



# *Tolland Public Library Foundation, Inc.*

## *Investment Policy Statement – Approved September 22, 2009*

### **I. Scope**

The purpose of this Endowment Investment Policy is to establish the written procedures and rules applicable to the investment of the Endowment. This policy applies to the investment of all endowment funds of the Tolland Public Library Foundation, Inc., hereinafter called “the Foundation.” Except where directed to act differently in accordance with the terms of a bequest, all policies stated herein will be honored by the Foundation.

#### **1. Responsibility for Management of Funds**

All funds of the Foundation shall be managed by the Board of Directors, hereinafter called the Board. At the discretion of the Board, an external agent or agencies may be engaged to manage funds of the Foundation; in which case, the external Investment Manager(s) shall be responsible directly to the Board of Directors.

#### **2. External Management of Funds**

Investment through external programs, facilities and professionals operating in a manner consistent with this policy will constitute compliance.

#### **3. Separation of Funds**

1. These policies apply to our endowment funds and will not apply to our operating accounts.
2. The Foundation shall as necessary separate bequeathed funds in distinct accounts to avoid commingling of funds and facilitate investing and monitoring bequeathed assets in accordance with the donors directives.

### **II. General Objectives**

The investment objectives for the management of the Endowment are to achieve growth of both principal value and income over time that is sufficient to preserve or increase the value and/or return of the assets. The primary objectives of investment activities, in priority order, shall be safety, yield, and liquidity. Investment strategies should be “long term” based on the expected perpetuity of the Tolland Public Library and the Foundation.

#### **1. Safety**

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and market risk.

##### **Credit Risk**

The Foundation will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the Foundation will do business.



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### **Market Risk**

Market risk is the risk that the value of an investment will decrease due to moves in market factors. The Foundation will minimize market risk by diversifying the portfolio so that potential losses on individual securities will be minimized and offset their volatility by also holding investments that perform differently – whose performance has a low degree of correlation with the other portfolio holdings.

### **2. Yield**

The investment portfolio shall be designed with the preservation of principal as the primary objective and return on investment as the secondary objective.

### **3. Liquidity**

The Board will work with the Library Director to forecast cash flow requirements and “level” our support, but our income and support for the Library will be expected to be subject to market conditions and portfolio income. A portion of the portfolio shall remain in sufficiently liquid or income producing funds to meet the Foundation’s projected spending plans and gifts to the library.

## **III. Standards of Care**

### **1. Prudence**

The standard of care to be used by the Board and the Investment manager shall be the “prudent person” standard<sup>1</sup> and shall be applied in the context of managing the overall portfolio. The Board of Directors, acting in accordance with the Foundation By-laws, this investment policy, and exercising due diligence shall be relieved of personal liability for the reasonable discharge of our corporate duties.

<sup>1</sup> Prudent Person Rule is a standard that requires that a fiduciary with funds for investment may invest such funds only in securities that any reasonable individual interested in receiving a good return of income while preserving his or her capital would purchase. Historically known as the prudent or reasonable man rule, this standard does not mandate an individual to possess exceptional or uncanny investment skill. It requires only that a fiduciary exercise discretion and average intelligence in making investments that would be generally acceptable as sound.

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### **2. Ethics and Conflicts of Interest**

Directors and agents involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Directors and agents shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.



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### **3. Delegation of Authority**

The roles of the Board, Investment Manager and Fund Custodian are defined to be:

#### **Board –**

1. Establish our policy and goals as defined in this document and ongoing communications to the Investment Manager. These will be reviewed at least annually and updates provided to the Investment Manager.
2. Select an Investment Manager - It is the policy of the Foundation to utilize professional management services for the investment of the Endowment. The Board shall be responsible for identifying and evaluating potential managers, negotiating the investment management contracts and ensuring that the Endowment Investment Policy under which the manager(s) are to operate is communicated, understood, and followed by the manager(s).
3. Review the recommendations of the Investment Manager and approve or request changes.
4. Provide directions to the Investment Manager to perform transactions to implement the recommendations agreed on by the Board.
5. Evaluate Investment Manager Performance - The Board is responsible for the on-going monitoring of the performance of the investment manager(s) against agreed benchmarks and against the Endowment Investment Policy. The Board shall meet with the Investment Manager(s) at least annually to review the performance of the managers and establish the basis for the Board's decision to continue or discontinue the Investment Manager's services.
6. The Board may notify and dismiss the Investment Manager at our discretion at any time.

#### **Investment Manager**

1. Review the Board policy and goals and provide recommendations for meeting them.
2. Notify the Board's Finance committee of any significant changes, or potential changes, to the Foundation holdings that jeopardize the principle or require recognition and prompt action.
3. Process transactions to implement recommendations agreed to by the Board.
4. Provide quarterly and annual reports of fund performance and revised recommendations.
5. Make changes necessary to rebalance the portfolio to align with the Board's asset allocation and recommendations agreed to by the Board.
6. Review of shareholder meeting proposals and voting of proxies – The Investment Manager will review shareholder meeting proposals and advise the Board of any changes that will significantly affect the asset performance or character. The Investment Manager will be instructed to vote proxies in line with the recommendations of the management of the portfolio company unless the Investment manager has communicated to the Board serious concerns and is instructed by the Board to do otherwise.

