Blue Mountain Community Foundation
Policy Manual

Investment Policy Statement

1. Foreword

The Blue Mountain Community Foundation was established in 1984 to accept gifts from individuals, families, estates, businesses, and others that desire to support the Blue Mountain area, specifically the counties of Walla Walla, Umatilla, Garfield and Columbia. The mission of the organization is to connect people, charitable causes, and community needs.

2. Purpose of Investment Policy

The intent of this Investment Policy is to establish a philosophy that will effectively guide the Trustees, Investment Committee, staff, and Investment Managers toward achieving the objectives of Blue Mountain Community Foundation. These objectives will be sufficiently specific to be meaningful, yet flexible.

3. Definitions

"Board" means the Board of Trustees of the Foundation.

"Custodian" means a designated bank or other financial institution that keeps custody of the financial securities.

"Endowed funds" means Funds that the Foundation is required to manage for perpetuity. The perpetuity requirement comes from the donor who created the Fund and is contained in the Fund Agreement that created the Fund.

"Fiduciary" means any individual or group of individuals that exercise discretionary authority or control over Foundation management or any authority or control over management disposition or administration of the Foundation's assets.

"Foundation" or "BMCF" means the Blue Mountain Community Foundation.

"Fund" means an account on the Foundation's books for which the revenue, expenses, assets, and liabilities are accounted for separately from the Foundation's other Funds. Funds are usually created under the terms of a Fund Agreement that is executed by the Foundation and a donor or nonprofit organization.

"Investment Committee" or "Committee" means the committee established by the Foundation's Board of Trustees to implement the duties contained in this Policy.

"Investment horizon" means the time period over which investment objectives, as set forth in this statement, are expected to be met.

"Investment Manager" means any company, or the representatives of any company, hired to manage all or part of the Foundation's investments.

"Long-term" or "perpetuity" means forever.

"Non-endowed funds" means Funds that the Foundation is not required or not allowed to manage for perpetuity. Some examples of non-endowed Funds: Funds that act as operating reserves for other nonprofits; Funds that collect money for capital projects;

Funds that the Foundation is required, or allowed, to spend down to zero within a certain time frame.

"Policy" means this Investment Policy Statement.

"Securities" means the investment securities that are defined as acceptable in this Investment Policy Statement.

4. Investment Objectives

The Foundation's primary investment objective is to maximize the long-term return on the assets in its endowed funds so that it can maximize over the long-term the amount of grants, scholarships, and other assistance that the Foundation is providing to the community. Expressed in a more quantitative fashion, the Foundation's primary investment objective is to obtain performance returns over the long-term for the assets in its endowed funds that are in the top quartile of performance returns obtained by organizations with a similar asset size included in NACUBO. This primary investment objective applies to the performance of assets managed using the asset allocations prescribed by the Foundation's long-term pool and ESG/SRI pool.

Notwithstanding this primary investment objective, the Foundation shall have the flexibility to implement the desires of the donors and nonprofits who place money with the Foundation, or the desires of the general community as represented by the Board of Trustees, (the "Stakeholders") even if those desires impinge to some degree on the realization of the primary objective. For example, the Foundation may make use of impact investing opportunities if such opportunities are desired by the Stakeholders. Additionally, under the Foundation's Investment Partner Program, the Foundation may employ new Investment Managers requested by individual donors or nonprofits and maintain the relationship with those Managers even if the Managers underperform.

The Foundation may create multiple investment pools as a strategy for simultaneously fulfilling the primary investment objective and Stakeholder desires. For example, the Foundation can have a long-term aggressively invested portfolio that is focused solely on the primary investment objective and one or more other pools that are focused more on fulfilling Stakeholder desires.

The primary investment objective for the assets in non-endowed funds may focus more on risk avoidance than return maximization as deemed appropriate for each fund. The assets in some non-endowed funds will be invested in the long-term pool along with the assets of endowed funds so as to seek maximum returns for those non-endowed funds. While the assets of some non-endowed funds will be invested in the short-term pool or in an FDIC-insured account in order to focus on preserving the principal in those funds.

5. Spending Rate

The Foundation must strive to preserve the real purchasing power of the principal in the Foundation's endowed investments. Accordingly, the Board of Directors will annually review and potentially change the current spending rate of the Foundation as that rate is expressed in the Foundation's Spending Policy.

