

# **INVESTMENT POLICY STATEMENT**

**For the**

## **JEWISH ENDOWMENT FOUNDATION (JEF)**

**A Division of the Jewish Federation of  
Western Massachusetts, Inc.**

Please note this is in the process of being updated.

Ed Kline - November 7, 2011

Revised on January 28, 2010

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# EXECUTIVE SUMMARY

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**Type of Fund:** Endowment

**Planning Time Horizon:** Greater than 5 years

**Expected or Modeled Return:** 7.0% (4.25% rolling average of the previous 16 quarter spending policy + 2.75%)  
Spending policy is set by the JEF Board and is subject to change.

**Risk Tolerance:** **Capital preservation is a primary goal and growth is a second goal**

<b>Asset Allocation</b>	<b><u>Lower Limit</u></b>	<b><u>Strategic Allocation</u></b>	<b><u>Upper Limit</u></b>
S&P 500 Index Funds	8%	13%	18%
Domestic Large Cap Equities			
Value	8%	13%	17%
Growth	8%	13%	16%
Domestic Small/Mid Cap Equities			
Value	3%	5%	11%
Growth	3%	5%	11%
International Equities	8%	16%	22%
Fixed Income	30%	35%	40%

**Evaluation Benchmark:** The weighted return of the target benchmarks for all the asset sub portfolios. The weighting uses the year-to-date average amount invested in each asset sub portfolio.

**Statement about Index Funds:** Currently, the JEF Investment Committee has determined that it is prudent to invest primarily in Index Funds.

**Mission Statement:**

*The mission of the Jewish Endowment Foundation (JEF), a division of the Jewish Federation of Western Massachusetts, Inc. is to solicit, administer and invest gifts from donors in order to build a strong endowment to ensure that the Jewish community of Western Massachusetts will have funds for present and future needs and to help serve the needs of world Jewry and the general community of Western Massachusetts.*

## **PURPOSE**

The purpose of this Investment Policy Statement is to assist the Jewish Endowment Foundation's Investment Committee (Committee) in effectively supervising, monitoring and evaluating the investment of the Jewish Endowment Foundation's Funds (Fund). The Fund's investment program is defined in the various sections of the Investment Policy Statement by:

1. Stating in a written document the Committee's attitudes, expectations, objectives and guidelines for the investment of all Jewish Endowment Foundation investment assets.
2. Setting forth an investment structure for managing all Jewish Endowment Foundation investment assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.
3. Providing guidelines for each investment portfolio that control the level of overall risk and liquidity assumed in that portfolio, so that all Foundation assets are managed in accordance with stated objectives.
4. Encouraging effective communications between the Committee and the money managers and the Board of the JEF.
5. Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the money managers on a regular basis.
6. Complying with all applicable fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international political entities that may impact Fund assets.

This Investment Policy Statement has been formulated, based upon consideration by the Committee of the financial implications of a wide range of policies, and describes the prudent investment process that the Committee deems appropriate.

**General Information:**

**Name of Endowment:** Jewish Endowment  
Foundation of the Jewish Federation of Western  
Massachusetts

**Investment Committee:**

Ed Kline  
Geoff Berman  
Joseph Dorison  
Charles Ehrenberg  
Charles Epstein  
Michele Feinstein  
Steven Feldman  
Betsy Gaberman  
Steve Korn  
Jeff Mandell  
Allen Nadler  
Steven Roberts  
Steve Weiner  
Bruce Wintman

**Money Managers:**

Fidelity Capital  
Vanguard Funds  
Various IShares Funds

# STATEMENT OF OBJECTIVES

*Investment Policy Statement*

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The objectives of the Committee have been established in conjunction with a comprehensive review of the current and projected financial requirements. The objectives are:

- 1) To maintain the purchasing power of the current assets and all future contributions so as to continue service levels and programs in relation to future average cost increases. This requires establishing an equilibrium spending rate of 5%.
- 2) To maximize investment returns within reasonable and prudent levels of risk.
- 3) To maintain an appropriate asset allocation based on a total return policy that is compatible with a flexible spending policy, while still having the potential to produce positive real returns.
- 4) To control the costs of administering and managing the portfolio.
- 5) Approximately 10% of the portfolio is to be invested in Israel Bonds. This is to be part of the fixed income allocation.

### **Time Horizon**

The investment guidelines are based upon an investment horizon of greater than five years, so that interim fluctuations should be viewed with appropriate perspective. Similarly, the Fund's strategic asset allocation is based on this long-term perspective.

### **Risk Tolerances**

The Committee recognizes the difficulty of achieving the Fund's investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Committee also recognizes that some risk must be assumed if they are to attempt to achieve the Fund's long-term investment objectives.

In establishing the risk tolerances of the Investment Policy Statement, the ability, to withstand short and intermediate term variability were considered. These factors were:

1. Jewish Endowment Foundation has an active planned giving program and it should be able to achieve above average growth during the next several years.
2. Jewish Endowment Foundation's strong donor base enables it to adopt a long-term investment perspective.
3. Donors expressed preference suggests a moderate risk tolerance.

