KNOX COUNTY
FOUNDATION

Investment Policy

1. Guiding Principles

The Knox County Foundation ("Foundation") is a public charitable organization created to improve the quality of life for residents of Knox County now and for generations to come. Through the establishment of donor and organization funds, whether permanently endowed or fully accessible, the Foundation's invested assets are a vital source of grants to organizations throughout Knox County, scholarships for the benefit of Knox County residents, as well as necessary operational support for the Foundation. The Foundation seeks to preserve invested capital while achieving long-term growth to allow the Foundation to respond to the needs and opportunities presented by all communities within Knox County.

The preservation and growth of the invested assets held by the Foundation, factoring in both inflation and spending requirements, is critical to the success of Knox County. For these reasons, the pursuit of prudent investment management is a guiding principle of the Foundation.

2. Investment Objectives

The primary measure of success for the Foundation's investment objectives is preserving capital and earning a long-term real return, adjusting for inflation, without assuming undue portfolio risk. Investment theory and historical capital market return data suggest that, over long periods of time, there is a correlation between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (volatility of return) is associated with higher returns. Given this relationship between risk and return, a fundamental step in determining the investment policy for the Foundation is the determination of appropriate risk tolerance. Notwithstanding guidelines and objectives, the portfolio should be managed as an endowment fund with an indefinite life with a focus on maintaining principal.

The long-term investment objective is to achieve a positive real return on investments over the majority of rolling five and ten year periods *without taking on undue investment risk*. A real return is any return in excess of the spending policy, inflation and fees.

Achieving better than benchmark returns in any given period is not the primary investment objective. While this may serve as one tool to measure and evaluate managers, meeting the stated long-term investment objective while balancing risk and volatility is the primary goal.

3. Investment Responsibilities

The Board of Directors. The Board of Directors' role is to approve the investment policy and the membership ~~in~~ <u>of</u> the investment committee. Responsibility for implementing the policies and monitoring performance is delegated to the Investment Committee.

The Investment Committee. The Investment Committee is responsible for working with the Foundation staff and the Investment Managers to achieve the Investment Objectives. This includes monitoring asset allocation guidelines, recommending any appropriate changes to the Board of Directors, and ensuring compliance with all approved investment strategy and guidelines. The Investment Committee will also review investment performance on a consolidated and individual basis for every Investment Manager. This will include quarterly reviews of actual investment results compared to benchmarks for each relevant asset class. The

Investment Committee will evaluate performance over multiple periods including quarterly, year-to-date, and other extended time horizons as deemed appropriate.

The Investment Committee shall also review the Investment Policy at least annually to determine if circumstances exist that result in components of the Policy being ineffective or inappropriate. Any recommended changes to the Investment Policy must be approved by the Foundation's Board of Directors.

Each Investment Committee meeting will be summarized and presented to the full board by a representative of the Investment Committee. Presented information may include investment manager performance, significant holdings, or any other relevant information the Board of Directors may determine necessary.

The composition of the Investment Committee may include board members and other community volunteers with knowledge of investment and financial matters. The Investment Committee must have at least four members and a majority of the members must be board members.

Foundation Staff. The Foundation Staff, primarily the Finance Director, is responsible for assisting the Investment Committee to meet its responsibilities. The Foundation Staff shall provide all information and reporting necessary to ensure that the current investment approach is aligned with investment policy. This includes:

- Monitoring portfolios on a consolidated, investment manager and pool-level basis to ensure conformance with investment policy on a regular basis;
- Periodic reporting to the Investment Committee and Board of Directors as required;
- Maintaining adequate documentation of all on-going monitoring of all investments;
- Advising Investment Managers of the timing and amount of anticipated cash needs in a timely manner;
- Serving as a liaison between the Investment Committee and Investment Managers to facilitate communication and reporting.

Investment Manager. The Investment Manager is directly responsible for managing the Foundation's investment portfolio(s) consistent with the approved Investment Policy. Subject to the broad investment policies outlined in this document, the Investment Manager has discretionary responsibility for day-to-day investment functions including security selection, buy/sell decisions, liquidity measures, and market diversification. The Investment Manager will physically maintain possession of securities owned by the Foundation, collect dividend, interest and other income payments, and other functions consistent with this relationship.

