North Thurston Educational Foundation
Investment Policies and Procedures

Section 7, Article 11 of the BY-LAWS OF THE NORTH THURSTON EDUCATIONAL FOUNDATION sets forth the primary responsibilities of the Investment Committee. The purpose of this document is to elaborate the provisions of Section 7 of Article 11 of those By-laws and provide guidance for the Committee's actions. As provided in Section 9 of Article 5 of the By-laws the Committee serves under the supervision of the VICE PRESIDENT for RESOURCE MANAGEMENT and these policies and any committee procedures are to be subordinate to and consistent with both of those sections as well as the entire provisions of Article 11, Operating Policies and Procedures.

The members of the NTEF Board of Trustees are the fiduciaries of the Foundation and are ultimately responsible for the investments of the Foundation. The Board shall be responsible for broad oversight of the Investment Committee and the Investment Manager. Specifically, the Board has responsibility for defining the investment objectives and policies of all Investment funds. The Board is responsible for and empowered to exercise all rights, which may include proxy-voting rights if desired. In addition, the Board shall:

- Approve selection of Investment Manager based on review and recommendation of Investment Committee.
- Provide oversight of the investment funds through the Investment Committee.
- Direct the Investment Manager to implement the investment policy and to over see and to approve or disapprove the Manager's recommendations with regards to policy, guidelines, and objectives on a timely basis.
- Provide the Investment Manager with all relevant information on NTEF's financial condition and risk tolerances and notify the Manager promptly of any changes to this information.

The purpose of the Investment Policy Statement is to assist the Foundation Board, the Investment Committee, and the Investment Manager in effectively supervising, monitoring, and evaluating the management of the Foundation's assets. The Investment Committee will review the Investment Policy Statement at least every five years and make recommendations of any changes to the Board.

1.0 The Investment Committee

1.1 Composition. The committee consists of five (5) members appointed by the President and ratified by the Board of Trustees. Three members will represent the North Thurston Public Schools at large. Two members will represent the Board of Trustees. The committee will elect a chair from the members. The Foundation President and the Executive Director are ex-officio members of the Committee. The Vice President for Resource Management will attend meetings as appropriate to supervise the committee.

1.2 Responsibility. The Investment Committee, as authorized by the Board of Trustees, will:

1.2.1 Maintain active oversight of the assets of the Foundation including receipt, investment and disbursement of resources for authorized purposes, 1.2.2 Supervise and direct accounting and reporting of financial activities of the Foundation,

1.2.3 Annually report to the Board of Trustees regarding the investment activity of the preceding year and as the Committee shall deem appropriate recommend continuation or modification of the assigned responsibility of the investment advisor(s),

1.2.4 Meet and confer not less frequently than quarterly regarding the financial affairs of the Foundation,

1.2.5 Regularly meet with the investment advisor(s) to review and direct the investment of the Foundations' funds,

1.2.6 The Committee will assist the Vice President for Resource Management in preparing a proposed financial plan for coordination with the Foundation Executive Committee. The proposed Financial Plan (see section 5 following) will detail the resources anticipated to be available in the Grants, Projects and Operations (GPO) fund during the ensuing year, (see details in section 5 following) and

1.2.7 The Committee, through the Vice President for Resource Management, will submit to the Board of Trustees and to the annual membership meeting:

1.2.7.1 An annual reconciliation of the approved prior Financial Plan with the actual performance that occurred during the preceding year, and

1.2.7.2 An accounting of the performance of the various investments held for the Foundation by each investment advisor during the preceding fiscal year.

2.0 Principles guiding Committee work.

2.1 Accountability must be maintained for care and use of resources in strict accord with the conditions applying to their acceptance by the Foundation,

2.2 The Investment Committee shall be guided by the Prudent Man Rule, i.e. investments may be made in a security if it is one that would be bought by a prudent man of discretion and intelligence, who is seeking a reasonable income and preservation of capital,

2.3 The investment goals of the Investment Committee are to preserve capital and generate income and capital appreciation,

2.4 Funds may be invested long-term, intermediate-term or short-term as the Committee determines will best meet the purposes of the fund(s) being invested.

2.5 The Investment Committee, acting in accordance with the NTEF bylaws and the investment policy and procedures, and exercising due diligence shall be relieved of personal liability for the performance of investment accounts and market changes.

