

# **Guernsey Community Foundation Endowment Fund Investment Strategy, Policy and Objectives**

## **Introduction and Purpose**

1. This document sets out Guernsey Community Foundation's investment strategy and defines the policies and objectives that will apply in relation to the Endowment Assets.
2. The principal purpose of the Endowment Fund is to fund charitable giving via the Grants Panel; and also, in certain limited circumstances, to fund the operations of the GCF. In either case, the Board will ultimately decide how the funds are spent.
3. The Board will delegate to the **Endowment Committee** ("the Committee") the decision-making powers required to pursue the Foundation's investment strategy. The nature of these powers is as set out below.
4. Although the investment policies and objectives set out in this document are intended to govern the investment activity, they are also intended to be sufficiently flexible in order to be practical.

## **The Endowment Committee**

5. The Committee is authorised, by delegation, to:
  - Select appropriate investments to achieve the investment objective;
  - Agree the recommendation to the Board of the annual pay-out from the Endowment Fund to the Guernsey Community Foundation Grants Panel
  - Perform its duties as defined by the Terms of Reference
  - Recommend to the Board the appointment of investment managers and custodians
6. The Committee must oversee and administer the Endowment Fund in a manner that is consistent with the delegated responsibilities of the Board. The constitution of the Committee and the duties of its members are set out in the Terms of Reference (**Appendix A**).

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

7. The Committee has been delegated fiduciary responsibility by the Board (see Paragraph 14) to report on the Committee's investment activities and to

recommend the size of any grant to be added to the Grants Programme. The Board remains responsible for the overall stewardship of the Endowment Fund.

### **Investment Objectives**

8. The investment objectives are set by the Board.
9. The primary goal of the investment program is to preserve the purchasing power of the Endowment by achieving long-term returns that meet or exceed the sum of the expenditures on: spending policy allocations; inflation; and consultant, manager, and custodial fees.
10. The Committee has a long-term investment horizon and strives to provide a source of funds for allocation to the Grants Committee that is reasonably stable and predictable from year-to-year.
11. The investment objectives are as follows:

Time Horizon: Long term investment pool

Returns: Earn over the long term an average annual total return of 3 to 5% net of fees over GBP inflation rates. The endowment should maintain an overall level of realisable financial assets to ensure sufficient capital is available for budgeted annual distributions to the Grants Panel. During adverse market conditions, the decline in NAV of the Endowment should not exceed 25% over any 12 month period.

Liquidity: Sufficient liquid funds should be available to meet one year's expected donations to the Grants Panel

### **Endowment Spending Policy**

12. On an annual basis, the Committee shall recommend to the Board the spending rate on the Endowment, such a recommendation to take account of market conditions and expected returns.
13. For budget planning purposes, it is assumed the spending rate will be 3.0% to 5.0% of all Endowment assets. The Committee recognizes that in periods of capital appreciation, the effective pay out rate compared to the current market value of the Endowment may be less than 3.0%. Conversely, in periods of capital depreciation, the effective pay out rate compared to the current market value of the Endowment may be greater than 5.0%.

## **Fiduciary Roles and Responsibilities**

14. The Committee will:

- Periodically review and, if necessary, amend this document, subject to Board approval (see paragraph 39)
- Review and, if necessary, review the strategic asset allocation and make recommendations to the Board
- Meet regularly to evaluate policy compliance; review progress in achieving the Endowment's goals; and assess the effectiveness of the investment program
- Review and evaluate investment results against predetermined performance standards
- Monitor and review annually the overall cost of the investment program, including investment manager and custodian fees
- Periodically review its ability to meet the Endowment's spending policy
- Review the status of the purchasing power (in inflation adjusted terms) of the Endowment on an annual basis, including a review of all funds as applicable
- Take appropriate action if objectives are not being met or if policy and guidelines are not being followed

## **Responsibilities of Investment Managers**

15. The Committee will recommend a qualified independent Investment Manager to manage the assets of the Endowment Fund, their appointment subject to the approval of the Board.