The Investment Manager must annually disclose all fees received associated with the Foundation account including advisory fees, account and transaction fees, and mutual fund fees including front-end and back-end loads. In addition, an Investment manager must have sufficient fidelity bond coverage and/or fiduciary or other insurance that would protect the interest of the Foundation in the event of a breach of fiduciary duty. All Investment Managers must complete the Investment Policy Acknowledgement form annually stating their intention to follow the Investment Policy guidelines. Any Investment Committee approved exception(s) to the Investment Policy specific to an Investment Manager will be noted on the Acknowledgement form.

Donors may request their fund assets be fully, or partially invested with any Foundation-approved Investment Manager of their choosing. However, the Foundation, as the legal owner of all invested assets, reserves the right to approve any request as well as move any assets between Investment Managers regardless of where assets were previously held or prior requests made by the donor. Absent any donor requests, the Investment Committee will determine the appropriate Investment Manager for all donated assets based upon all relevant factors including but not limited to historical performance, fee considerations, as well as Investment Manager and investment diversification.

Donors may also request their associated fund assets to be managed by an Investment Manager that has not yet been appointed by the Foundation. Any requested Investment Manager must be appointed by the Investment Committee through the approval process described in the Investment Policy prior to managing any funds.

Investment Manager Approval Process. The Investment Manager Approval Process shall be initiated solely based on the discretion of the Investment Committee. Unless an exception is approved by the Investment Committee, no Investment Manager can be appointed until they would have at least $250,000 in Foundation assets under management. This asset threshold of $250,000 does not ensure that an Investment Manager will be appointed. Instead, it represents a minimum starting point where the Investment Committee may initiate the approval process.

When considering establishing a relationship with a new Investment Manager, the Investment Committee should consider the following:

- *Reputation*. The Investment Manager's reputation in the community reflects upon the image of the Foundation and should be strongly considered. Any Investment Manager under consideration must disclose any litigation or enforcement actions that have been initiated against the firm or its investment professionals.
- *Experience & Historical Performance*. Factors including the tenure of the firm, relevant experience of individual advisors expected to provide investment services to the Foundation, institutional support and guidance, total assets under management by the firm, overall investment philosophy and relevant investment return performance for a similarly allocated portfolio. The expected stability of both the Investment Manager entity as well as the individuals associated with the entity should be reflected in this consideration.
- *Location & Availability*. While an investment manager does not need to be physically located in the community, it is expected they are able to attend Investment Committee meetings when requested as well as be accessible to both the Foundation and donor.
- *Donor Recruitment & Growth*. Investment Managers are a critical recruitment tool for new donors to the Foundation. The extent of an Investment Manager's client base, in terms of number of clients and asset base, in addition to their willingness to advocate for the Foundation should be considered in the approval process.
- *Reasonable Fee Structure*. A fee structure that is comparable to other Investment Managers for similar types and size of accounts employed by the Foundation and/or consistent with industry standards.
- *Information Systems*. Sufficient access to timely reporting of investment activity, including monthly reporting and real-time on-line access is critical to the operations of the Foundation.
- *Investment Policy Compliance*. Any proposed Investment Manager must have the required knowledge and experience to comply with the Investment Policy. This includes the ability and willingness to comply with restrictions regarding allowable investments, asset mix, diversification, liquidity, market risk and volatility.

Removal of Investment Manager. There may be circumstances which dictate reason to remove an Investment Manager. The following are general guidelines which may give reason to remove an Investment Manager:

- Failure to comply with any relevant provision of the Investment Policy;
- Underperformance compared to key relevant benchmarks on returns and risk or other Investment Managers, with an emphasis on long-term (five year or more) time periods;
- Significant qualitative changes to the investment management organization that would be considered when selecting an Investment Manager.

Each Investment Manager shall be reviewed ongoing in regards to performance, personnel, strategy, research capabilities, and other qualitative factors that may impact its ability to achieve the desired investment results. If the Investment Manager has failed to adhere to one or more of the above conditions, it is reasonable to presume a lack of adherence going forward. Considerable judgement must be exercised in the removal decision process and the decision to remove an Investment Manager will be handled on an individual basis.

If an Investment Manager is removed, it is the sole discretion of the Investment Committee where the assets held by the removed Investment Manager are to be transferred. In making this decision, the Investment Committee may consider donor recommendations but is not bound by such requests.

Fiduciary Duty. Each member of the Investment Committee, Foundation Staff, and Investment Manager(s) shall discharge his or her investment duties in good faith, in a manner reasonably believed to be in the best interests of the Foundation, and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

Members of the Investment Committee, Foundation Staff, and Investment Manager(s) must provide full and fair disclosure to the Investment Committee of all material facts regarding any potential conflicts of interest.

