

Northshore Schools Foundation Internal Endowment Policies

In recognition of its fiduciary responsibility, the Board of Directors of the Northshore Schools Foundation (hereinafter, the "Board") has adopted the following policies pertinent to the operation of the Endowment established by the Northshore Schools Foundation (hereinafter, the "Foundation"):

The mission of the Foundation is to raise funds and build partnerships to support the academic success and excellence for all Northshore students, in alignment with district priorities. One desire of the Board is to maximize the utilization of required reserve funds in order to more fully fund the Foundation's mission. One way of maximizing these funds is to develop an Endowed Fund, initially, to reduce operating expenses and, additionally, to leverage reserve funds that may be required in the future. This Endowed fund will allow the organization to:

- Be a more sustainable Foundation,
- Be more competitive for endowment grants,
- Provide a perpetual fund for legacy giving,
- Decrease the Foundation's administrative percentage,
- Provide more money to support the Board mission due to better leveraged utilization of reserve funds.

Governing Principles:

The written statements provided in this document are intended to provide the clear perspectives to all concerned Board members and use numbers and specifics to achieve clarity and provide direction. In the state of Washington, legal guidelines regarding the investment of endowment funds are governed by the Uniform Management of Institutional Funds Act (UMIFA) and the Board's intention is to follow these guidelines to preserve the endowment and not jeopardize the 501(3) c status awarded to this organization.

Objectives:

It is the objective of the Board to invest funds in a manner which will preserve the safety and liquidity of the fund, while obtaining a reasonable return within established investment guidelines. The portfolio should be managed in a manner that is consistent with State law.

It is an objective of the Board that the Endowment fully fund annual operating expenses limited to salaries and benefits, fees, equipment, licensing, and Board and staff development over time. This endowment is not designed to include administrative costs incurred for fundraising.

It is an objective of the Board that the investment fund's value be preserved for the future by:

- Making moderate to top of the moderate range investments,
- Keen oversight of the Endowment through quarterly reporting reviews led by the Financial Committee to the Executive Committee
- Not dispersing more than 5 percent of a three year moving average of the fund's market value.

It is an objective of the Board that the Endowment Task force will develop Board policy, screen and make an investment advisor recommendation to the Executive Committee, and make the initial investment, after which time, these duties will be transferred to the Finance Committee. The governance of the policy of Endowment Fund will be approved by the Board. Execution of the policy and investment decisions will be made by the Executive Committee. The oversight, communication, and recommendation of investments of the Endowment will be the responsibility of the Finance Committee.

Policies:

Minimum Gifts for Unrestricted Endowment and Named Endowed Funds

- A donor may contribute any amount for unrestricted endowment or for a previously-established named endowed fund within the Endowment.
- A minimum gift of \$10,000 shall be required to establish a new named endowed fund, either for the Foundation's general purposes or for a more specific purpose subject to the consent of the Board Finance Committee.
- The amount required for such a fund will depend on the objectives to be accomplished and will be negotiated between the donor and staff at the Foundation.
- Endowment principal deriving from gifts that donors have specifically designated for the Endowment shall not be invaded. Distributions shall be limited to those authorized pursuant to the **Spending Policy** for the Endowment.

Execution of Named Endowed Fund Agreements

A named endowed fund can be established either through a lifetime gift or by bequest. When it is created through a lifetime gift, the donor and Executive Director sign an agreement that sets forth the terms of the endowment. When the donor executes a will or a living trust agreement containing language directing that a named endowed fund be established, no other documentation is required, although the donor will be encouraged to execute an endowed fund agreement in addition to the will or the living trust agreement.

Contributions for existing unrestricted or restricted funds within the Endowment, but not for a newly named endowed fund, require only a transmittal letter or bequest language stating the donor's intention.

Investment Policy

The investment policy of the Foundation is to enhance the value of the Endowment portfolio and at the same time provide a dependable, growing source of income that will be used to support specific operations of the Foundation. Experience has shown that a payout in excess of 5 percent challenges the ability to achieve maintenance of purchasing power. Traditionally, the popularly accepted formula has been "5 percent of a three year moving average of market value."¹ To

¹ "Principles of Nonprofit Investment Management" Commonfund Institute;
http://www.commonfund.org/_catalogs/masterpage/principlesofnonprofitinvestmgmt.pdf

enhance return and reduce risk, the portfolio shall be composed of diversified assets, including both equities and fixed-income investments. The equities are intended to provide current income, growth of income and appreciation of principal. The fixed-income investments are intended to provide a predictable and reliable source of interest income while reducing the volatility of the portfolio.

