**BOYS & GIRLS CLUBS OF CHAFFEE COUNTY**

**Investments and Reserves Policy**

**I Purpose, Background and Overview of Policy**

The purpose of this Investments and Reserves Policy (Policy) of the Boys and Girls Clubs of Chaffee County (BGCCC) is to establish an Investment Committee (Committee) and to outline the framework for the BGCCC’s Board of Directors (Board) to follow in overseeing the investment of monetary resources.

The Policy describes six categories of holdings or portfolios (Funds), each with a differing time horizon and investment strategy that impacts how each shall be invested. The purpose of BGCCC’s various investment Funds is to ensure the organization’s long-range financial stability to continue to serve our community by offering a broad range of youth services.

This Policy provides written documentation of policies, practices, and procedures for making investment selections; sets a clear framework to ensure continuity during staff, Board, and Committee member turnover; and provides a standard in supervising, evaluating, and monitoring the investments in a method consistent with the objectives of the Funds.

The Committee, as fiduciaries under all applicable laws, oversees investments of all Funds and recommends to the Board for approval an asset allocation to be maintained that is consistent with the BGCCC’s objectives and policies and in accordance with the duties and responsibilities set forth herein.

On May 26, 2016, the Board voted to establish a board-designated endowment (quasi-endowment) and initially designated $40,000 of assets for this purpose. Subsequently, the board-designated balance has been increased by the annual operating surplus, less any other reserves deemed necessary by the Board. The Board approved a Resolution on Endowment on June 18, 2018 and an initial $2,000 in donor restricted funds was accepted. This Policy supersedes previous policies as listed in section XVII, Approval and Revision History. The donor restricted and board-designated amounts are managed as one Fund (the Endowment).

**II Objectives**

Funds are managed on a total return basis, consistent with all applicable laws. The general management objectives for the BGCCC are outlined in the following table:

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| --- | --- | --- | --- | --- |
| **Fund & Time Horizon** | **Definition and Management Objective** | **Balance to Maintain** | **Allowable Investments** | **Allowable Spending** |
| **Current Operations**  *Short term / current liquidity* | Cash flow for ongoing operations. | 60 days forecasted net cash outlay. | FDIC insured accounts:   * Business checking account * Savings or sweep account * Money market account | Disbursements to meet daily cash requirements of operations (pay employees and vendors on time) and make minor investments in facilities. |
| **Operating Reserves**  *Perpetual reserve adjusted annually; investments should be liquid or have inconsequential risk of loss in the event of liquidation prior to maturity* | Cash flow for operations in the event of emergencies and/or unexpected financial situations. Amounts may be invested beyond one year, weighing incremental rate of returns and potential losses for failure to hold investment to maturity if the need arises to liquidate. | Balance should be maintained equal to six months of the operating expense budget, less any non-cash expenses (eg. depreciation, in-kind). | FDIC insured accounts:   * Bank savings account * Money market account * Certificates of Deposit   US Treasury Instruments | Can be spent in the event of emergencies and/or unexpected events, losses of income and large unbudgeted expenses. Intended to solve temporary problems, not to cover long-term or systemic income shortfalls that, rather, would require new revenue sources or a reduction of operating expenses. |
| **Capital or Building Fund**  *Perpetual reserve adjusted annually; time horizon varies with planned spending* | Funds (restricted or board-designated) to be available when needed for planned spending associated with BGCCC’s facilities. | 50% of the average 10-year capital improvement plan to ensure critical projects have funding to proceed.  In addition, subcategories may be established for major one-time acquisitions or construction projects. | FDIC insured accounts:   * Business checking account * Savings or sweep account * Money market account * Certificates of Deposit   US Treasury Instruments | Can be spent on capital expenditures for building acquisition or construction, improvements, furnishings, debt service and other ancillary costs directly associated with club facilities and is generally approved in the annual budget. |
| **Scholarship Fund**  *Time horizon will vary depending upon the balance remaining in this Fund and the active scholarships awarded* | Capital preservation and liquidity as needed to pay scholarships awarded in accordance with the donor Memorandum of Understanding or other specific donor instruction. | No requirement; balance equals undisbursed restricted funds. | FDIC insured accounts:   * Business checking account * Savings or sweep account * Money market account * Certificates of Deposit | Initiated with donor restricted funds received in 2019, this money is scheduled for disbursement to each recipient of a four-year educational scholarship. |
| **Endowment**  **(Donor-restricted and Board-designated Quasi-Endowment**  **managed as one Fund)**  *Long term time horizon to be maintained in perpetuity* | A perpetual fund intended to generate a supplemental source of income to support operations and capital needs beyond what is possible through its annual operating budget. | Goal is to maintain a balance equal to two times the annual operating budget. | FDIC insured accounts:   * Savings account * Money market account * Certificates of Deposit   US Treasury Instruments  Publicly traded mutual funds, ETFs  Other assets (by specific approval by the Board) | Allowable annual spending is 4% of the Fund’s average fair market value as of the prior three BGCCC fiscal year ends.  Distributions are limited to the following purposes:   * Capital needs * Program support * Seed money to develop new projects and programs * Special one-time projects * Other purposes specifically designated by donors |
| **Other Unrestricted / Undesignated Reserves**  *No Time Horizon Defined* | Funds held in excess of requirements for established operations, operating reserves and other specific purposes. | No required balance. | Any investments allowable under this Policy | No generally defined restrictions; however, the Board may designate certain allowable spending. |