In summary, Jewish Endowment Foundation's prospects for the future, current financial condition, and several other factors, suggest collectively that the Fund can tolerate some interim fluctuations in market value and rates of return in order to attempt to achieve long-term objectives.\*

\* This includes Israel Bonds, money market, backed-up short-term fixed income portfolio. Within the fixed asset keep a sub-fund in order to meet the cash needs of the JEF.

### **Performance Expectations**

The desired investment objective is a long-term rate of return on assets that is at least 7.5%. The target rate of return for the Fund has been based upon the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in the Investment Policy Statement.

The Committee realizes that market performance varies and that a 7.5% rate of return may not be meaningful during some periods. Accordingly, relative performance benchmarks for the managers are set forth in the "Control Procedures" section.

The portfolio strives to achieve a return equal to or greater than the Evaluation Benchmark which is the weighted return of the target benchmarks for all the asset sub portfolios. The weighting uses the period's average amount invested in each asset sub portfolio. Note that the actual weighted return of the portfolio is after fees paid to investment advisors or mutual funds while the Evaluation Benchmark has no reduction for fees.

### **Asset Allocation Constraints**

The Committee believes that the Fund's risk and liquidity posture are, in large part, a function of asset class mix. The Committee has reviewed the long-term performance characteristics of various asset classes, focusing on balancing the risks and rewards of market behavior. The following asset classes were selected:

1. U.S. Large Cap Equities
2. U.S. Small/Mid Cap Equities
3. International Equities
4. Fixed Income \*

\* This includes Israel Bonds, money market, backed-up short-term fixed income portfolio. Within the fixed asset keep a sub-fund in order to meet the cash needs of the JEF.

Based on the Fund's time horizon, risk tolerances, performance expectations and asset class preferences, an efficient or optimal portfolio was identified. The strategic asset allocation of the Fund is as follows:

<b>Asset Allocation</b>	<b><u>Lower Limit</u></b>	<b><u>Strategic Allocation</u></b>	<b><u>Upper Limit</u></b>
S&P 500 Index Funds	8%	13%	18%
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**Rebalancing of Strategic Allocation**

The percentage allocation to each asset class may vary as per the table above depending upon market conditions. *“The committee in conjunction with the Chief Financial Officer and the Endowment Director may designate a projected two year reserve for in flows and out flows and will consider exempting that amount from the ownership percentages when determining future allocations.”*

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Fund. If there are no cash flows, the allocation of the Fund will be reviewed quarterly.

If the Committee judges cash flows to be insufficient to bring the Fund within the strategic allocation ranges, the Committee shall decide whether to effect transactions to bring the strategic allocation within the threshold ranges (**Strategic Allocation**).

- Financial reports should indicate when portfolio is out of balance
- Committee should consider what to do when portfolio is out of balance
- Each year the Committee will review the above table and adjustments will be made as the Committee determines
- Annually the Committee will review the Investment Policy.

# SECURITIES GUIDELINES

*Investment Policy Statement*

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Every money manager selected to manage Fund assets must adhere to the following guidelines. The following securities and transactions are not authorized unless receiving prior Committee approval:

- 1) Unregistered securities; commodities; and short sales or margin transactions.
- 2) Securities lending; pledging or hypothecating securities;
- 3) Investments in the equity securities of any company with a record of less than three years' continuous operation, including the operation of any predecessor.
- 4) Investments for the purpose of exercising control of management.

## **Domestic Equities:**

1. Equity holdings in any one company should not exceed more than 5% of the market value of the Fund's equity portfolio.\*

## **Fixed Income:**

1. All fixed-income securities held in the portfolio shall have a Moody's, Standard & Poor's and/or a Fitch's credit quality rating of no less than "BBB". U.S. Treasury and U.S. government agencies, which are unrated securities, are qualified for inclusion in the portfolio.\*
2. No more than 20% of the market value of the fixed income portfolio shall be rated less than single "A" quality, unless the manager has specific written authorization.\*
3. The exposure of the portfolio to any one issuer, other than securities of the U.S. government or agencies, shall not exceed 5% of the market value of the fixed income portfolio.\*

\* Exclusive of Index Funds

**International Equities:**

1. Equity holdings in any one company shall not exceed more than 5% of the International Equity portfolio.\*
2. The manager may enter into foreign exchange contracts on currency provided that use of such contracts is limited to hedging currency exposure existing within the manager's portfolio. There shall be no direct foreign currency speculation or any related investment activity.

\* Exclusive of Index Funds

## **SELECTION OF MONEY MANAGERS** *Investment Policy Statement*

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The Committee will select appropriate money managers to manage the Fund assets. Managers must meet the following minimum criteria:

- 1) Be a bank, insurance company, investment management company or investment adviser as defined by the Registered Investment Advisers Act of 1940.
- 2) Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.
- 3) Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel. This information can be a copy of a recent Request for Proposal (RFP) completed by the manager.
- 4) Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
- 5) We shall require firms to provide a listing of legal judgments or past judgments of a material nature as set forth in their financial statements for Committee review.

