

# Martha & Mary Health Services Investment Policy

(Approval Date – 10/30/2014; **Revision Approval March 28, 2019**)

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## *INTRODUCTION*

This Investment Policy Statement (IPS) defines the investment policy, guidelines and performance objectives applicable to the investment assets of Martha & Mary Health Services in accordance with the standards of care and prudence outlined in the Washington State Uniform Prudent Management of Institutional Funds Act (UPMIFA). The purpose of this document is threefold. First, it will constitute the plan for investing assets, collectively referred to herein as the “Funds”. Second, it will serve as a communications tool between the Finance Committee (the “Committee”) and the **Consultants**. Third, these guidelines will provide a framework to measure the ongoing progress of the investment(s).

### *Philosophy:*

Martha & Mary Health Services have a moderate to long term investment horizon, ~~and allocate its assets~~ **it concurrently needs the ability to access its investment assets for short-term liquidity needs, and its assets need to be allocated** accordingly. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the investment performance.

The assets will be managed on a total return basis. While Martha & Mary recognizes the importance of preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.

### *Uniform Prudent Management of Institutional Funds Act (UPMIFA)*

The Board of Martha & Mary Health Services recognizes that the precepts of fiduciary stewardship and oversight of investment management outlined by UPMIFA is a useful framework for helping guide the Board in process and decision-making.

UPMIFA states that persons responsible for managing and investing charitable assets must act “in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances”. (See Addendum A)

### *A. Asset Allocation Policy*

1. The Committee recognizes that the strategic allocation of Funds across broadly defined financial asset and sub asset categories with varying degrees of risk, return, and return correlation will be the most significant determinant of long-term investment returns and Funds value stability.

2. The Committee expects that actual returns and return volatility may vary from expectations and return objectives across short periods of time. While the Committee wishes to retain flexibility with respect to making periodic changes to the Fund's asset allocation, it expects to do so only in the event of material changes to the Fund, to the assumptions underlying Fund spending policies, and/or to the capital markets and asset classes in which the Funds are invested.
3. Fund assets will be managed as balanced portfolios composed of equities, fixed income, real assets, and cash. A portion of each portfolio may be allocated to "flexible strategies" to be managed by the ~~Investment Manager~~ Portfolio manager. The expected role of equity investments will be to maximize the long-term real growth of portfolio, while the role of fixed income investments will be to generate current income, provide for more stable periodic returns, and provide some protection against a prolonged decline in the market value of Fund equity investments. Real assets, because of their relatively low correlation with financial assets, are well-suited for inflationary times as they tend to outperform financial assets during such periods. Cash investments will be used for liquidity needs or to facilitate a planned program of dollar cost averaging into investments in either or both of the equity and fixed income asset classes.
4. Each account will have a target asset allocation based on the goal, time horizon and risk tolerance defined by the Committee.

#### *B. Diversification Policy*

Diversification across and within asset classes is the primary means by which the Committee expects the Funds to avoid undue risk of large losses over long time periods. To protect the Funds against unfavorable outcomes within an asset class due to the assumption of large risks, the Committee will take reasonable precautions to avoid excessive investment concentrations.

The Committee may move all or part of the assets into FDIC insured deposits, or collateralized deposits supported by liquid, high-quality US Government and Agency bonds (e.g. overnight repurchase agreements, true money market accounts, etc.) as warranted, to ensure sufficient liquidity for the operational needs of Martha & Mary Children's Services. Specifically, the following guidelines will be in place:

1. With the exception of fixed income investments explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of total Funds assets.
2. With the exception of passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single investment pool or mutual fund shall comprise more than 20% of total Funds assets.
3. With respect to fixed income investments, for individual bonds, the minimum average credit quality of these investments shall be high investment grade of a nationally recognized statistical rating agency (NRSRO), i.e. (Standard & Poor's AA-, or Moody's Aa3, Fitch AA- or higher or other NRSRO equivalent).

### *C. Rebalancing*

It is expected that the Funds' actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset and sub asset classes. The Funds will be rebalanced to its target asset allocation based on defined asset class drift thresholds for each portfolio under the following procedures:

1. The Advisor will use incoming cash flow (contributions) or outgoing money movements (disbursements) of the Funds to realign the current weightings closer to the target weightings for the Funds.
2. The ~~Advisor~~ investment manager will review each account quarterly to identify those accounts which have exceeded the established drift parameters. When an asset class drifts outside of a predetermined band around its target weight, the portfolio is rebalanced back to the target weight. Accounts whose allocations are within acceptable asset class ranges will continue to be monitored.
3. The ~~Advisor~~ investment manager may provide a rebalancing recommendation at any time.
4. The ~~Advisor~~ investment manager shall act within a reasonable period of time to evaluate deviation from these ranges.

### *D. Other Investment Policies*

Unless expressly authorized by the Committee, the ~~Advisor and~~ Funds and its investment managers are prohibited from:

1. Purchasing securities on margin or executing short sales.
2. Pledging or hypothecating securities, except for loans of securities that are fully collateralized.
3. Purchasing or selling derivative securities for speculation or leverage.
4. Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected, given the objectives of their Funds.