**III Time Horizon**

The investment time horizon should match the purpose of each Fund. Short-term liquidity requirements are to be communicated by the Board to the Committee and by the Committee to an investment advisor, if applicable.

**IV Risk Tolerances**

The Board and Committee recognize and acknowledge some risk must be assumed in order to achieve the investment objectives of the portfolio, and that there are uncertainties and complexities associated with investment markets. In establishing the risk tolerances for BGCCC, each Fund’s ability to withstand short and intermediate term volatility will be considered.

Given the BGCCC’s long time horizon for the Endowment, interim fluctuations in market value and rates of return should be expected in order to achieve the longer-term objectives.

**V Duties and Responsibilities**

**Board of Directors**

The Board is responsible for overseeing the prudent management of assets received from all sources. The Board has created a Committee of volunteers who have investment experience to advise and recommend to the Board a plan to achieve the BGCCC's investment goals.

In order for the Committee to carry out its responsibilities, the Board is responsible for engaging in the process to make investments best suited for BGCCC. Such duties include:

1. Nominate and approve, by a majority vote of the Board, members of the Committee
2. Update the Committee of the following:
   * Changes in the time horizon and risk tolerance for investing each Fund
   * Projected cash needs
   * Financial forecasts
   * Other significant operational changes that could materially affect investment decisions
3. Approve the asset allocation of invested funds on an annual basis.

**Investment Committee**

The Committee is comprised of five to seven members including the Chair of the Finance Committee. The remaining members are to be individuals possessing experience in managing an investment portfolio and may or may not be members of the Board. Committee members serve three-year terms and may be re-nominated and approved for unlimited successive terms. A chairperson is selected by the full membership of the Committee. A secretary and other officers may be selected by the Committee as deemed necessary. Meeting minutes are to be maintained.

In accordance with the original Resolution on Endowment, the Committee will meet at least two times a year. A quorum is defined as a majority of the members. The affirmative vote of a quorum is necessary to carry any motion.

Duties and activities of the Committee are as follows:

1. Prepare and maintain this Policy.
2. Solicit input from the Board regarding time horizon and risk tolerance affecting the investment of Funds.
3. Develop and present an asset allocation plan for approval by the Board on an annual basis.
4. If services of investment advisors are deemed appropriate, prudently select such advisors and communicate asset allocation decisions, liquidity requirements, etc.
5. Monitor and supervise all service vendors and investment advisors.
6. Assist BGCCC staff with investment accounting, record keeping and/or administrative questions, as needed.
7. Execute trades and rebalancing within Funds.
8. Avoid prohibited transactions and conflicts of interest.
9. Meet with the Finance Committee at least once per year.
10. Provide a report to the Board at least two times per year during the regularly scheduled meetings in February and August unless otherwise scheduled with Board approval.
11. Present a complete report on the administration of the Endowment and other Funds at least once each year at a Board meeting. Reporting will include a copy of the asset allocation plan and an account review detailing investment performance and Fund value. The reports shall reflect compliance with the objective, policies and asset allocations set forth herein.
12. Provide the Board with the amount of projected funds available from the Endowment for the next year’s budget.

The Committee may select outside investment managers or investment advisors to be approved by the Board and/or contract for an independent investment performance analysis from a third party with the approval of the Board authorizing payment and compensation for such an analysis.

**Custodian**

Custodians are responsible for the safekeeping of the BGCCC’s assets. The specific duties and responsibilities of the custodian are:

1. Value the holdings.
2. Collect all income and dividends owed to the BGCCC.
3. Settle all transactions (buy-sell orders).
4. Provide monthly reports that detail transactions, cash flows, securities held and their current value, change in value of each security since the last report and the overall Fund balance.