The goal is to set a spending rate that will, over the long-term, allow the Foundation's endowed investments to grow at the rate of inflation. Specifically, then, the spending rate should consider the following equation with "X" being the spending rate: X = Average Annual Return - Investment Management Fees - BMCF Admin Fees - Inflation.

6. Investment Committee

A. Appointment; Qualifications

The Board has the sole authority to appoint members of the Investment Committee. Members of the Investment Committee shall serve for a term that is determined by the Board, if any. Members of the Investment Committee may be removed by the Board with or without cause. The Committee shall have a minimum of six members and shall include amongst its membership some members with expertise or experience with investment management, investment committees, or related fields.

The Foundation's Bylaws contain the following provisions that govern the Investment Committee:

> Section 5.1. The Board of Trustees may provide candidates to serve as committee members or provide criteria for identification of candidates. Committees shall consist of individuals who reside in the Foundation's service area, as described above, and who are generally representative of the varied elements or organizations in the communities served by the Foundation and who represent a broad cross-section of the views and interests of such communities. Committee members are to be selected for knowledge of the educational, cultural, civic, moral, public and charitable needs of the communities served by the Foundation. No committee member shall receive any compensation. All Committee members who hold office, are employed or are affiliated with other organizations are to act in furtherance of the goals and mission of the Foundation and not as representatives or delegates of their own or any other organization, interest or group. The Executive Committee shall select members to fill Committee appointments to be submitted to the Board of Trustees for ratification and formal appointment.

Section 5.5. The Board of Trustees may designate an Investment Committee, at least one of the members of which shall be a Trustee of the Board of Trustees and the rest community members at large, to serve at the pleasure of the Board. The Investment Committee shall implement the over-all Investment Policy and asset allocation approved by the Board of Trustees. The Investment Committee shall develop procedures for the selection of custodians and agents to serve as trustees, fiscal agents or custodians for the Foundation for the investment and reinvestment of Foundations and for the safekeeping of securities and other property, subject to approval by the Board of Trustees of alternate investment manager, advisor, custodians or agents as requested by donors, trustor or testator. It shall develop procedures and practices for the carrying out of the Foundation's relationship with its custodians and agents, shall monitor the performance thereof and make recommendations and reports to the Board of Trustees on these matters.

If there is a conflict between this Policy and the Bylaws, the Bylaws shall control.

B. Fiduciary Duties

The Board of Trustees of BMCF expects the Investment Committee members to discharge their responsibilities in accordance with accepted fiduciary standards, which require that they act in the sole interest of the Foundation, its beneficiaries, and donors and with the care, skill, prudence, and diligence under the circumstances that a prudent person acting in a like capacity and familiar with such matters would use in similar circumstances. These responsibilities are in keeping with the Uniform Management of Institutional Funds Act of Washington (UPMIFA).

C. Specific Investment Committee Responsibilities

a. Understand the Foundation’s financial needs and communicate such needs to the Investment Manager.

b. Regularly review this Policy (at least annually) and recommend to the Board for approval any amendments to this Policy or any other policies related to Foundation investments.

c. Monitor the Foundation’s investment performance and projected future performance and provide guidance at least annually to the Board on whether the Board should maintain or change the Foundation’s Spending Policy.

d. Advertise, interview, and recommend to the Executive Committee for approval the selection and/or change of any Investment Managers. Every 5 – 7 years the Committee will thoroughly review the performance of current Investment Managers. If a current Manager (who was not hired under the Investment Partner Program) has not obtained the performance objectives stated in this Policy, the Committee may undertake a process to explore hiring a different Investment Manager.

e. Regularly evaluate the performance of Investment Managers to assure adherence to this Policy and to monitor investment performance.

f. Develop and enact proper control procedures (e.g., replace Investment Manager due to fundamental change in investment management process or failure to comply with established guidelines).

g. Exercise the duties, if any, specified in the Foundation's Gift Acceptance Policy for the Investment Committee, such as recommending whether to receive, retain, or sell unusual gifts described in the Gift Acceptance Policy.

h. Work closely with the Foundation's CEO as needed to complete the duties listed above. The CEO is the main staff liaison to and support for the Committee. The CEO is also the main liaison between the Committee and the Board. The CEO is responsible for working with the Investment Managers as needed between Investment Committee meetings to manage the Foundation's relationship with the Investment Managers.