In fulfilling this policy, the Board shall endeavor to conform to the prudent investor standard. This standard requires the exercise of reasonable care, skill, and caution, and it is to be applied to investments, not in isolation, but in the context of the Endowment portfolio and as part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the Endowment.

Communication Policy

To maintain the integrity of the Endowment , written communication shall be sent to the Board Treasurer and copied to the Board President and the Executive Director. These parties will also be the holders of any on-line access codes. Fund allocations and any changes shall be directed through written communication to the Investment Manager only. No on-line trading will be utilized directly by the Board.

Signing Authority

The Executive Director and the Board Treasurer shall act as the authorized signers for the investment account held in the name of the organization.

Investment Objectives

The investment objectives for the Endowment are to manage contributions in a manner that will produce income to support specified programs of the Foundation, thereby maximizing the benefits intended by donors, and to achieve growth of both principal value and income over time sufficient to preserve or increase the purchasing power of the assets of the Endowment, thereby protecting those assets against inflation.

Total Return shall be the method for measuring the performance of the endowment. This refers to the combination of income (interest and dividends) and appreciation/depreciation in the fund's value for a certain period of time. The specific financial objective is for total return, less expenses and distributions of income, to equal or exceed the Consumer Price Index (CPI) for that period. Thus, achievement of this objective will result in real growth in the value of the Endowment. Although real growth will not be attained every year due to market fluctuations, it is expected to be attained over a period of time, as illustrated in the following example.

Endowment Growth and Management
 Measurement of Real Growth of Endowment
 (1) (2) (3) (4) (1)-(2)-(3)-(4)

Investment and Management					
Year	Total Return	Expenses	Distributions	CPI	Real Growth
1	25.1%	1.0%	5.0%	5.1%	14.0%
2	15.0%	1.1%	5.0%	4.0%	4.9%

3	2.6%	1.2%	5.0%	3.8%	-7.4%
4	11.4%	1.1%	5.0%	3.7%	1.6%
5	9.2%	1.0%	5.0%	2.9%	0.3%
5 Year Avg.	12.7%	1.1%	5.0%	3.9%	2.7%

Investment Management:

The Endowment shall be managed by the Finance Committee, whose responsibilities in the area of investment administration are as follows:

- To recommend to the Executive Committee policies for the management of the Endowment.
- To make recommendations to the Board on the selection of portfolio manager(s).
- To hire and fire the portfolio manager(s).
- To determine how assets are to be allocated.
- To monitor the management of the Endowment portfolio in order to enhance return and control risk, and to keep the entire Board fully informed.
- Meet in person with portfolio manager(s) at least once per year.
- Provide written quarterly evaluation and results to the Executive Committee.

Given market research, the Finance Committee shall be composed of Board Members and non-board Members. The Committee size shall be limited to five to seven members each serving a three year term with no more than two members terming off each year. The Committee shall meet no less than four times per year. In the event that a majority prudent investment decision cannot be reached, outside counsel shall be consulted.

Portfolio Manager(s)

The Board, upon recommendation of the Finance Committee, may appoint one or more portfolio managers and may allocate Endowment assets among them in whatever proportions it deems appropriate. One or more managers shall be given responsibility for equity investments, and one or more for fixed-income investments, or any manager may be given responsibility for both. Portfolio managers and their performance will be measured over various periods and will be compared to appropriate market indices and to the performance of other endowments as published annually by a national reporting agency. A manager whose performance over a rolling three year period falls below eighty percent of the S&P 500 index with dividends reinvested for the equities portfolio and 100% of a generally accepted fixed income index appropriate to the risk and duration of the fixed income portfolio shall be a candidate for replacement. It will be the policy of the Finance Committee to require that all portfolio managers report their performance in writing on a quarterly basis and their portfolio holdings on a monthly basis. The Finance Committee may resort to the use of an independent performance evaluation service to ensure that all portfolio managers engaged by the Foundation are competitive in the market and that their performance meets the needs and expectations of the Board with respect to these guidelines.