**Investment Advisor**

The investment advisor serves as an objective, third-party professional retained to manage the overall investment process. The advisor is responsible for implementing a disciplined and rigorous investment process and to aid the Committee in fulfilling their fiduciary responsibilities outlined above.

**VI Asset Allocation**

Long-term investment performance is primarily a function of asset allocation (i.e. distributing investments across a range of asset classes). Historically, while interest-generating investments, such as bonds, have the advantage of relative stability of principal value, they provide less opportunity for real long-term capital growth when adjusted due to their susceptibility to inflation. On the other hand, equity investments, such as common stocks, clearly have a significantly higher expected return but have the disadvantage of much greater year-by-year variability of return.

Based on the BGCCC Board’s tolerance for risk, time horizon, and spending needs, a specific asset allocation, that also includes investment subclasses, is recommended annually by the Committee to the Board for their approval that is best suited to meet BGCCC’s objectives. The annual asset allocation will be documented in meeting minutes of the Board. The allowable annual asset allocation will fall within the following ranges.

Once fully invested the acceptable target ranges of each fund are defined below:

|  |  |  |  |
| --- | --- | --- | --- |
| **Fund** | **Cash & Cash Equivalents** | **Fixed Income** | **Equities** |
| **Current Operations** | 100% | 0% | 0% |
| **Operating Reserves** | 20% to 100% | 0% to 80% | 0% |
| **Capital or Building** | 10% to 100% | 20% to 80% | 0% |
| **Scholarship Fund** | 0% to 100% | 0% to 100% | 0% |
| **Endowment** | 4% to 10% | 40% to 60% | 40% to 60% |
| **Other** | 0% to 100% | 0% to 100% | 40% to 80% |

**VII Permitted Sub-Asset Classes**

The following asset sub-classes are permitted:

|  |  |
| --- | --- |
| **Asset Class** | **Sub-Asset Class** |
| Fixed Income | U.S. Treasuries |
| U.S. Agency |
| Investment-Grade Corporate Bonds |
| Global Bonds Ex-U.S. |
| Equity | U.S. Large Cap Blend |
| U.S. Mid-Cap Blend |
| U.S. Small-Cap Blend |
| Developed International |
| Emerging Markets |
| Specialty Real Estate |

**VIII Prohibited Transaction and Security Types**

Prohibited transactions and security types include, but are not limited to the following:

* Private Placement Offerings
* Non-publicly traded securities or other closely held interests
* Individual Securities
* Preferred Stock
* Margin Transactions
* Short Sales
* Commodities
* Hedge Funds
* Derivatives
* Crypto Currencies

The list of prohibited transactions is not intended to preclude the acceptance of donations accepted by the Board in accordance with BGCCC’s Gift Acceptance Policy.

**IX Rebalancing**

The Committee seeks to rebalance investments no less than annually as market conditions and BGCCC’s needs change. If the Funds shift outside the approved annual asset allocation, the Committee is not obligated to rebalance more often than annually; the Funds may drop below or exceed the ranges in the asset allocation table above temporarily.

**X** **Implementation**

A strategy of dollar-cost averaging over a time period of three to 12 months shall generally be used to purchase non-fixed income investments of 10% or more of the Fund balance. Specific timing shall be recommended by the Committee and included in the asset allocation presented to the Board for approval.

The Committee will consider the following due diligence criteria in selecting each asset manager, exchange-traded fund, or mutual fund.

* 1. Regulatory oversight: Each investment should be managed by: (i) a bank; (ii) an insurance company; (iii) a registered investment company (mutual fund); or, (iiii) a registered investment adviser.
  2. Correlation to style, benchmark or peer group: The investment option should be highly correlated to the asset class being implemented. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the investment to the appropriate benchmark.
  3. Performance relative to a benchmark: The investment’s performance should be evaluated against the benchmark or peer group’s median manager return, for 1-, 3-, and 5-year cumulative periods.
  4. Performance relative to assumed risk: The investment option’s risk-adjusted performance (Alpha and/or Sharpe Ratio) should be evaluated against the benchmark or peer group’s median manager’s risk-adjusted performance.
  5. Minimum track record: The investment option should have 3 years or more of history so that performance statistics can be properly calculated.
  6. Fund size: Mutual funds and Exchange-Traded Funds (ETFs) should hold at least $75 million of assets under management to (1) help ensure a healthy number of potential trading counterparties, and (2) signal broader acceptance of the fund by the investing community.
  7. Trade Volume & Bid/Ask Spread: Look for high trade volume and small bid/ask spreads in mutual funds and ETFs as indicators of liquidity, thereby making it easier to trade in and out of the fund and do so in a more cost-efficient way.
  8. Holdings consistent with style: The underlying securities of the investment option should be consistent with the associated broad asset class. At least 80% of the underlying securities should be consistent with the broad asset class. For example, a Large-Cap Blend mutual fund or ETF should not hold more than 20% in cash, fixed income and/or international securities.
  9. Expense ratios/fees: The investment option’s fees should be fair and reasonable. Fees should not be in the bottom quartile (most expensive) of the peer group.
  10. Stability of the organization: There should be no perceived organizational problems at the asset management company. The mutual fund or ETF management team should be in place for at least two years at the time of purchase.

