

# Statement of Investment Policy for Tidewater Council of the Boy Scouts of America Endowment Trust

## Executive Summary

- The Directors of the Tidewater Council of the Boy Scouts of America (*the “Board”*) is ultimately responsible for the stewardship of the Endowment Trust (the “Endowment”). The Board acts upon the recommendations of the Investment Committee (*the “Committee”*).
- The Committee is responsible for developing Policy Asset Allocation, permissible asset classes, and the acceptable level of risk for the Endowment.
- The Committee is further charged with selecting and superintending the specific managers of the Endowment’s assets.
- The long-term Objective of the Endowment is to achieve a total return equal to or in excess of the Council’s financial requirements over the Time Horizon. Specifically, the Objective is to earn a total rate of return that will meet or exceed the sum of the Council’s spending rate, anticipated inflation, investment and administrative costs, and a growth factor.
- The Committee may engage an external Investment Consultant to assist in the determination of investment strategy, selection of investment managers, and the monitoring of the Endowment’s financial performance.
- Investment Managers are required to demonstrate acceptable performance and volatility of returns. Managers are required to follow guidelines or restrictions that are established between the managers and the Committee.

## INTRODUCTION AND PURPOSE

The intent of this Statement is to articulate an investment strategy with specific parameters that reflect the philosophy of the Board, thereby providing the Committee with clearly defined policies and objectives. Although these policies and objectives are intended to govern the investment activity, they are intended to be sufficiently flexible in order to be practical.

## SCOPE OF POLICY

This Statement of Investment Policy applies to all investable assets of the Endowment. The Endowment contains restricted and unrestricted funds. **Restricted true endowments are funds contributed to the Endowment for a specific purpose. Unrestricted true endowments are funds contributed to the Endowment without a specific purpose.** Distributions from all endowed funds will be made in accordance with the Endowment’s spending policy, as amended from time to time. The Investment Committee has ultimate control over investment decisions for all Endowment funds.

## **DELEGATION OF RESPONSIBILITIES**

### **Relationship between Board and the Investment Committee**

The Board is responsible for the overall stewardship of the Endowment. The Board has delegated to the Committee the responsibility to oversee the Endowment's investment activities on the Board's behalf under the guidelines of this Statement. The Board must approve any material changes to the Investment Policy.

The Committee has the responsibility to ensure that the assets of the Endowment are managed in a manner that is consistent with the policies and objectives of the Endowment. In so doing, the Committee will comply with all applicable laws. The Committee members are required to discharge their duties solely in the interest of the Endowment and for the exclusive purpose of meeting the financial needs of the Council.

The Committee is authorized to engage the services of Investment Managers who possess the necessary specialized research capabilities and skill to meet the investment objectives and guidelines of the Endowment. The Committee will require the Investment Managers to adhere to any policies adopted by the Board.

The Committee's responsibilities include:

1. Developing investment objectives that are consistent with the financial needs of the Council and the policy asset allocation consistent with meeting those objectives
2. Selecting investment managers;
3. Reviewing and evaluating investment results in the context of predetermined performance standards, i.e., Return Need describe below, and implementing corrective action as needed; and
4. Recommending Spending Policy guidelines to the Board and reviewing this Statement of Investment Policy annually.

### **Investment Managers**

Investment Managers are expected to pursue their own investment strategies within the guidelines created for the manager in accordance with the Endowment's asset allocation strategy and manager selection criteria. Coordination of the guidelines for the individual managers assures the combined efforts of the managers will be consistent with the overall investment objectives of the Endowment.

The Investment Managers' responsibilities are as follows:

1. Investing assets under their management in accordance with agreed upon guidelines and restrictions.
2. Exercising discretionary authority over the assets entrusted to them, subject to these guidelines and restrictions. Voting proxies for the assets under management (companies held within the portfolio) in the best interest of the Endowment.
3. Providing written documentation of portfolio activity, portfolio valuations, performance data, and portfolio characteristics on a monthly basis in addition to other information as requested by the Committee.

