

# ANN ARBOR ROTARY ENDOWMENT INVESTMENT POLICY STATEMENT

## PROCESS & OBJECTIVES:

1. The purpose of this Endowment is to provide annual distributions which support the “service above self” philosophy of Rotary. Current policy is that the distribution amounts to 4.25% of the Permanent Endowment’s market value. This distribution is based on a twenty quarter rolling average using the market values at the end of each quarter. Use of this twenty quarter rolling average, instead of a current market value, insulates the Permanent Endowment distributions from temporary market swings.
2. The Club’s fiscal year ends June 30. To support the budgeting process for the new fiscal year beginning July 1, the annual distribution is calculated beginning with the March 31 quarter end value. This calculation is to be completed by the Endowment Treasurer and provided to the President and/or President elect for inclusion in the next fiscal year’s budget.
3. The disbursement policy and decision-making about allocation of funds disbursed to support worthy organizations and their missions are vested in the Board of Directors of the Rotary Club of Ann Arbor, subject to annual review and affirmation by that Board.
4. The long-term investment strategy of the Endowment is to preserve & protect the original value of the principal, while also allowing for growth of the principal in real dollars. Assuming an inflation rate of 3% and an annual distribution rate of 4.25%, the minimum investment total return should approximate 7.25%. This objective, by definition, implies an asset allocation that is weighted toward equities in order to allow the Permanent Endowment to meet the 4.25% distribution and provide for inflation-adjusted growth over the long term.
5. The Endowment Trustees will utilize the following five asset classes listed below as the “benchmark” for measurement of investment performance results within each of the minor asset classes; Large cap stocks, Small cap stocks etc.
  - Large capitalization equity (S&P 500)
  - Small/Mid capitalization equity (DJ US Completion Index
    - Mid capitalization equity (S&P 400 Mid Cap Index)
    - Small capitalization equity (Russell 2000)
  - International equity (MSCI EAFE)
  - Fixed Income (Barclays Capital Aggregate Bond)
6. In keeping with the goal of a long-term investment strategy for the total portfolio, as defined in #4, emphasis will be placed on long term investment performance results for the entire portfolio; i.e. rolling 3, 5, and 10 year performance. As such performance for the total portfolio will be compared against a benchmark of 50% Russell 3000, 30% MSCI EAFE, 5% MSCI Emerging Markets, and 15% Barclays Aggregate Bond Index. Prior to December 31, 2013, the benchmark utilized was 85% MSCI World Stock Index and 15% Barclays Aggregate Bond Index.
7. Beginning in 2009, the Endowment Trustees purchased custodial, record keeping and performance measurement services from a local financial institution. At some point in the future, depending on resources available, the Endowment Trustees may need to purchase certain additional services that are currently provided, without charge, by Trustees serving as Investment Sub-committee members.

## **POLICIES:**

1. Use only mutual funds or exchange traded funds for investment management. The criteria for selection and retention of mutual funds utilized in the management of the endowments funds follows:

Mutual funds utilized by the Ann Arbor Rotary Endowment will be selected and retained based upon their adherence to their stated objective and investment style as well as their performance over multiple time periods versus peer benchmarks. In selecting and recommending a mutual fund for addition to the Endowment Fund, the Endowment Committee will consider the following criteria:

### **SELECTION GUIDELINES**

- a) The fund needs to have at least 5 years of performance history; longer is preferable.
- b) Management tenure should be 3 years or since inception, whichever is lesser.
- c) The manager needs to adhere to its investment style consistently as measured by the Morningstar Universe.
- d) Investment performance should be in the top 50% of their peer group for 70% of the annual time periods measured as provided by the Morningstar Universe.
- e) The fund's annualized return should rank in the top 33%ile in the 1, 3, 5, and 10 year periods.
- f) Expense ratios should be below average relative to their peer group.
- g) A Category Risk rating that is average or below average relative to its peer group as provided by the Morningstar Universe.
- h) Derivatives can be used within the fund, but it still must adhere to the Category Risk Rating requirements.
- i) Other factors to consider when comparing funds will be that fund's Alpha, Beta, and R-Squared relative to the "Best Fit" Index.

### **RETENTION**

- a) Every fund that is currently being utilized by the Rotary Endowment should be evaluated by the Endowment Committee at least every six months based on the criteria established above. Failure to meet any of these criteria will not automatically be cause for sale from the portfolio. Rather, the Committee will need to evaluate the importance of each of these violations with respect to the other criteria and make a determination as to continued sale or continued retention.
2. If individual issue securities are donated in-kind to Endowment, they will be sold as soon as administratively feasible. Acceptance of other investments, i.e., Real Estate, closely-held business interests, etc. are covered by a separate Ann Arbor Rotary Endowment "Gift Acceptance" Policy.
  3. Maintain prudent diversification between asset classes and within asset classes. Equity exposure should include a balance of core, value, and growth disciplines. Fixed income exposure should also include a balance of indexed exposure as well as actively managed funds, with a focus (but not a limitation) on high quality.
  4. The Investment Sub-committee meets and reports performance quarterly to the Board of Trustees, making any recommendations for rebalancing the portfolio at that time.
  5. Rebalancing may occur when actual versus target allocations vary by 5%, and should occur when asset class range limits have been reached or exceeded.
  6. Indexed Funds' investment objectives are defined by benchmark indexes (S&P 500, etc.) given in the Objectives section above.

7. Index Funds or Exchange Traded Funds may be utilized for specific style exposure (“growth” or “value”) within an asset class, but shall not reduce Minimum Indexed allocations specified in the Asset Allocation Guidelines (see below).
8. The number of “actively managed” funds within an asset class should not exceed four funds.
9. Morningstar’s “style box” data will be utilized for Asset Class and Style classifications analysis purposes.
10. Changes to this INVESTMENT POLICY STATEMENT must be ratified by 75% of Ann Arbor Rotary Endowment Board of Trustees (currently 10 out of 13 Trustees) and affirmed by the Board of Directors of the Ann Arbor Rotary Club.

	<u>Asset Allocation Guidelines</u>		Indexed Minimum
	Range	Target	
<b>Equities</b>			
<b>Large Capitalization</b>	<b>30 -- 40%</b>	<b>35%</b>	<b>15%</b>
<b>Small /Mid Capitalization</b>	<b>10 -- 20%</b>	<b>15%</b>	<b>6%</b>
<b>International</b>	<b>30 -- 40%</b>	<b>35%</b>	<b>14%</b>
<b>Fixed Income</b>			
<b>Domestic Bonds</b>	<b>5 -- 15%</b>	<b>10%</b>	<b>5%</b>
<b>International Bonds</b>	<b>0 -- 10%</b>	<b>5%</b>	
<b>Cash</b>	<b>0 -- 5%</b>	<b><u>0%</u></b>	<b><u>0%</u></b>
<b>TOTALS</b>		<b>100.0%</b>	<b>40%</b>