3.0 Classification of Assets.

3.1 Endowment funds are assets held separately from other assets of the Foundation for a specific purpose, e.g. a named scholarship. Each endowment fund consists of three parts: corpus, reserve and excess earnings.

3.1.1 The corpus consists of assets that can be bought or sold in accordance with the established objectives of the Foundation to generate earnings and/or income, but which cannot be invaded to provide monies for disbursement. The corpus of any endowment fund may fluctuate in value as is normal for any market investment whether it be stocks, bonds, mutual funds or some other form of investment. The corpus is inviolate.

3.1.2 The reserve is an amount equal to two years of normalized distributions required to fulfill the purpose specified for the fund. The reserve can be invaded in years when there are not sufficient earnings to provide the monies required to fulfill the purpose specified for the fund.

3.1.3 Excess earnings are accrued assets of any fund whether from earnings, other forms of income or new contributions to the fund in excess of the amount required to maintain the reserve and/or meet the required distributions of the fund. In order for earnings, other forms of income or new contributions to the fund to be classified as excess earnings, specific Committee approval is required.

3.2 Other Earmarked Funds(s) is an asset whose corpus, reserve and income may all be distributed for purposes determined to be consistent with the conditions agreed upon when the asset was established. Funds of this class are typically established by direction of the Board of Trustees using large gifts or bequests given for a general purpose, not as an endowment, and the use of which may extend over a lengthy period of time.

3.3 Grants, Projects and Operations (GPO) Fund is money held in a checking account, money market, or certificate of deposit for the purpose of meeting a near-term commitment such as:

3.3.1 Purchase of supplies, equipment, and/or fees required for operation of the foundation,
3.3.2 Funding of pledged scholarships,
3.3.3 Funding of authorized grants,
3.3.4 Transfer to an invested fund maintained with the Foundation's investment advisor(s), and

3.3.5 Monies in the GPO class fund are:

3.3.5.1 Earnings on an endowed fund transferred to the GPO for distribution as an award of scholarship,

3.3.5.2. Earnings, reserve or corpus of an Other Earmarked fund transferred to the GPO for distribution as a grant, a project or other approved expense,

3.3.5.3 Proceeds of money raising activities, and

3.3.5.4 Undesignated contributions.

3.4 Non-cash assets are gifts of real property or acquired real property and may include stocks, land, buildings or other goods not immediately in the form of cash.

4.0 Investing and Accounting for funds.

4.1 Endowed Funds

4.1.1 Endowed funds will be invested through the investment advisor(s) approved by the Board of Trustees.

4.1.2 Earnings include realized capital gains, dividends, interest income, rental income, royalty income or any other income generated by endowment investments. Unless otherwise directed by the Investment Committee, ten percent (10%) of earnings of endowed funds will accrue to the corpus of such fund and ninety percent (90%) to the GPO fund for use consistent with the purpose of that fund. Such adjustments shall be made annually to the corpus and GPO of the specific funds.

4.1.3 All realized endowment fund earnings will accrue to the corpus or reserve of the specific endowment fund for which the investment was made.

4.1.4 Realized losses will be charged against the corpus of the specific endowment fund for which the investment was made.

4.2 Other Earmarked Fund(s).

4.2.1 Other Earmarked Funds will be separately invested through the investment advisor(s) and will be utilized in accordance with the agreements pertaining at the time they were established.

4.2.2 Earnings of each such fund together with any required amount of its corpus may be withdrawn in a timely manner and placed in GPO accounts to be disbursed for approved purposes.

4.2.3 Realized gains and/or losses will accrue to the corpus of the invested fund.

4.3 Grants, Projects and Operations (GPO) Fund

4.3.1 GPO Fund monies will be held in checking accounts, money market accounts or in certificates of deposit having laddered maturities insofar as practical, according to planned need to disburse.

4.3.2 The GPO Fund will be used as a temporary depository for gifts, bequests, and proceeds of fund raising activities pending their disposition according to approved plan.

4.3.3 The GPO Fund will be the depository of undesignated receipts of whatever nature and those receipts may be retained to fund grants, meet other planned expenses or may be transferred to the corpus of an endowed fund or to an Other Earmarked fund as the Investment Committee may direct.