7. Investment Manager

A. Delegation of Authority

The Investment Committee is authorized and expected to delegate certain responsibilities to professional experts and entities. These include, but are not limited to:

a. <u>Investment Manager</u> – An Investment Manager is responsible for implementing the investment strategies expressed in this Policy within the limitations contained in this Policy to meet the objectives of the Policy. The Investment Manager may utilize a wide range of traditional and alternative offerings that may not be available to the average investor.

b. <u>Custodian</u> – The custodian will maintain possession of securities owned by the Foundation, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian will also perform regular accounting of all assets owned, purchased or sold, as well as movement of assets into and out of Foundation accounts.

B. Specific Responsibilities of an Investment Manager

a. Discretionary investment management, including decisions to buy, sell or hold individual securities and to alter asset allocations within the guidelines established in this Policy.

b. Reporting monthly investment performance results on a timely basis.

c. Providing quarterly updates to the Investment Committee either in person or via a written report as directed by the Investment Committee.

d. Communicating any major changes to the economic outlook, investment strategy, or any factors that affect implementation of the investment process or objective of the Foundation's investment management.

e. Voting proxies on behalf of the Foundation.

8. Additional Investment Objectives, Philosophies, and Types

A. Investment Horizon

The investment horizon for the Foundation's endowed assets is perpetuity.

B. Measuring Performance

The Foundation shall measure success towards meeting its investment objectives in the following manners.

a. Comparison in all quarterly investment reports of the Foundation's returns to one or more relevant indexes, including a blended benchmark representative of the Foundation's allocation. Benchmarks are discussed in more detail farther below.

b. Comparison on an annual basis of the Foundation's returns to the returns of a wide cross-section of other institutional endowments in the United States.

c. Review of items A. and B. over the course of a complete market cycle that is normally expected to be a 5 to 10-year period.

C. 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 Foundation will annually provide the Investment Manager with an estimate of expected net cash flow, budget, or confirmation of spending rate. Notification will be made to the Investment Manager in a timely manner to allow sufficient time to build up necessary liquid reserves.

D. Investment Philosophy and Process

Successful long-term investing requires a disciplined process. The Foundation desires a process that is dedicated to managing investment risk while positioning the portfolio to achieve performance objectives.

The portfolio should be designed, constructed, and managed considering various kinds of risk. These risks include but are not limited to the potential for principal loss, short-term price volatility, liquidity risk, the loss of purchasing power due to inflation, event risk (such as unforeseen changes in the tax code and/or legal regulations), and exchange rate risk. While the portfolio design is purposefully constructed to manage these risks, it is understood that there are no guarantees about future investment results or market conditions.

Investments will be allocated to income-producing investments, such as traditional and non-traditional fixed income and real estate, and traditional or non-traditional equities for growth potential. The target portfolio breakdown is provided in the Target Allocations provided further down in this Policy. The rationale for investing in each asset class is listed below.

E. Fixed Income Allocation

The Investment Committee has elected to invest a portion of the fixed income allocation in taxable bonds, which include domestic, international, high yield and emerging market fixed income. Alternative fixed income opportunities may also be included as a way to diversify the sources of risk and increase the return potential.

a. Intermediate and Long – Duration Bonds

It is expected that at least two-thirds of all fixed income investments will normally be invested in domestic corporate, treasury, and government agency bonds of intermediate to long duration, with an average maturity that maximizes return while protecting the investment. The duration range may vary in length upon the recommendation of the Foundation investment manager. A majority of fixed income securities should be of high quality (B+ or better).

b. Short Duration Bonds

The Foundation portfolio, monies in transition, monies expressly restricted by the donor, low interest rate economic environment and other assets generally, as may from time to time be considered prudent by professional management, may be invested in high – quality (B+ or better) domestic government or domestic / international developed corporate bonds with a maturity of 1-5 years.

c. Lower Quality Debt Instruments

In order to generate return and income in a low interest rate environment the Foundation permits the inclusion of below investment grade debt (High Yield) or Emerging Market Debt. No more than 20% of below investment grade corporate debt securities, mutual funds or ETF's may be permitted in the portfolio. Below investment grade is defined as securities of B+ rated or lower.

