

# Food Bank of Northern Nevada

## Investment Policy

### I. GOALS AND PURPOSE

The purpose of the Food Bank of Northern Nevada (Food Bank) is to assist the charitable community to effectively feed people in need. To achieve this requires a range of investment styles depending on the risk tolerance of the Food Bank, the timing of when funds will be needed and, in many cases, donor intent. To facilitate these variables, the Food Bank will establish four general categories of investment styles governed primarily by when the principal, and any investment proceeds, are likely to be used. The priority of Investment Objectives, the Asset Allocation mix, and Performance Expectations may also vary due to the timing differences between the investment categories.

#### Investment Categories

	<u>Duration*</u>
1. Liquid Investments	Less than 1 year
2. Short-Medium term Funds	From 1 to 10 years
3. Intermediate Term Funds	10 to 20 years
4. Endowment Funds	Permanent Endowments

\*Term until expected use of both principal and investment earnings

Additional Investment Funds may be established by the Food Bank Board (Board), if the need arises, (i.e. to facilitate donor intent).

### II. DESIGNATION

Any funds received by the Food Bank may be designated by the Board as belonging to one of the above Investment Categories. Any funds received that are not so designated to an Investment Category by the Board are to be considered Category 1 (Liquid Investments). The Finance Committee, or a sub-committee of the Finance Committee, shall periodically review the cash position and gifts or grants, to determine if an Investment Category designation is appropriate. If a category designation is deemed appropriate, a recommendation indicating amount, Investment Category and Investment Management Option shall be made to the full Board. Any Category 2 funds where final usage is in five years, or less, Board should so note in its designation.

### III. INVESTMENT OBJECTIVES

A. Liquid Investments (Category 1) – These funds essentially represent operating funds and are to be treated as such.

1. The primary investment objective is capital preservation. This objective directs that the portfolio of securities be of high quality and with very low risk of principal loss. High-risk investments are to be avoided.

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2. The secondary investment objective is income generation provided that capital preservation is not jeopardized.
- B. Short and Intermediate Term Funds (Categories 2&3) – These are funds that the Food Bank does not expect to use for current operating needs and can therefore invest for a longer duration. However, they are anticipated to be spent during a time horizon of anywhere from 1 to 20 years. Category 2 funds are to have a higher emphasis on capital preservation while Category 3 funds will have a higher emphasis on capital appreciation and income generation.
1. A key investment objective will be capital preservation. This objective directs that the portfolio of securities be of high quality and with relatively low risk of principal loss. Portfolio diversification is therefore essential and high-risk investments are to be avoided or used only in small weightings as may be beneficial to the overall diversification of the portfolio.
  2. Another key investment objective is a continuing source of income for the Food Bank's facilities and equipment. This income should be provided while giving consideration to principal preservation.
  3. A final investment objective will be protection of income and capital against erosion by inflation. This objective will therefore focus on growth of capital to ensure that future income can keep up with the rate of inflation. This objective will apply primarily to Category 3 funds, and not Category 2.
- C. Endowment Funds (Category 4) - The time horizon of our Donald W. Reynolds Foundation (DWRF) Building Maintenance Endowment Fund is perpetual and our investment policies should reflect this. Funds will be invested to maximize the total return (income and appreciation) over time in order to provide (1) increasing cash flow availability for annual maintenance requirements; and (2) increase asset appreciation to meet future maintenance expectations.
1. Protection of DWRF Building Maintenance Endowment Fund maintenance income and capital against erosion by inflation. The long-term nature of the Endowment Fund requires that its primary investment objective be a focus on growth of capital to ensure that future income can keep up with the rate of inflation.
  2. A second investment objective is capital preservation. This objective directs that the portfolio of securities be of high quality and with relatively low risk of principal loss. Portfolio diversification is therefore essential and high-risk investments are to be avoided or used only in small weightings as may be beneficial to the overall diversification of the portfolio.
  3. A third investment objective is a continuing source of maintenance income for the facility and equipment. By accepting charitable funds for a maintenance endowment to provide for the ongoing capital needs and upkeep, the Food Bank needs a continuing

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source of income to provide this support from investments. This income should be provided while preserving principal.

4. Other endowment funds may be established by the Board of Directors to fulfill donor intent.

### **IV. GENERAL INVESTMENT POLICIES**

- A. Equity Securities - Equity investment are allowable only in Categories 2 through 4. If the Board designates funds as being available for use in 5 years, or less, equity investments shall be prohibited.