4.4 Non-cash assets, management and accounting.

4.4.1 The Investment Committee will recommend to the Board of Trustees whether non-cash gifts and/or bequests will continue to be held in the form received or will be converted by appropriate methods into cash for investment purposes.

4.4.2 Non-cash gifts or bequests, when converted to cash as approved by the Board of Trustees, shall then be managed and accounted in accord with the applicable provisions of 4.1, 4.2 or 4.3 above.

4.4.3 An inventory of non-cash assets held for routine use of the Foundation shall be maintained and annually reported to the Board of Trustees.

5.0 Financial Plan for the GPO Fund.

5.1 The Chair of the Investment Committee will annually coordinate with the Foundation Executive Committee consideration of the proposed financial plan (see 1.2.6 above) to be reflected in the Foundation budget for the ensuing fiscal year.

5.2 The minimum elements of the plan to be proposed will include:

5.2.1 A schedule of commitments proposed for the Foundation to meet during the forthcoming year; said schedule to include:

5.2.1.1 Identification of each commitment, or group of commitments to be considered,

5.2.1.2 Purpose of the potential commitment(s),

5.2.1.3 The projected dollar amounts required for each commitment or group of commitments, and

5.2.1.4. Dates when disbursement for the commitment(s) is expected to occur.

5.2.2 A schedule of monies proposed to be available to meet the commitments referenced in section 5.2.1 above; said schedule to identify:

5.2.2.1 Proceeds anticipated from fund raising activities,

5.2.2.2 Utilization of earnings from reserves for and/or corpus of specific investments,

5.2.2.3 Proceeds from anticipated gifts and bequests, and

5.2.2.4 Other sources.

5.2.3 The financial plan, as reflected in the Foundation's approved budget, will control the operation of the GPO fund each fiscal year.

Date approved by the Board of Trustees, January 27, 2004
Original policy adopted 12/3/1992

6.0 Guidelines for Investment Manager/Advisor

6.1 Investment Manager shall mean any individual, or group of individuals, employed to manage the investments of all or part of the NTEF portfolio assets. The Investment Manager shall be a registered investment advisor. Current Investment Manager, beginning in 2005, is Greg Stapp, Stapp Financial Planning, PLLC, who is a registered Investment Advisor (RIA), Series 65.

6.1.1 **Selection Process**: Every four years the NTEF Investment Committee shall solicit proposals from individuals and firms to serve as NTEF Investment Manager. Recommendations shall be made to the Board of Trustees. The Board makes the decision to select. The Investment Manager serves until the Board determines otherwise.

6.1.2 **Evaluation and Monitoring Investment Manager**: Recognizing short-term fluctuations may cause variations in performance, the Foundation intends to evaluate the manager performance from a long-term perspective. Ongoing review and analysis of the investment manager is as important as due diligence used in the selection process.

6.1.2.1 The performance of the investment manager will be monitored on an ongoing basis and the Foundation Board has discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

6.1.2.2 Manager performance results will be periodically evaluated and compared to appropriate indices such as those listed in section 6.2.4 below.

6.1.3 **Criteria** for Investment Manager Selection: The Foundation Investment Committee and Board of Trustees shall apply due diligence criteria in selecting the Investment Manager, such as:

6.1.3.1 Regular oversight: Investment manager should be a regulated bank, an insurance company, a mutual fund organization, a registered investment advisor, as also offered by investment firms.

6.1.3.2 Assets under management: The manager should have at least $25 million under management.

6.1.3.3 Expense ratios/fees: The manager's fees should be competitive with fees provided to similar non-profit organizations.

6.1.3.4 Stability of the organization: There should be no perceived organizational problems.

6.1.4 **Investment Manager Duties and Responsibilities**: Investment Managers are co-fiduciaries responsible for making investment decisions (security selection and price decisions.) The specific duties and responsibilities of the investment manager are to

6.1.4.1 Design and implement an appropriate asset allocation plan consistent with the NTEF investment objectives, time horizon, risk profile, guidelines, and constraints outlined in this policy.

6.1.4.2 Manage the assets under its supervision in accordance with the guidelines and objectives outlined by the NTEF Board.