A portion of the portfolio will be held in cash equivalent instruments. While the Investment Committee expects this position to deliver long-term results that trail other investments, short-term volatility should be minor.

F. The Equity Allocation

Public equities have historically delivered long-term investment performance that exceeds inflation. However, public U.S. and foreign equity returns can be volatile-especially in the short-term-and result in temporary principal loss. The investment approach should strive to keep the portfolio risk and return profile in-line with the performance benchmark and deliver market-based long-term investment results.

G. Private Equity Allocation

Private equity has historically provided higher return opportunities relative to traditional asset classes. However, this greater return potential is accompanied with additional risk, including the risk of principal loss. Furthermore, private equity typically employs leverage and is considered to be an illiquid asset class. Private equity investments typically require a multi-year holding period; there is no formal market for interim liquidity. Therefore, prior to allocating assets to private equity the Investment Committee will ensure that the Foundation has sufficient liquidity within other parts of the portfolio to meet expected and unexpected cash flow requirements.

H. The Real Estate Allocation

A portion of the managed portfolio may also be invested into private real estate. This asset class will not only guarantee cash-flow, it also provides the opportunity for capital appreciation over the life of the investment. If historical asset class relationships continue in the future, real estate should also serve to diversify portfolio risk.

As with other illiquid investments sufficient liquidity will be maintained within other parts of the portfolio to meet expected or unexpected cash flow.

I. The Alternative Allocation

A portion of the managed portfolio may also be invested into alternative investment strategies. These alternative strategies, may or may not include shorting of securities or the use of leverage. Alternative investments may include commodity, absolute return, and long/short hedge strategies.

J. Asset Allocation and Diversification Guidelines

Rebalancing the portfolio to the target asset allocation reduces the volatility of return over long periods of time and may slightly increase long-term return. Rebalancing introduces a discipline that forces the Investment Manager to sell high and buy low. There are five triggers that will be considered for rebalancing the portfolio to the target allocation: 1) when new cash is introduced, 2) when any sector of the portfolio is outside the target allocation by 10% or more, 3) annually when the cash reserves for the following year are built, 4) if an individual equity is held in the portfolio and represents more than 10% of the overall portfolio value, and 5) a change in tactical or strategic asset allocation targets.

9. Different Investment Pools

In order to simultaneously strive to obtain the primary investment objective, fulfill Stakeholder desires, and provide appropriate investment options for non-endowed assets, the Foundation will maintain investment pools with different time horizons as well as risk and return profiles.

1. **Long – Term Pool** – Designed to maintain a long – term time horizon seeking to maximize return.
   a. Long – term in nature.
   b. Seeks to maximize return for BMCF.
   c. Diversified by risk and return sources.
   d. Designed for perpetuity time horizon.

2. **Short – Term Pool** – Designed to maintain a short – term time horizon seeking to minimize risk and preserve principal while obtaining a return that is better than a bank money market or savings account.
   a. Short – Term in nature.
   b. Seeks to preserve principal and minimize risk for BMCF.
   c. Designed for less than 2-year time horizon.

3. **Socially Responsible or ESG Pool** – As an addition to the Long – Term, Medium – Term, and Short – Term Pools, the Socially Responsible Investment (SRI) Pool is designed to offer to donors a diversified pool of SRI Solutions.

Discretion is given to the Investment Manager to consider companies that emphasize Environment, Social, and Governance criteria. Environmental criteria look at how a company performs as a steward of the natural environment. Social criteria examine how a company manages relationships with its employees, suppliers, customers and communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder's rights. These criteria refer to sustainable, responsible, and impact investing or socially responsible investing. Outside of this specific pool, SRI criteria should only be an investment consideration for investing and should not be an investment mandate to the Investment Manager unless the Investment Committee directs otherwise.

10. Policy Benchmarks

The Foundation utilizes a Target Weighted Benchmark for comparison. The Target Weighted Benchmark is a static benchmark reflecting current planned allocation of the Foundation. The target weighted benchmarks seek to measure performance at the asset class level and help measure individual manager performance and the impact of asset allocation shifts in market cap, style, region, etc. Indexes used to compose the target weighted benchmarks are listed in Section 11.