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



17. An Investment Manager shall:

- (a) Invest assets under their management in accordance with agreed guidelines and restrictions;
- (b) Exercise discretionary authority over the assets entrusted to them, subject to these guidelines and restrictions;
- (c) Provide the Committee on a regular basis with written documentation of portfolio activity, portfolio valuations, performance data, and portfolio characteristics;
- (d) Undertake proxy voting for the assets under management (companies held within the portfolio) in the best interest of the Endowment;
- (e) Immediately notify the Board, via the Committee, of any litigation or violation of regulations in which the manager is involved; and
- (f) Immediately notify the Board, via the Committee, of any significant changes in portfolio managers, personnel, or ownership.

18. Investment Managers have full discretion to exercise all voting rights, including the voting of proxies, with respect to any and all assets under their management, unless otherwise notified in writing by the Committee.

19. The Committee is responsible for recommending to the Board the selection of investment managers. This will involve researching and analysing investment opportunities, identifying and conducting interviews with prospective managers if required, and completing thorough investment and operational due diligence.

### **Responsibilities of the Custodian**

20. Fund assets will most likely be held by an institution designated as 'the Custodian', who shall manage, control and collect the assets of the Fund in accordance with the terms of a separate custodial agreement as well as the terms of this policy. The Custodian for the Fund is responsible for:

- (a) Providing all normal custodial functions, including security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, daily investment of cash, and the preparation of additional Endowment reports as requested by the Committee;
- (b) Providing the Committee with timely reports detailing investment holdings and Endowment transactions;
- (c) Meeting with the Committee as requested; and

- (d) Notifying the Committee of any significant changes in personnel or ownership of the Custodian.

## **Investment Assets**

21. Investments will typically be in collective investment vehicles, including ETFs.
22. The Collective investment vehicles will be selected by the appointed investment manager to best fulfil the Investment Objectives of the fund over an investment cycle.
23. Investments should be made with consideration of the Foundation's status as a tax-exempt organization and inconsideration of best ESG practices.
24. The Endowment assets may principally be regarded as having exposure into four broad asset classes – Equities, Diversifying Assets, Real Assets, and Fixed Income – together representing a spread of investment risk and return.
25. The base currency for cash reserves will be Sterling. The investment manager may invest in collective investment vehicles denominated in GBP, Euro and US\$.
26. For clarity, the asset classes referred to in (24) above are broadly detailed below in italics. It is recognised that many collective investment vehicles will incorporate one or more of these types of assets in a single collective investment vehicle.
27. It is not intended that the fund will be leveraged or have any exposure to derivatives at the Fund level. Derivatives may be employed by managers in investee funds

### *Equities*

28. *The equities will consist mainly of indirect investments in public or private equities and are designed to be a principal contributor toward achieving the return target, the equities in the portfolio are likely to be the most volatile asset class.*

### *Diversifying Assets*

29. *The diversifying Assets portfolio may likely consist mainly of investments in public and private market vehicles that provide diversification relative to the other asset classes. Common strategies employed may include long/short equity hedge funds; credit/opportunistic hedge funds; and private market credit/opportunistic funds (e.g. direct lending, distressed credit/private equity, and commodities).*

*The Diversifying Assets portfolio is designed to generate competitive absolute returns while preserving capital during times of equity market stress and, accordingly, serving as a partial buffer to potential losses in the Equities Real Assets*

*30. The Real Assets portfolio may consist typically of indirect investments in real estate, natural resources, infrastructure and other assets that may serve to provide a measure of inflation protection to the Endowment. It is expected that the Real Assets portfolio could be a source of heightened volatility from time to time, but that such volatility will not directly correlate to that of the Equities portfolio.*

#### Fixed Income

*31. The Fixed Income portfolio is to consist mainly of indirect investments in investment-grade and non-investment grade bond or loan funds, as well as short-term liquid investments and cash equivalents. The Fixed Income portfolio may be required to meet near-term operating distributions to the Endowment; provide capital for rebalancing; reduce the Endowment's overall volatility; provide a measure of deflation protection; and, if possible, generate current income.*

*32. Exposure to fixed income assets may selectively include other fixed income investments such as high-yield bonds or loans, depending on market conditions and overall portfolio risk levels.*

#### **Diversification of assets**

33. Assets shall be sufficiently diversified to ensure that adverse results from one security or asset class will not have an unduly detrimental effect on the entire portfolio. In this context, 'diversification' is taken to include diversification by type, by characteristic, sector, geography, the number of investments, as well as by the investment style of the underlying investee funds.