6.1.4.3 Advise the Investment Committee about the selection of, and allocation of, asset categories to maintain a diversification of assets.

6.1.4.4 Exercise full investment discretion with regards to buying, managing, and selling assets held in the portfolios.

6.1.4.5 Communicate with the Foundation investment committee all significant changes pertaining to the funds it manages or the firm itself.

6.1.4.6 Effect all transactions for the investment funds subject to "best price and execution."

6.1.4.7 Use 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 investment funds in accordance and compliance with Uniform Prudent Investment Act and all applicable laws, rules, and regulations.

6.1.4.8 The Investment Manager shall have no authority to withdraw funds from the North Thurston Education Foundation's accounts, except to cover payment of previously agreed to fees or as directed by the NTEF.

6.1.4.9 The Investment Manager may not change NTEF investment policy without Board of Trustees' prior approval.

6.1.4.10 **Communication and Reports:** The investment manager shall meet with the Investment Committee on a quarterly basis and provide the following management reports quarterly, annually, and as requested:

.4.10.1 Portfolio performance results over varying time periods.

.4.10.2 Performance results of comparative benchmarks over varying time periods.

.4.10.3 Review of current asset allocation versus policy guidelines.

.4.10.4 Recommendations for changes of the above if needed.

.4.10.5 The Manager shall keep the Investment Committee apprised of any material changes in outlook, recommended investment policy, and tactics.

6.1.4.11 The Investment Manager shall meet with the Board of Trustees annually to review and explain investment results, strategies, and related issues.

6.2 **Asset Allocation Approaches**: Tactical asset allocation and strategic asset allocation are two approaches used for managing investment accounts. These approaches are defined as follows:

6.2.1 Tactical Asset Allocation is an active portfolio management strategy that re-balances the percentage of asset categories in order to take advantage of market pricing anomalies or strong market sectors. This strategy allows managers to create extra value by taking advantage of certain situations in the marketplace. It is a moderately active strategy since managers return to the portfolio's original strategic asset mix when desired short-term profits are achieved.

6.2.2 Strategic Asset Allocation involves periodically re-balancing the portfolio in order to maintain a long-term goal for asset allocation. At the inception of the portfolio, a "base policy mix" is established based on expected returns. Because the value of assets can change given market conditions, the portfolio constantly needs to be re-adjusted to meet the policy.

6.2.3 **Asset Allocation Procedures**: The Board may retain investment managers that use tactical or strategic asset allocation. If the manager utilizes a tactical approach, the manager shall provide performance reviews against a strategic allocation benchmark. The asset allocation of the Foundation shall be reviewed at least annually by the Investment Committee and reported to the Board of Trustees.

6.2.3.1 Allocation guidelines: Investment strategy may involve under and over weighting various asset classes based on the manager's assessment of the risk and return potential specific to each asset class at any point in time.

6.2.3.2 Suggested Asset Class and Ranges for a balanced approach may incorporate diversification by market cap and style, such as the following:

Asset Class	**Range**
Fixed Income	10-70%
Cash	0-20% *
Investment Grade Bonds	10-60%
Foreign Bonds-Emerging Markets	0-20%
High-Yield Bonds	0-20%
Equities	30-90%
Domestic Large-Cap equities	10-60%
Domestic Small/Mid-Cap Equities	0-40%
Foreign Equities--Developed Markets	0-35%
Foreign Equities--Emerging Markets	0-20%
REITS	0-25%

Alternative Investments	0-15%

* Should be sufficient to cover anticipated program expenditures.

6.2.4 **Performance Review**: Benchmarks of asset classes will be evaluated using appropriate Indices, such as the following:

Asset Class	Primary Index
Equities	
Domestic Large Cap	S & P 500
Small Capitalization	Russell 2000
International Core	MSCI EAFE
Fixed Income	
Core	Lehman Aggregate Bond
Alternative Investments	Recognized comparable indices

6.2.5 **Restrictions regarding individual securities and limitations:** The Investment Manager may invest in individual securities, mutual funds, and/or exchange-traded funds and fixed-income securities, including individual corporate bonds. The average credit quality rating of bonds in the portfolio shall be at least "A-" as defined by either S & P or Moody's.

Concentration in any single security shall be limited to five percent of the total portfolio by cost. Concentration in any one industry, economic sector, geography, security type and maturity shall not be excessive relative to world markets.