### **The Endowment Custodian's responsibilities are as follows:**

Providing all normal custodial functions including security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, daily investment of cash, etc. Providing reports on investments and Endowment transactions monthly to the Endowment.

## INVESTMENT POLICIES AND OBJECTIVES

### General Investment Philosophy

**Objective:** The primary investment objective of the Endowment is to provide a real rate of return over inflation sufficient to support in perpetuity the mission of the Council. It is particularly important to preserve the value of the assets in real terms to enable the Foundation to maintain the purchasing power of the spending on programs and administration without eroding the principal corpus of the endowment.

To achieve the Endowment Objective, the Endowment's assets will be invested to generate appreciation and / or dividend and interest income.

While there cannot be complete assurance that the defined objectives will be realized, it is believed that likelihood is enhanced by diversifying the Endowment. Since the Committee will aim to achieve the Endowment Objective while maintaining acceptable risk levels, the Endowment will diversify assets.

The following objectives are designed to support achievement of the Endowment Objective and are net of (after) investment expense.

1. Total Endowment assets should achieve an annualized nominal rate of return equal to or greater than that of the Return Goal.
2. Total Endowment assets should return, over trailing twelve month periods, a nominal rate of return greater than or equal to a composite index created by combining various indices in the same proportion as the Endowment's target allocation (as described in the Asset Allocation section of this document).
3. In general, active managers will be expected to provide returns greater than their appropriate benchmark, net after fees, while utilizing acceptable risk levels, over moving thirty-six-month periods. In contrast, index, or passive managers will be expected to provide returns nearly identical to their benchmark, before reasonable fees, with no more volatility than the benchmark.

### Volatility and Risk

Given historical returns, the Objective should be achieved while assuming acceptable risk levels commensurate with "market" volatility. "Market" volatility is defined as the trailing three-year standard deviation of investment returns (based on monthly data) of the benchmark indices.

The primary investment risk the Endowment faces is the probability of failing to meet the Endowment's Objective over the Time Horizon. Therefore, to minimize the probability of failure, and thereby minimize risk, the following variables should be considered by the Committee in all aspects of the decision-making process with regard to the Endowment's investable assets:

- Probability of missing the objective
- Impact of inflation on the Endowment
- Asset/style allocation as the primary determinant of long-term performance

### Endowment Guidelines

#### General Investment Considerations and Constraints:

- **Risk:** The Committee will seek to limit the overall level of risk commensurate with the chosen Policy Asset Allocation.
- **Liquidity:** At times, cash may be required to satisfy the needs of the Council. The Endowment should have sufficient liquid assets to meet such foreseeable requirements.

- **Time Horizon:** The Endowment has an infinite life. An investment Time Horizon of twenty years is appropriate.
- **Taxes:** The Endowment is tax-exempt.

## **Return Need**

The long-term net compound return need shall be established as the goal rate of return for the Endowment over the Time Horizon. The Return Goal shall consist of a spending rate, an assumed rate of inflation, and any desired real portfolio growth. These items and their function in the overall return need are established below:

### Components of Return Need:

Spending, Council Operations	3%
Inflation Assumption	2.5%
Real Growth	2%
Nominal Net Return Goal (net of fees)	7.5%

## **Spending Rate Policy**

### *Spending Rate*

Unless otherwise directed by the donor for a specific endowed gift, the annual spending rate for Council operations shall be between 3.0% and 5.0% as set by the council annual budget approval process. Currently the approved rate for 2016 is 4.0% of a 12-quarter (3-year) moving average of the market value of the Endowment, as determined each fiscal year-end. It is recommended that the payments will be made in four equal payments on or about the 15<sup>th</sup> of January, April, July and October. However, this may be adjusted to meet the operational needs of the council as long as the amount derived is no more than the actual approved spending rate.

The Spending Rate from the Endowment will be reviewed at least annually in light of evolving trends with respect to investment performance and the needs of the Council, and will be adjusted as appropriate.

### *Total Return Policy*

The Board has adopted a “total return” approach to calculating investment returns. In recognition of these facts, the Committee will consider the Endowment’s total return from both income and net realized and unrealized capital gains when recommending the Spending Rate Policy. When distributions are made, they will be withdrawn from the Endowment regardless of the portion of the total return that is from capital gains or from income.

