meet, and preferably exceed, the blended benchmark return.

Overall equity performance will be measured against the S&P 500 Index. Individual equity segments (i.e., large cap, small cap) will be measured against their respective benchmarks.

Fixed income performance will be measured against the Lehman Brothers Aggregate.

While it is not expected that portfolio returns will exceed the benchmark returns each measurement period, it is expected that the returns will be favorable over five to ten year rolling periods.

## SPENDING POLICY

The Fund has adopted a "total return" approach to spending. In developing this policy, The Fund and its investment manager have carefully evaluated the long-term goals for monies contributed. Consideration is given to the town's financial condition, its liquidity requirements, the nature of the liabilities to be discharged, and its risk taking capacity. Finally, it considered the range of historic and expected returns, both nominal and real.

Based upon these considerations, the Trustees have recommended a spending rate of *up to 5%* of the rolling market value calculation. Noting the dynamic nature of the capital markets, and the competitive environment facing the organization, this spending rate should be reviewed on an annual basis for appropriateness.

## RESPONSIBILITIES and OVERSIGHT

### Investment Manager:

1. Manage the investments in accordance with the IPS objectives and guidelines as set forth herein, or as amended in writing by the Trustees. Manager will sign a copy of this IPS to acknowledge understanding and acceptance of it.
2. Exercise complete investment discretion within the IPS objectives and guidelines.
3. Provide monthly statements of investments and transactions, and quarterly performance reports.
4. Meet with the Trustees at least annually, or more frequently if requested, to review the portfolio results, define distribution needs for the coming year, review the economic

and market outlook, discuss the asset allocation and review this IPS to determine whether or not changes are appropriate.

5. Notify the Trustees immediately of any material change in investment approach or significant changes in key personnel related to the management of the Fund.

The Trustees:

1. Monitor the performance of the manager and the portfolio in the context of the achievement of stated investment objectives.
2. If the Trustees approve any change to this IPS or approves the purchase of any alternative investments, such change and approval will be communicated in writing to the manager, and signed by at least two Trustees including the Chair.
3. Neither the Chair, nor any individual trustee, will direct the manager regarding the purchase or sale of any individual security.

Revised and approved by consent of the Trustees on 7/22, 2008.

Luella A. Lawrence

Chair

The Trustees of Donations, Town of Concord

Christopher L. Eklund

Christopher L. Eklund, Portfolio Manager  
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