The Committee may also select appropriate mutual funds or index funds to manage a portion of the Endowment's assets. Mutual funds must meet the following minimum criteria:

- 1) Funds must correspond to the asset classes outlined in the Committee's Investment Policy Statement. For example, the growth component of the Investment Policy Statement must be implemented with a mutual fund invested in growth stocks.
- 2) The fund's manager must have been in place for three years or more, or if a mutual fund has been in existence for less than three years, its manager(s) must have managed separate account assets or another

mutual fund in the identical discipline (as the fund being considered) for three years or more.

- 3) The funds must have been following the same investment strategy for at least three years.
- 4) The fund must not have a front, back-end or contingent sales load.
- 5) The fund must have at least \$100 million in assets. Or, if the fund's assets are less than \$100 million, the fund advisor must manage over \$100 million in separate accounts (managed in the identical discipline as the fund). (Small cap funds must have at least \$50 million in assets).

## *Duties and Responsibilities of the Money Managers*

The duties and responsibilities of each money manager retained by the Committee include the following:

- 1) Managing the Fund assets under its care, custody and/or control in accordance with the Investment Policy Statement objectives and guidelines set forth herein, and also expressed in separate written agreements when deviation is deemed prudent and desirable by the Committee.
- 2) Exercising investment discretion [including holding cash equivalents as an alternative] within the Investment Policy Statement objectives and guidelines set forth herein.
- 3) Promptly informing the Committee in writing regarding all significant and/or material matters and changes pertaining to the investment of Fund assets, including, but not limited to:
  - a. Investment strategy
  - b. Portfolio structure
  - c. Tactical approaches
  - d. Ownership
  - e. Organizational structure
  - f. Financial condition
  - g. Professional staff
  - h. Recommendations for guideline changes
  - i. All legal material, SEC and other regulatory agency proceedings affecting the firm
- 4) Promptly voting all proxies and related actions in a manner consistent with the long-term interests and objectives of the Fund set forth herein. Each manager shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto.

- 5) Utilize the same care, skill, prudence and due diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement Funds with like aims in accordance and compliance with applicable laws, rules and regulations from local, state, and federal entities as it pertains to fiduciary duties and responsibilities.
- 6) Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire Investment Policy Statement set forth herein, and as modified in the future.

### **Brokerage Policy**

All transactions effected for the Fund will be "subject to the best price and execution." If a manager utilizes brokerage from the Fund assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Committee.

### **Performance Objectives**

Investment performance will be reviewed at least annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

It is not expected that the Investment Policy Statement will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the Investment Policy Statement though allocation ranges for particular class may change.

### **Monitoring of Money Managers**

Quarterly performance will be evaluated to test progress toward the attainment of longer term targets. It is understood that there are likely to be short term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on peer-performance comparisons with managers employing similar styles.

On a timely basis, but not less than four times a year, the Committee will meet to focus on:

1. Manager's adherence to the Investment Policy Statement guidelines;
2. Material changes in the manager's organization, investment philosophy and/or personnel; and,
3. Comparisons of the manager's results to appropriate indices and peer groups, specifically:

<u><i>Asset Category</i></u>	<u><i>Index</i></u>	<u><i>Peer Group Universe</i></u>
<b>Large Cap Equity</b> Value Growth	S&P 500 Russell 1000 Value Russell 1000 Growth	Total Equity Database Value Equity Style Growth Equity Style
<b>Small/Mid Cap Equities</b>	Russell 2000	Small Cap Equity
<b>International Equity</b>	MSCI EAFE	International Equity
<b>Fixed Income</b> Short-Term  Core Bond	Lehman 1-5 Yr. Govt./Credit Lehman Aggregate	Total F/I Database Short-Term F/I Style  Fixed Income Database

The Committee will meet at least quarterly to focus on:

1. The managers' performance relative to their respective benchmarks.
2. The Fund's investment performance results compared to the manager's overall composite performance figures to determine unaccounted for dispersion between the manager's reported results and the Fund's actual results.

The Committee is aware that the ongoing review and analysis of money managers is just as important as the due diligence implemented during the manager selection process. Accordingly, a thorough Review and Analysis of a Money Manager will be conducted should a Manager perform below the assigned index for six consecutive quarters.

Major organizational changes also warrant immediate review of the manager, including:

1. Change in professionals
2. Significant account losses
3. Significant growth of new business
4. Change in ownership

The performance of the Committee's investment managers will be monitored on an ongoing basis and it is at the Committee's discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

Accepted:  
Jewish Endowment Foundation  
Investment Committee

Date: \_\_\_\_\_

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Co-Chairman

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Member

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