4. **Investment Guidelines**

Investment Strategy. The Foundation understands the long-term nature of endowment funds and believes investing in assets with higher return expectations outweighs short-term volatility and liquidity risks. Accordingly, the Investment Committee has chosen a moderate risk profile with a primary emphasis to strike a balance between portfolio stability and portfolio appreciation.

To achieve sufficient returns consistent with current spending policy, fees and desired real growth, the majority of real assets will be invested in equity or equity-like securities. Fixed income will be used to lower short-term volatility while cash and equivalents will be maintained to ensure sufficient liquidity for short-term obligations. Diversification of assets will be employed to avoid undue risk concentration and enhance total return over time. Diversification will be considered from both a consolidated and individual investment manager basis.

The Foundation may employ a segregated investment pool designated for short-term purposes not subject to the identified investment strategy focused on long-term growth. This short-term pool, designed for community fund-raising projects and similar purposes where funds will be held for a limited time, will not be subjected to equity markets with higher risk and volatility. To minimize the risk of market loss, assets in this pool will be held in short-term, interest bearing investments including money market funds and similar assets.

Asset Allocation. Investments will be constructed and maintained to provide prudent diversification on both a consolidated and Investment Manager – level basis. The Foundation's asset allocation by asset class and relevant investment holding guidelines is provided in Appendix A which shall be reviewed annually and separately amended as determined necessary by the Investment Committee.

Scenarios may exist where the Foundation or donors may request specific asset allocations that deviate from the asset allocation model provided in Appendix A. The Investment Committee will consider whether to grant these requests on a case-by-case basis. For the Investment Committee to approve a waiver from the standard asset allocation model, the investment holdings associated with the fund or donor must be segregated into a standalone investment pool. Any deviation from Appendix A must be first approved by the Investment Committee, regardless of any requests that may be made by a donor associated with that portfolio.

Investment Managers are expected to review their managed portfolios on a regular, timely basis to verify compliance with the investment policy. If an inadvertent or intentional deviation occurs, the Investment Manager shall inform the Investment Committee as soon as possible. The Investment Committee will recommend any actions to be taken after reviewing the circumstances. These actions may include no action required, direction to sell or rebalance in an orderly manner, or direction to sell or rebalance immediately.

Performance and Benchmarks. Investment returns, as well as compliance to the Investment Policy, by the Investment Manager(s) will be reviewed quarterly by the Investment Committee. Every Investment Manager shall meet with the Investment Committee as directed to discuss these issues. This process will include:

- Benchmarking investment performance to appropriate market indices. Relevant benchmarks will be selected as appropriate by the Investment Committee based upon the Investment Manager's asset allocation, market risk assumption, and other relevant factors. Each Investment Manager shall provide actual historic returns of the investment portfolios over relevant time periods.
- Compliance to asset allocation, allowable investment holdings, and adherence to the Investment Policy.
- Continuity of personnel and practices of the Investment Manager.

At times, the Investment Committee may elect to invest in certain alternative investments to be held in the portfolio of the Investment Manager. An Investment Manager will not be responsible for the performance of these holdings nor with they be responsible for any direct compliance issues with the Investment Policy that may result from this decision of the Investment Committee.

5. Supporting Organizations

Supporting Organizations of the Foundation are separate entities that operate with Boards and policies that may differ from the Foundation's approved policies. Supporting Organizations may be able to include their investments under agreements and contracts made between the Foundation and Investment Managers. A supporting organization may also elect to adopt the Foundation's Investment Policy or they may choose to establish a separate Investment Policy specific to that organization.

Supporting Organizations of the Foundation shall be assumed to desire adherence to the Foundation Investment Policy if the Supporting Organization places reliance on the Foundation Investment Committee to monitor its investment portfolio. Unlike component funds of the Foundation, investments associated with a Supporting Organization will be maintained in a separate portfolio, under that entity's name and identifying number.

A Supporting Organization's Board of Directors may request the Investment Committee to alter the current Investment Policy to reflect the investment goals of the Supporting Organization. It is within the full discretion of the Investment Committee to agree to monitor the investment portfolio of the Supporting Organization, whether the Investment Policy has been altered or not. The Investment Committee is not responsible for the performance return of the Supporting Organization's portfolio or the actions of the Investment Manager(s) associated with that portfolio.