Asset Allocation

The general policy shall be to diversify investments within both equity and fixed-income securities so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category. The monitoring and adjustment of the mix of assets among the investment classes is a major factor in achieving investment return. The Finance Committee shall carefully review the mix of assets in the endowment and periodically make, or instruct the portfolio managers to make, transfers within prescribed asset class limitations with Board approval.

As a long-term policy guideline, equity investments will normally constitute 50 to 60 percent and fixed-income securities 40 to 50 percent of Endowment assets, though the entire Board may from time to time approve different asset allocations by a vote amending this document. The investments may include the following.

1. Equity Investments :

a. Mutual Funds and Common Stocks

The principal category of equity investments will be mutual funds, Exchange Traded Funds (ETFs) or individual common stocks. In the case of stocks, primary emphasis will be on high-quality, investment-grade, and dividend-paying stocks in companies that are financially sound and that have favorable prospects for earnings growth. Stock investments should be diversified in terms of industry, capitalization, and nation of origin.

b. Private Equity, Venture Capital, and Hedge Funds

The equity portfolio may also include private equity, venture capital or hedge fund investments. Such investments, however, ordinarily shall not exceed 5 percent of total Endowment assets and must be made through pooled funds offered by professional investment managers with proven records of superior performance over time. Any investment in this asset category must be approved by the Finance Committee and Board.

2. Fixed-Income Securities

a. Cash Equivalents

Fixed-income investments may include short-term money market securities. Of all investment vehicles, however, such securities have historically produced the lowest return. For this reason, investments in such securities shall be kept at the minimum level that the Finance Committee considers necessary to meet foreseeable short-term liquidity requirements. Such investments shall be made in U.S. Treasury securities, commercial paper, and money market securities issued by institutions with proven high-quality credit ratings or by pooled funds with demonstrably high-quality credit standards and proven records of superior performance over time.

b. Bonds, Certificates of Deposit, Fixed Income Mutual Funds

It is expected that the majority of fixed-income investments shall be invested in high-quality corporate bonds, U.S. Treasury securities, GNMA's, or CDs. In periods of high interest rates, bond funds will also be considered as an alternative.

Spending Policy

The spending policy, expressed as a percentage of market value of the Endowment, shall be determined on a year-to-year basis by the Board upon recommendation of the Finance Committee utilizing a three year moving average of market value. It shall be the responsibility of the Finance Committee to review the spending policy periodically in light of actual returns in order to make adjustments necessary for the preservation of the purchasing power of the Endowment. It is anticipated that no spending will take place until after 2018 to allow the Endowment to grow enough to support the operating expenses cited in **Objectives**. what? While the spending policy may fluctuate within a narrow range, it is expected to average approximately 5 percent of market value.

Interest and dividend distributions from the Endowment shall be made within 60 days after the close of each calendar year. The Finance Committee will recommend to the board additional distributions based on capital gains income up to the target of five percent of total earnings (interest, dividends, and capital gains).

Appendix A

Investment Manager Selection Considerations:

Cover every aspect of the firm's business. Eliminate conflicts of interest. Performance data alone can be misleading, especially in the short term - less than 5 years.

Investment Manager Selection Process:

- Compile an initial list of candidates
- Gathering basic information about each one
- Narrow the list
- Conduct preliminary due diligence
- Select the finalists
- Complete due diligence and comprehensive portfolio attribution analysis
- Hearing presentations of the finalists
- Making final selections
- Conducting negotiations
- Understand Compensation Strategy

Investment Manager Selection Criteria:

- The firm's investment style and philosophy
- Actual evidence of its commitment to that philosophy
- How the firm's decision-making process works
- The kinds of internal controls the firm uses
- The quality and timeliness of its reporting system
- How the firm complements the other investment firms working for you
- The firm's ownership structure

- The quality of its senior management
- The qualifications of its professionals
- The stability of its professional staff and management
- The size of the firm in terms of staff and assets under management
- How the firm has changed over time
- Its fees, are down stream fees included in the fees of the Endowment manager?
- Risk management capabilities
- Be weary of marketing focused investment recommendations