34. The allowable asset allocation ranges are intended to ensure that the Endowment investment risk is sufficiently diversified across asset classes. No single investment vehicle shall represent more than 20% at market value of total Endowment assets at the point of purchase, unless it is a G7 government bond of 5 years maturity or less.

#### **Performance Review**

35. Performance of the Endowment shall be provided by the Committee at least twice a year to the Board, and compared with appropriate market benchmark comparisons

at the total portfolio level and for each individual asset class. Performance shall be reported net of fees. While performance is evaluated at least twice a year, especially as it relates to conformance to the investment guidelines and restrictions, specific quantitative evaluation should normally be considered of more importance over longer investments horizons.

36. The Investment performance for the total portfolio will be measured against various benchmarks for comparison purposes only. The fund will be designed principally as a real return vehicle and will not follow specific indices.

a. Absolute Return and Risk Outcomes

Measures performance against selected indices versus the Endowment's absolute return and risk targets as defined in the Investment Objectives. Compares performance to the Endowment's purchasing power objectives.

b. Passive Benchmark

Measures performance versus a fixed-weight, passively-managed portfolio of traditional stocks and bonds.

### **New Gifts to the Endowment**

37. To minimize the Endowment's exposure to market cycle volatility, new gifts to the Endowment that come in the form of marketable securities (stocks, bonds, etc.) shall be liquidated immediately, or as soon thereafter as practicable.

### **Conflicts of Interest**

38. All persons responsible for investment decisions, investment management, investment consulting, or any investment advice whatsoever shall disclose at the beginning of any discussion or consideration by the Committee any relationships, material ownership, or other material interest(s) that the person has with respect to any investment issue under consideration. The Committee will require such persons to remove themselves from the final decision.

39. Any members of the Committee, staff, or consultants responsible for investment decisions or who are involved in the management of the Endowment shall refuse any remuneration, commission, gift, favour, service or benefit that might influence them in the discharge of their duties, except as disclosed in writing to and agreed upon (as documented in the meeting minutes) by the Committee. Failure to disclose



any material benefit shall be grounds for removal from the Committee and the Board.

#### **Revising the Statement of Investment Policy and Objectives**

40. The Committee shall review this Investment Policy Statement annually and, if changes are to be made, present the revised statement to the board for approval.

41. The Committee may authorise exceptions to these guidelines at any time, with the approval of the Board.

**Last reviewed and approved 20.05.21**

# Guernsey Community Foundation Endowment Fund

## APPENDIX A: TERMS OF REFERENCE

### Constitution and Purpose

1. The purpose of the Endowment Committee (“the Committee”) is to manage the Foundation’s responsibilities, generally and financially, with regard to the Endowment Fund *vis a vis* donations, endowments, legacies, and the approval of funds to be allocated to the Grants Programme, in accordance with its responsibilities as set out in the ‘Investment Strategy, Policy and Objectives’ document.
2. The Committee reports to the Foundation’s Board.

### Remit

3. The primary remit of the Committee is to have oversight of endowments, their stewardship, and their application, as set out in Paragraphs (4) to (7).
4. The Committee will carry out the general management of the Endowment Funds, taking account of their original purpose; their current use/allocation; the authorities to spend; and adherence to legal requirements.
5. The Committee will oversee and administer the Endowment Funds and any donations made to the Fund. This involves:
  - monitoring the financial status of each fund (both capital and revenue components)
  - overseeing the investment strategy and ensuring the appropriate balance between capital growth, income and expenditure
  - advising on the sums available for disbursement
  - recommending to the Board funds to be disbursed via the Grants Programme
6. The Committee will manage the legal aspects of the Endowment Fund. This involves:
  - reporting as necessary to the relevant regulatory authorities
  - agreeing plans to request amendments to the purposes to which specific funds can be put

- proposing to the Board plans to amalgamate or run down endowment funds whilst adhering to legal requirements etc.