6. Charitable Remainder Trusts

Charitable Remainder Trusts are separate entities where the Foundation has been named the remainder beneficiary. Under terms of these Charitable Trusts, the Foundation may be named as the Trustee. As a Trustee, the Foundation has a fiduciary responsibility to invest, protect and manage the trust funds.

The investment strategy for Charitable Trusts will generally differ from the Foundation Investment Policy as the investment goal is to ensure steady or growing income payments to current beneficiaries while also maintaining or growing the trust capital for charitable purposes when the trust ends. Based on the terms of the Charitable Trust, including the distribution rate and expected life of the trust, the asset allocation may require an asset allocation more heavily weighted towards equity instruments.

Accordingly, any investment portfolio associated with a Charitable Trust is not subjected to the adopted Investment Policy for the Foundation. The Investment Committee will annually monitor the investment strategy utilized by the Investment Manager for reasonableness. This will include determining the effectiveness of the asset allocation and related investment holdings to meet goals regarding the stability and growth of beneficiary distributions and remainder trust capital.

Approved by KCF Investment Committee: June 3, 2020
Approved by KCF Board: June 10, 2020

KNOX COUNTY FOUNDATION

Appendix A

Asset Allocation:

Asset Class:	Target Allocation	Minimum	Maximum
Equity Holdings:			
U.S. Large Cap	50%	40%	60%
U.S. Small & Mid Cap	10%	5%	20%
International	10%	0%	15%
Equity Holdings (Total)	70%	60%	80%
Fixed Income Holdings	25%	20%	40%
Alternative Investments	N/A	0%	15%
Cash & Equivalents	5%	0%	10%

Equity Investment Guidelines:

Equity holdings may only include marketable securities that can be easily traded in a recognized financial market. Acquisition of non-marketable securities may not occur without prior written approval from the Investment Committee. Non-marketable securities may be accepted by the Foundation through donation with approval of the Investment Committee.

Investment Managers are responsible for determining whether donated securities, and similar holdings, are appropriate and consistent with the investment policy. The decision to retain, or sell, a donated asset that otherwise qualifies as an allowable holding per the investment policy, remains with the Investment Manager.

Investments in the equities of any one company may not exceed more than 5% of the assets under an Investment Manager's supervision without approval of the Investment Committee. It is expected that the Investment Manager will periodically review the underlying mutual fund and ETF portfolio to avoid such a scenario where the holdings of one company exceed this threshold. An Investment Manager with a portfolio value that makes the 5% limitation impractical may request a higher ceiling to allow for direct investments in specific holdings through the annual Investment Policy and Exception acknowledgement process.

Investment Managers may not engage in short-selling, option trading, hedging, financial futures or other specialized investment activity without prior written approval from the Investment Committee. The Investment Manager shall avoid purchasing mutual funds that as their primary investment strategy utilize any of the above activities.

Fixed Income Guidelines:

Fixed income securities should primarily be of a quality rating of "A" or better (as measured by Moody's and/or Standard & Poor's). If a security has different ratings between the two sources, the lower rating shall apply. Investments outside of the referenced quality rating securities may not occur without prior written approval from the Investment Committee. At no time may investments in high-yield, low investment grade securities exceed 10% of the total fixed income portfolio.

To minimize interest rate risk, purchased bonds should have maturities of 10 years or less. Adequate diversification across the individual holdings should be maintained with no more than ~~10%~~ 5% of the fixed income portfolio in the securities of one issuer. U.S. government guaranteed issues and its agencies are excluded from this limitation.

Alternative Guidelines:

Alternative investments may be utilized at the sole discretion of the Investment Committee for the purpose of managing risk, achieving desired asset allocation, or enhancing investment returns. Any acquisition of alternative investments may not occur without prior written approval from the Investment Committee. Alternative investments may include, but are not limited to, real estate investment trusts (REITs), private equity and debt strategies, private non-marketable partnerships and alternative mutual funds and exchange traded funds.

Cash & Equivalents Guidelines:

Investments in this category generally include assets with maturity dates that are typically three months or less. Cash equivalent investments may include, but are not limited to, money market funds, short-term certificates of deposit, commercial paper and instruments issued by the U.S. government and its agencies. Investment Managers should review certificates of deposit to ensure holdings are below federally insured limits. Commercial paper issued by domestic corporations should be rated consistent with requirements for fixed income securities.