Equity investments should be diversified both in terms of the number of issues and in the exposure to various market sectors and industries. No more than 5% of the equity portfolio is to be invested in any one issue; no more than 20% in any one narrowly defined industry; and no more than 40% of the equity portfolio is to be invested in international equities without the specific approval of the Finance Committee. Equities that are not publicly traded should be avoided. Emerging Markets equities as a sub set of International equity are to comprise no more than 30% of the International equity portion of the overall equity allocation.

- B. Fixed Income Securities – These shall be divided into two categories.

- Investment Category 1 – Individual fixed income securities shall be limited to FDIC insured time certificates, US Government and US Government sponsored agency securities, and top rated money market funds. No securities shall have a final maturity of greater than one year. No equity securities are allowed.
- Investment Categories 2 through 4 - All individual fixed income securities shall be A rated or above as determined by one or more of the following rating services - S&P, Moody's, Fitch or Duff & Phelps. As an exception and only as desired by the Finance Committee, high-yield funds may be used as appropriate but never for more than 10% of the total fixed income allocation. With the exception of U.S. Treasury, the securities of a single issuer shall represent no more than 10% of the market value of the fixed-income holdings of the portfolio.

- C. Collective investment funds of the trustee bank/broker or mutual funds may be used to the extent that they adhere to overall investment policy.

- D. No hedging practices or investments in any venture capital fund or other high risk, speculative investment, which would violate or risk the objective of capital preservation, shall be made.

- E. Investments will not be made in private placements or unregistered securities; in direct real estate; in options, futures or commodities; or in short sales or purchases on margin.

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### **V. ASSET ALLOCATION**

#### **A. Liquid Investments (Category 1) – Operating type funds**

1. Individual securities shall be limited to FDIC insured time certificates, US Government and US Government sponsored agency securities, and top rated money market funds. No securities shall have a final maturity of greater than one year and no equity securities are permitted.

#### **B. Short to Medium Term Funds (Category 2) – Funds that the Food Bank does not expect to use for current operating needs and can therefore invest for a duration of 1 to 10 years.**

1. Equity holdings should comprise 20% plus or minus 10% of the total account - target 20%.
2. Fixed income investments including cash and cash equivalents should comprise 80% plus or minus 10% of the total account - target 80%.
3. Alternative or specialized asset classes may not be used in this investment category.
4. These ranges are established in order to permit the Finance Committee along with the Investment Manager to take advantage of market opportunities in moving assets from one category to another. At all times the Investment manager will be following the instructions of the Finance Committee. The Investment Manager will advise the Finance Committee of any recommended modifications to the Asset allocation.

#### **C. Intermediate Term Funds (Category 3) - Funds that the Food Bank does not expect to use for current operating needs and can therefore invest for a duration of 10 to 20 years.**

1. Equity holdings should comprise 40% plus or minus 10% of the total account - target 40%.
2. Fixed income investments including cash and cash equivalents should comprise 55% plus or minus 10% of the total account - target 55%.
3. Alternative or specialized asset classes may be used as desired for the purposes of diversification and risk management as long as they fit within the investment policy guidelines. These Alternative assets may comprise 5% plus or minus 5% of the total account – target 5%.
4. These ranges are established in order to permit the Finance Committee along with the Investment Manager to take advantage of market opportunities in moving assets from one category to another. At all times the Investment manager will be following the instructions of the Finance Committee. The Investment Manager will

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advise the Finance Committee of any recommended modifications to the Asset allocation.

- D. Endowment Funds (Category 4) - The time horizon of our Endowment Fund is perpetual and our investment policies should reflect this. Funds will be invested to maximize the total return (income and appreciation) over time in order to provide (1) increasing cash flow availability for annual maintenance requirements; and (2) increase asset appreciation to meet future maintenance expectations.
1. Equity holdings should comprise 60% plus or minus 10% of the total account - target 60%.
  2. Fixed income investments including cash and cash equivalents should comprise 35% plus or minus 10% of the total account - target 35%.
  3. Alternative or specialized asset classes may be used as desired for the purposes of diversification and risk management as long as they fit within the investment policy guidelines. These Alternative assets should comprise 5% plus or minus 5% of the total account – target 5%.
  4. These ranges are established in order to permit the Finance Committee along with the Investment Manager to take advantage of market opportunities in moving assets from one category to another. At all times the Investment manager will be following the instructions of the Finance Committee. The Investment Manager will advise the Finance Committee of any recommended modifications to the Asset allocation.