#### **Fund Custodian**

1. Provide brokerage and investment fund administration services.
2. Execute transactions as directed by the Investment Manager or the Board.
3. Provide monthly and annual reports on the account balances and transactions for the funds

### **4. Audits**

Our records will be examined and audited as specified by our by-laws.



## **IV. Suitable and Authorized Investments**

### **1. Investment Types**

Assets will be allowed as considered to be appropriate to the prudent person classification.

### **2. Investment Restrictions and Prohibited Transactions**

To provide for the safety and liquidity of the Foundation’s funds, the investment portfolio will be subject to the following restrictions:

- a. Borrowing for investment purposes (“leverage”) is prohibited.
- b. Our portfolio will not contain funds where it is not completely evident what the assets and risks are for the investment components, e.g. Collateralized Debt Obligations (CDOs) or Credit Default Swaps (CDS). The Board and the Investment Manager must understand the risks and what the fund contains.
- c. Hedge funds

## **V. Investment Parameters**

### **1. Diversification**

The investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed by the Board.

### **2. Liquidity**

To the extent possible, the Foundation will attempt to match its planned spending to expected investment income and growth. Because of inherent difficulties in accurately forecasting investment returns, a portion of the portfolio should be invested in funds to ensure that appropriate liquidity is maintained to meet the Board Spending Policy objectives.

### **3. Asset Allocation**

The general policy shall be to diversify investments within both equity and fixed income securities to provide a balance that will enhance total return while avoiding undue risk from concentration in any single asset class or investment style. Given the long term time horizon of the Endowment, equity investments will normally comprise 50-75% of the total Endowment and fixed income investments will normally comprise 25-50% of the total Endowment, unless otherwise directed by the Board. Given the potential for higher long term return and the diversifying attribute of international equities that will tend to lower the volatility of the total portfolio, international equities may comprise a portion of the Endowment. It is intended that the endowment be fully invested to the extent possible; cash in the portfolio should be transitory and kept to a minimum. Managers may maintain some cash balances if they feel the market environment dictates, but significant cash balances must be justified.

The Asset Allocation Guidelines are:

	Range
<b>Total Equities</b>	<b>50-75%</b>
<b>Total Fixed Income</b>	<b>25-50%</b>



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**Equities**

The Investment Policy permits holding U.S. domestic and international equities in the form of common or preferred publicly traded stocks. The Investment Manager will use its discretion in determining the allocation of domestic equities among growth stocks and value stocks and large cap, midcap, and small cap stocks. Domestic and international equity investments may also include exchange traded funds (“ETFs”) and mutual funds.

At the time of purchase, no more than 5% of the equity portion of the Endowment’s assets may be invested in any one company and no more than 20% of the Endowment’s assets may be invested in any one industry sector. REITs may be included in the Endowment as equity substitutes if invested through a well diversified commingled pool and comprise no more than 10% of the total Endowment. Variations to the percentage limitations noted in this paragraph through post-purchase growth will be permitted with rebalancing to occur at least once a year.

**Fixed Income Investments**

The fixed income portion of the Endowment shall be primarily invested in investment grade bonds or bond funds including U.S. corporate bonds, convertible bonds or U.S. government securities. The average credit rating of the fixed income portfolio should be BBB or better.

At the time of purchase, no more than 5% of the fixed income portion of the Endowment’s assets may be invested in any one company and no more than 20% of the Endowment’s assets may be invested in any one industry sector. These constraints do not apply to U.S. Government securities. Variations to the percentage limitations noted in this paragraph through post-purchase growth will be permitted with rebalancing to occur at least once a year.

**Cash and Cash Equivalents**

To the extent that the Endowment is invested in cash or cash equivalents, these should be invested in U.S. Treasury securities, commercial paper rated A-1 or P-1, or money market securities issued by institutions rated AA or higher, or pooled funds with demonstrably high quality credit standards and proven track record of superior performance over time.



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## **VI. Reporting**

The Investment Manager shall prepare and provide to the Foundation an annual and quarterly investment reports, including a management summary that provides an analysis of the status of the investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow the Foundation to ascertain whether investment activities during the reporting period have conformed to the investment policy. Investment income will be reported by the various funds based on their respective performance and in accordance with generally accepted accounting principles.

Their quarterly report shall include information on portfolio concentration by security, industry, Growth and Value, and international securities, average duration of the fixed income portfolios and portfolio volatility. Portfolio turnover and overall expense ratio of the portfolio should be reported at least annually.

The report will include the following which could be provided by the fund custodian:

- a. Listing of individual securities held and current market value at the end of the reporting period;
- b. Market value deviation from previous reporting period, and year-to-date;
- c. Percentage of the total portfolio that each type of investment represents;
- d. Yield calculated on at YTD and since purchase basis;
- e. Fund gain or loss on at YTD and since purchase basis.

Investment managers and their performance shall be measured over periods of the most recent 12, 24, 36, and 60 months and compared to the S&P 500 Index for the U.S. Domestic Equity portfolio, the MSCI EAFE Index for the International Equity portfolio, and the Lehman Aggregate index for the Fixed Income portfolio.

## **VII. Adoption**

This policy shall be adopted by resolution of the Foundation's Board of directors. The Foundation's finance committee shall review the policy annually and recommended changes will be presented to the Board of directors for consideration.