Benchmarks are goals and, during certain times within a market cycle, may be difficult to achieve. Benchmarks are reasonably achievable by each investment manager but do not necessarily trigger a change in Investment Manager when unmet. In contrast, if these benchmarks are unmet over a market cycle (5-10 years), such as median or below median performance, they will trigger a review of the Investment Manager.

11. Requirements for Establishing a Donor- or Nonprofit-Requested Investment Pool

If a donor or nonprofit requests it, it is permissible for the Foundation to establish a new investment pool specifically for the donor or nonprofit's fund, outside of the pools outlined in this Investment Policy Statement. These funds will be managed under their own Investment Policy Statement within their own account.

The minimum amount placed into the fund must be $500,000. Funds that drop below this amount for a three-year period will be moved into one of the Foundation's main pools.

12. Target Allocation, Benchmarks and Allowable Ranges

LONG – TERM POOL

Asset Class	Target Wt.	Min. Wt.	Max Wt.	Benchmark
Equities	**75%**	**55%**	**95%**	100% MSCI ACWI Index
Large Cap Equity		15%	70%	S&P 500 Index
Mid Cap Equity		5%	20%	S&P Mid-Cap 400 Index
Small Cap Equity		5%	20%	Russell 2000 Value Index
International Equity		5%	35%	MSCI EAFE Index
Emerging Markets Equity		2%	35%	MSCI EM Market Index
Fixed Income	**15%**	**5%**	**25%**	Barclays Cap Inter. Gov't Credit

				Barclay's Aggregate Index
Alternative Investments	**10%**	**0%**	**30%**	HFRX Global Hedge Fund Index
				UBS Bloom. Commodity Index
Real Estate	**0%**	**0%**	**10%**	Lipper Global R/E Fund Index
Cash/Cash Equivalents	**0%**	**0%**	**10%**	Lipper Money Market Index

ESG / SRI POOL

Asset Class	Target Wt.	Min. Wt.	Max Wt.	Benchmark
Equities	**75%**	**55%**	**95%**	100% MSCI ACWI Index
Large Cap Equity		15%	70%	S&P 500 Index
Mid Cap Equity		5%	20%	S&P Mid-Cap 400 Index
Small Cap Equity		5%	20%	Russell 2000 Value Index
International Equity		5%	35%	MSCI EAFE Index
Emerging Markets Equity		2%	35%	MSCI EM Market Index
Fixed Income	**15%**	**5%**	**25%**	Barclays Cap Inter. Gov't Credit
				Barclay's Aggregate Index
Alternative Investments	**10%**	**0%**	**30%**	HFRX Global Hedge Fund Index
				UBS Bloom. Commodity Index
Real Estate	**0%**	**0%**	**10%**	Lipper Global R/E Fund Index
Cash/Cash Equivalents	**0%**	**0%**	**10%**	Lipper Money Market Index

*SHORT-TERM POOL

Short – Term Pool asset classes and ranges may vary depending on the investment time horizon of the funds.

Asset Class	Target Wt.	Min. Wt.	Max Wt.	Benchmark
Equities	**20%**	**5%**	**30%**	100% MSCI ACWI Index
Large Cap Equity		5%	30%	S&P 500 Index
Mid Cap Equity		2%	10%	S&P Mid-Cap 400 Index
Small Cap Equity		2%	10%	Russell 2000 Value Index
International Equity		5%	20%	MSCI EAFE Index
Emerging Markets Equity		2%	10%	MSCI EM Market Index
Fixed Income (Short Duration)	**60%**	**30%**	**80%**	Barclay's Short Gov't Credit Index
Cash / Cash Equivalents	**20%**	**5%**	**30%**	Lipper Money Market Index

13. Amendment of Investment Policy Statement

The Foundation's Board of Trustees may amend this Policy as it desires. The Investment Committee shall review this Policy at least annually and forward to the Board of Trustees any amendments that the Investment Committee wishes to recommend.

Amendment History:
Amended: July 21, 2021
Amended: September 18, 2018
Amended: September 16, 2003
Adopted: May 21, 2002