### **General responsibilities**

7. In addition to the above, the Committee will:
  - a. monitor and assess risks associated with the Investment Strategy and the disbursement of funds
  - b. recruit external Investment Managers (their appointment and dismissal to be approved by the Board) and monitor their performance
  - c. review and recommend changes to policies for Board approval
  - d. oversee, determine, and recommend to the Board funds to be made available to the Grants Programme

### **Composition and Membership**

8. Committee members are appointed by the Board to serve a three year term. At the expiration of their term of office, the Board may decide to appoint them for a further three years or for a shorter time period, bearing in mind the need to avoid members having coterminous terms of office.
1. The Committee shall include at least three members of the Board, including the Foundation's Chief Executive; a member of the Grants Panel; and a member whom the Board shall appoint as Chair of the Committee.
2. The Committee may co-opt members who they consider to have skills and experience which would assist in the work of the Committee, such as qualified investment management professionals. Any co-opted external members will be entitled to vote, once their appointment has been approved by the Board

### **Quorum and Voting**

3. The quorum is a simple majority of Committee members of which at least two are Board members.

4. Members who are participating in a meeting remotely and communicating with all members present at the meeting simultaneously shall be deemed to be present at the meeting and to count towards the quorum.
5. Only members of the Committee shall be entitled to vote on any matter which involves powers and functions delegated to the Committee by the Board.
6. The Chair of the Committee shall have a deliberate and casting vote.
7. In the Chair's absence, members shall elect from those present a person to act as Chair for the meeting, or until such time as the Chair arrives.

### **Frequency of Meetings**

8. The Committee will typically meet on an agreed date in advance of the designated Board Meeting at which the Committee is to present, or at a different time as may be determined, but not less than two times per year.
9. Additional meetings may be held in order to meet business requirements at the request of the Chair of the Committee.

### **Attendance at Meetings**

10. The Foundation's Company Secretary will act as Secretary to the Committee, organising the meetings, attending to take minutes, and maintaining a record of attendance.
11. Members are expected to maintain a pattern of regular attendance at meetings in person. When not feasible to attend in person, and with the consent of the Chair, attendance may be provided by audio-visual conferencing or other means which enables that member to communicate with each of the other members simultaneously.
12. Any member not attending three or more meetings consecutively (without good reason) may have their membership reviewed by the Chair and the Board. Members are required to submit their apologies to Secretary of the Committee at the earliest opportunity.

## **Reserved Business**

13. There may be occasions when the Committee's business is designated 'reserved' and/or 'commercially sensitive'. On such occasions, with the approval of the Chair, any persons in attendance may be asked to withdraw from the meeting during consideration of a particular reserved item of business.
14. The record of matters with which the Chair and the Committee are satisfied should be dealt with on a reserved basis will be recorded separately.

## **Conflict of Interest**

15. Where it is identified that a member of the Committee has or may be seen as having a conflict of interest with respect to a given matter, the Chair may, on the advice of the Secretary, request that the member in question withdraw from participation in relevant business. Depending on the nature of the business, this may allow for participation in discussions without taking part in decision-making, or may require complete non-participation and/or withdrawal from that part of the meeting.
16. All instances of identified or perceived conflicts of interest shall be recorded in the minutes.

## **Reporting Procedures**

17. The Committee will report to the Board at least twice a year based on the Committee minutes, typically holding a meeting suitably in advance of the main Board meeting. The Chair of the Committee will approve the content of reports before release, ensuring the redaction of confidential information.
18. The Chair of the Committee will report to the Board as per the 'Investment Strategy, Policy and Objectives' document; and in respect of any other matter which the Committee considers ought to be brought to the attention of the Board.
19. Matters requiring the approval of the Board will be highlighted in the Committee's report. If a decision is needed urgently, the Board's approval can be sought outside of its scheduled meetings by means of an extra meeting (to be held in person or by means of audio-visual conferencing) or a group email, as the Chair of the Board deems appropriate.
20. The Committee shall submit an annual assurance report of its work to the Board.

## **Forward Planning**

21. The Committee will review these Terms of Reference and submit recommendations on these to the Board annually for approval.
22. The Committee will set its meeting dates one year in advance, and will maintain an annual workload plan for the Committee and a forward agenda plan of its business.

## **Liquidation**

If the Endowment is wound up or closed, the Directors of the GCF and or liquidators (as appropriate) will distribute the realised proceeds to the Grants Programme.

**Last reviewed and approved 20.05.21**