### *E. Monitoring Funds' Investments and Performance*

The Committee will monitor the Funds' investment performance against the Funds' stated investment objectives. At a frequency to be decided by the Committee, it will formally assess the Funds and the performance of its underlying investments. ~~as follows: The Advisor or other consultants selected by the Committee may assist the board in selecting and evaluation investment managers, evaluation investment managers, evaluation investment performance and establishing frequency of reports to the Committee.~~

1. ~~The Funds' composite investment performance (net of fees) will be judged against the following standards:~~
  - a. ~~The Funds' absolute long-term real return objective.~~

- ~~b. A composite benchmark consisting of unmanaged market indexes weighted according to the expected target asset allocations using the appropriate benchmark for each manager stipulated by the Funds' investment guidelines.~~
- ~~2. The performance of professional investment managers hired on behalf of the Funds will be judged against the following standards:~~
  - ~~a. A market based index appropriately selected or tailored to the manager's agreed upon investment objective and the normal investment characteristics of the manager's Funds.~~
  - ~~b. The performance of other investment managers having similar investment objectives.~~
- ~~3. In keeping with the Funds' overall long term financial objective, the Committee will evaluate Funds and manager performance over a suitably long term investment horizon, generally across full market cycles or, at a minimum, on a rolling five year basis.~~
- ~~4. Investment reports shall be provided by the Advisor on a (calendar) quarterly basis or as more frequently requested by the Committee. The Investment Advisor is expected to be available to meet with the Committee once per year to review Funds structure, strategy, and investment performance.~~

*Aggregate Fund Allocation Guidelines:*

The aggregate asset allocation target range and minimum and maximum guidelines are attached in Addendum B

*F. Investment Management Selection*

Investment managers (including mutual funds, separate account managers and limited partnership sponsors) shall be chosen using the following criteria:

1. Costs relative to other funds with like objectives and investment styles.
2. The manager's adherence to investment style and size objectives.
3. Size of the proposed fund, internal; expense ratio and portfolio turnover length of time the fund/manager has been in existence and length of time it has been under the direction of the current managers(s) and whether or not there have been material changes in the manager's organization and personnel.
4. Costs relative to other funds with like objectives and investment styles.
5. The manager's adherence to investment style and size objectives.
6. The historic volatility and downside risk of each proposed investment.
7. How well each proposed investment complements other assets in the portfolio.
8. The current economic environment.
9. The likelihood of future investment success, relative to other opportunities.

## *G. DUTIES AND RESPONSIBILITIES*

### *The Advisor*

The Advisor is a Registered Investment Advisor and shall act as the investment advisor to the Investment Committee until the Investment Committee decides otherwise. Advisor shall be responsible for:

1. Assisting in the development and periodic review of investment policy.
2. Designing and implementing an appropriate asset allocation plan consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this statement.
3. Identify specific assets and investment managers within each asset category
4. Providing “due diligence”, or research, on the Investment Manager(s)
5. Monitoring the performance of all selected assets the advisor consults to.
6. Recommending changes to this investment policy statement.
7. Periodically reviewing the suitability of the investments for the Committee.
8. Being available to meet with the Committee at least twice each year.
9. Being available ~~at such other times within reason at the Committee's request to meet~~ with the Investment Committee at least twice each year.
10. Provide monthly statements and quarterly performance reports.
11. Have discretion to implement the investment plan within the guidelines of the investment policy statement.

### *The Finance Committee*

The Finance Committee shall be responsible for:

1. The oversight of the Portfolio and Investment Policy Statement.
2. Defining the investment objectives and policies of the Portfolio.
3. Notifying Advisor of changes to the Investment Policy Statement and to oversee and to approve or disapprove Advisor's recommendations with regards to policy, guidelines, and objectives on a timely basis.
4. Providing Advisor with all relevant information on the organization's goals, objectives, financial condition and risk tolerances and shall notify Advisor promptly of any changes to this information.

### *The Third Party Investment Manager(s)*

Each Investment Manager will have full discretion to make all investment decisions for assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.

2. Communicating any major changes to economic outlook, investment strategy, or any other factors, which affect implementation of investment process, or the investment objective progress of the Fund's investment management.
3. Informing the Advisor regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment policy, etc.
4. Voting proxies, if requested by the Committee, on behalf of Martha & Mary Children's Services.

#### *H. BOARD DESIGNATED FUNDS*

The Board may reserve funds for future projects and growth at their discretion. If done, those funds may be separated from the other investments under this policy in a separate account.

#### *Addendum A UPMIFA*

UPMIFA requires a charity and those who manage and invest its funds to:

1. Give primary consideration to donor intent as expressed in a gift instrument,
2. Act in good faith, with the care an ordinarily prudent person would exercise,
3. Incur only reasonable costs in investing and managing charitable funds,
4. Make a reasonable effort to verify relevant facts,
5. Make decisions about each asset in the context of the portfolio of investments, as part of an overall investment strategy,
6. Diversify investments unless due to special circumstances, the purposes of the fund are better served without diversification,
7. Dispose of unsuitable assets, and
8. In general, develop an investment strategy appropriate for the fund and the charity.

Thus, UPMIFA strengthens the rules governing management and investment decision making by charities and provides more guidance for those who manage and invest the funds.

#### *Addendum B Aggregate Fund Asset Allocation Guidelines*

| <u>Asset Class</u>   | <u>Minimum</u>     | <u>Maximum</u>     | <u>Preferred</u>   |
|----------------------|--------------------|--------------------|--------------------|
| Equities             | 25%                | 45%                | 35%                |
| Fixed Income         | <del>40%</del> 20% | 60%                | <del>50%</del> 45% |
| Cash and Equivalents | 5%                 | <del>25%</del> 50% | <del>15%</del> 20% |