**XI Monitoring Performance Objectives**

Fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Recognizing that short-term fluctuations may cause variations in performance, the Committee members intend to evaluate Fund investment performance from a long-term perspective.

The Committee members are aware the ongoing review and analysis of the investment options is just as important as the due diligence process. The performance of the investment options will be monitored on an ongoing basis. On a timely basis, but not less than semi-annually, the Committee will meet to review whether each investment continues to conform to the search criteria outlined in the Implementation section; specifically:

1. The investment’s adherence to the due diligence criteria;
2. Material changes in the investment’s organization, investment philosophy and/or personnel; and,
3. Any legal, SEC and/or other regulatory agency proceedings affecting the investment option’s organization.

**XII Benchmarks**

Performance objectives will be established for each investment. Manager performance will be evaluated in terms of an appropriate market index (e.g. the S&P 500 stock index for large-cap domestic equity manager) and the relevant peer group (e.g. the large-cap blend mutual funds universe for a large-cap blend mutual fund).

**Peer Group Index**

Domestic Bond Barclays Aggregate

Global Bond Ex-US MSCI Global Bond

Large Cap S&P 500 TR

Int’l Developed MSCI World Ex US NR USD

Emerging Mrkt Eq MSCI Emerging

Mid-Cap Blend S&P MidCap 400 TR

Small Cap Blend Russell 2000 TR

Specialty-Real Estate DJ Wilshire REIT

**XIII Spending Policy**

**Allowable Spending**

The responsibility for the spending policy resides with the Board. The approvable spending definition or rate formula is included in the table in Section II of this Policy and is designed to provide a relatively predictable stream of revenues specific to the purpose of each Fund.

The Committee will consider whether the established spending rate is appropriate for each Fund and will make adjustments as necessary based on the particular circumstances.

**Fund Borrowings**

No borrowings shall be permitted.

**XIV Measuring Costs**

The Committee will review at least annually all costs associated with the management of the funds, including:

1. Expense ratios of each mutual fund against the appropriate peer group.
2. Administrative fees, costs to administer accounts, including record keeping, custody and trust services.
3. The proper identification and accounting of all parties receiving soft dollars and/or 12b-1 fees generated by the portfolio.

**XV Conflict of Interest**

If any member of the Board, Committee, Finance Committee, Staff or the investment advisor shall have, or appear to have, a conflict of interest that impairs or appears to impair the respective member’s ability to exercise independent and unbiased judgment in the good faith discharge of his or her duties, he or she shall disclose such conflicts prior to meaningful discussion. All parties must also comply with any other conflicts of interest policies.

**XVI Policy Review**

The Board will review this Policy at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the Policy will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the Policy.

**XVII Approval and Revision History**

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| **Version** | **Date Approved** | **Reason for Action** |
| Investment Policy | 10/30/2007 | New policy adopted |
| Revision 1 | 2/7/2008 | Not documented |
| Revision 2 | 6/19/2018 | Annual re-approval |
| Resolution on Endowment | 6/19/2018 | Included in new Investments and Reserve Policy |
| Policies and Guidelines for Endowment Investment | 6/19/2018 | This was a new policy adopted by the Board |
| Rewrite of Reserves and Investment Policy | 3/30/2021 | Above policies combined. General Investment Committee created. Updates to Investment Policy due to creation of Endowment in 2018, six-month operating reserve adopted by Board in 2019 & Scholarship Fund created in 2020. |
| Revision 1 (of rewritten policy) | 1/31/23 | Expanded membership of Investment Committee to “five to seven” members (rather than five) and updated the language regarding a quorum accordingly. |
| Rewrite and addition of IPS | 1/xx/24 | Entire policy re-written using a sample Investment Policy Statement and retaining history and definitions specific to BGCCC |
|  |  |  |