### **VI. INVESTMENT EXPECTATIONS (Category 3 and 4 Funds)**

- A. Performance. Investment performance will be judged over a three to five year time horizon on a time-weighted, total return basis.
1. Equity Performance should exceed the Standard and Poor 500 Common Stock Index over a three to five year period. The total return of any international equity investment portion of the account should exceed that of the MSCI EAFE Index.
  2. Fixed-Income performance should exceed an Intermediate Government/Corporate Bond Index (as determined by the Board) over a three to five year period.
  3. Other asset classes should be measured against their applicable benchmarks.
  4. Total return for the entire portfolio for a three to five year period should be in the top one-third of managers in a balanced fund universe.
  5. Liquid assets such as mineral interests, real estate and other assets not commonly traded on recognized exchanges should not be purchased. If donated to the Food Bank

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Endowment Fund, they shall be converted to assets meeting the guidelines of this Policy.

- B. **Income Needs.** When the Board develops a spending policy for its yearly equipment and facility maintenance needs, the Investment Manager will be notified of the Food Bank's spending policy, anticipated cash requirements for the fiscal year and any projected long-term income needs.

### **VII. INVESTMENT MANAGEMENT OPTIONS**

While some investment portfolios are large and complex, others may be relatively small with limited investment requirements. For this reason, this Investment Policy will allow for both Professionally Managed investments and Non-Managed investment portfolios, as designated by the Board. The Endowment (Category 4) investment portfolio has a relatively complex investment structure and would likely be best managed by a professional Investment Manager. However, the Board may feel that all or any portion, of investments that fit into Categories 1 and 2 may be best managed through a self-managed investment account.

Regardless of how any of the Food Bank's investments are being managed, they must all adhere to the guidelines of this Investment Policy. This will include the Board designated investment category, types of allowable investment vehicles within those categories, weightings of investment types and duration of any fixed income investments.

### **VIII. MONITORING AND EVALUATION (Category 3 and 4 Funds)**

- A. **Yearly Meetings.** The Finance Committee of the Food Bank shall meet yearly with any outside Investment Manager(s) or more frequently as requested by the Finance Committee. The purpose of this meeting shall be to discuss investment performance for the previous year, to discuss the strategy of the Finance Committee for meeting the investment objectives of the Food Bank, and to review the joint efforts in developing new assets. The Finance Committee shall make a report to the Food Bank's Board of Directors at its next regularly scheduled meeting.
- B. **Investment Performance Reports.** Any outside Investment Managers will provide Quarterly Performance Reports for the Finance Committee's review. The use of an outside evaluation service may be used from time to time at the discretion of the Finance Committee. The Food Bank's Board of Directors may obtain professional advisors to participate with the Finance Committee in meetings with any outside Investment Manager. The staff of the Food Bank will work with outside Investment Managers to develop performance reports that reflect the stated performance criteria.

### **IX. APPLICATION AND USE OF EARNINGS GENERATED BY DWRF BUILDING MAINTENANCE ENDOWMENT (CATEGORY 4 INVESTMENTS)**

- A. **Generated Earnings -** The annual available funds shall mean those amounts in the DWRF Building Maintenance Endowment fund designated by the Food Bank's Board of Directors as

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generated earnings. This may include both capital gains and interest as determined by the Board of Directors to meet Food Bank maintenance needs.

- B. Earnings Use - This DWRF Building Maintenance Endowment fund is intended to provide funding to keep the facility in a sound structural condition while maintaining an attractive exterior and interior appearance. Annual available funds may be used for decorating or remodeling the existing structure or for repairs and maintenance of heating and air conditioning equipment, upgrading or modification of telecommunications equipment, repairs or modification of the electrical service or repairs and modification of the plumbing system, including water and sewer. Earnings may be used to purchase equipment and furnishings to replace worn out or obsolete equipment and furnishings of the kind which were initially purchased and installed as part of the Capital Campaign. Up to ten percent (10%) of the annual available funds may be used for landscaping or interior artwork. No part of the DWRF Building Maintenance Endowment fund shall be used or expended for ordinary custodial care or for any purpose other than those expressly authorized in this instrument.
- C. Restrictions - No earnings may be used for any year if the DWRF Building Maintenance Endowment Fund Corpus falls below the fully funded amount (\$1,638,813). If the DWRF Endowment Fund Corpus falls below the funded amount, the Food Bank will not use any earnings until the DWRF Building Maintenance Endowment Fund Corpus is fully funded. Plus, the Food Bank will replace any shortfall to the extent that its assets are legally available for such purposes or funding raising contributions. For a minimum of \$300,000 of the DWRF Building Maintenance Endowment Fund, no expenditures may be made that exceed 5% of the average market value in any year for the \$300,000 without prior written consent of the donor. These funds shall not, under any circumstances, be pledged as collateral for loans, bonds, or debt instrument, and shall remain free of any and all liens and encumbrances.

Affirmation of board action adopting/amending this policy



Secretary