## **Asset Allocation**

The single most important decision made by the Committee is the Policy Asset Allocation decision. Investment research has determined that a significant portion of a portfolio’s investment behavior can be attributed to: (1) the asset classes/styles which are employed by the Endowment; and (2) the weighting of each asset class/style. It is the responsibility of the Committee to identify the Policy Asset Allocation that offers the highest probability of achieving the Endowment’s investment objectives.

## **Permissible Investments**

The Policy Asset Allocation of the Endowment is expected to include a wide range of asset classes. The Endowment is permitted to hold any asset class except those prohibited in this document.

### **Portfolio Rebalancing**

Since asset allocation is the most critical component of the Endowment's returns, it is desirable to rebalance the Endowment periodically to minimize deviations from the Policy Asset Allocation mix. The Committee may rebalance the Endowment to achieve the Policy Asset Allocation at any time. However, the norm will be to review the portfolio on a quarterly basis to assess the need to rebalance.

### **Conflicts of Interest**

The Council's overall Conflict of Interest policy is applicable to members of the Committee. All persons responsible for investment decisions or who are involved in the management of the Endowment or who are consulting to, or providing any advice whatsoever to the Committee, shall disclose in writing at the beginning of any discussion or consideration by the committee, any relationships, material beneficial ownership, or other material interest(s) which the person has or may reasonably be expected to have, with respect to any investment issue under consideration. The Committee may require such persons to remove themselves from the decision-making process.

### **Additional Guidelines**

- ◆ *Index managers* shall be terminated if performance or volatility significantly differs from that of the benchmark.
- ◆ *Active managers* may be terminated due to philosophical changes, management turnover, poor long-term investment performance, or other material changes.
- ◆ *Active vs. Passive Management:* The Committee shall continue to review the relative advantages of passive versus active investment management in the context of reduced management expenses, stable performance and constant, complete exposure to the particular asset class with regard to the excess return provided by the individual manager.
- ◆ *Related Party Transaction:* The Endowment will not loan funds to related parties, defined as an officer, Committee member, employee, or donor, either current or prospective.

### **Tools for Portfolio Management**

Asset allocation provides a framework for disciplined decisions. The guiding principles are:

1. Equity bias enhances return.
2. Diversification reduces risk.
3. Investment in a particular class must be supported by a clearly articulated rationale (analysis of how the investment increases return and mitigates risk).
4. The portfolio should avoid meaningful deviation from desired characteristics – even on a short-term basis.
5. The portfolio should reflect long-term structural changes in the environment as well as opportunities afford by market cycles.
6. Any change in asset allocation must be gradual and avoid extreme shift, marketable securities should be rebalanced as previously described.

7. Asset allocation should be reviewed no more than once a year.

### **APPENDIX A**

Currently the funds that have been approved by the board are allocated in the following:

United Way of South Hampton Foundation

The Capital Group U.S. Equity Fund

The Bond Fund of America

### **APPENDIX B**

It is suggested that the Tidewater Council take a look at the Boy Scouts of America National Endowment aka BSAAM Funds

### **SUGGESTED POLICY SUB-ALLOCATIONS**

	TARGET	MINIMUM	MAXIMUM
<b>GROWTH ASSETS:</b>			
U.S. Equity			35%
Large Cap	25%		
Mid/Small Cap	10%		
International Equity			20%
EAFE	15%		
Emerging	5%		
<b>TOTAL GROWTH</b>			<b>55%</b>
<b>RISK REDUCTION ASSETS:</b>			
Fixed Income	25%		
Hedge Fund			
<b>TOTAL RISK REDUCTION ASSETS:</b>			<b>25%</b>
<b>INFLATION PROTECTION ASSETS:</b>			
U.S. Inflation Protected Fixed	5%		
REITS	10%		
Natural Resources	5%		
<b>TOTAL INFLATION PROTECTION ASSETS</b>			<b>20%</b>

TOTAL

100%