Without prior Board written approval, the investment manager is prohibited from directly investing in commodities, futures, derivatives, private placements, private partnerships, limited partnerships, leveraged transactions, and real estate. Also limited to prior written approval are engaging in short sales, put options, or margin transactions. Mutual Funds may utilize these strategies, however.

6.3 **Investment Custodian:** The Investment Manager shall identify the custodian of the investment accounts; currently the custodian is T.D. Ameritrade. Custodians are responsible for the safekeeping of the Foundation's invested assets. The specific duties and responsibilities of the custodian are to

6.3.1 Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value.

6.3.2 Maintain separate accounts by legal registration

6.3.3 Value the holdings

6.3.4 Collect all income and dividends owed to the holdings

6.3.5 Settle all transactions (buy-sell orders) initiated by the Investment Manager.

6.4 **NTEF Investment Funds**: The goals of the NTEF investment accounts differ based on the type of fund and the conditions set originally by the donors. The current investment accounts include permanently endowed funds and non-endowed funds as follows:

- 6.4.1 Foundation Annual Programs Non-endowed fund (established 2008)
- 6.4.2 Foundation Endowment General fund (established approximately 1993)
- 6.4.3 Violet Davies Non-endowed fund (gift received 1993, scholarship established 1995)
- 6.4.4 Lisa Corwin Memorial Scholarship Endowment fund (donations to endow fund received in 1994 and 1995, scholarship first awarded 1993)
- 6.4.5 John Gott Education Scholarship Endowment fund (donations initially received in 1991, scholarship first awarded 1992)
- 6.4.6 Jeannette Hostetter Ford Memorial Scholarship Endowment fund (gift received 1997, scholarship established 1998)
- 6.4.7 John and Opal McGimpsey Non-endowed fund for Student Assistance (gifts received over four years, in 2006, 2007, 2008, and 2011, fund established 2006)

6.5 **Time Horizon**: The NTEF objectives for the portfolio are currently anticipated to continue without significant modification for a period of 5-10 years.

- 6.5.1 Time Horizon may be considered multi-stage:
  - 6.5.1.1 Primary Stage: Short-term, less than 3 years.
  - 6.5.1.2 Secondary Stage: Greater than 10 years (or in perpetuity)

- 6.5.2 **Liquidity Requirements:** The Foundation's need for liquidity is met partially through its Money Market Accounts and Certificates of Deposit. These requirements for expenditures are generally determined quarterly. The Investment Committee will recommend amounts of withdrawals to the Board for action to cover expenditures for named scholarships and student assistance grants, which are disbursed annually requiring liquidity as described in the following distributions section 6.6.

- 6.5.3 **Expected Rate of Return:** The rate of return is expected to correspond with the long-term rate of return of a balanced investment portfolio.

6.6 **Spending Policy/Distributions:** The donors of the endowment funds established the original spending policy and amounts of distributions. Earnings in each specific fund accrue to that fund. The Board of Trustees may modify the distributions based on the donor guidelines and the growth of the funds. Currently the Board plans the following annual disbursements:

- 6.6.1 Designated Scholarship funds currently disburse the amount of scholarships from earnings as follows:
  - 6.6.1.1 Gott Educational Scholarship - $2,000 annually
  - 6.6.1.2 Ford Memorial Scholarship - $2,000 annually
  - 6.6.1.3 Davies Non-endowed Vocational Scholarship - $2,000 annually
  - 6.6.1.4 Corwin Memorial Scholarship – Currently $1,500 with a one-year renewal of $1,500 to total $3,000. (Beginning 2012, $1,000

renewable scholarship to be awarded for four years to total $4,000 per student.)

6.6.2 The Foundation Endowment general fund has no planned disbursements at this time. The goal is to build the Foundation Endowment to a million dollars to fund programs in the future.

6.6.3 The Foundation Annual Program fund may be accessed as needed. Proceeds in the fund accrue to the fund. No disbursements are currently planned.

6.6.4 McGimpsey Non-endowed funds for Student Assistance will disburse $30,000--$45,000 per year in accordance with the guidelines that the funds should be used for student assistance over a 20-30 year timeline. The principal, as well as earnings, may be disbursed as needed.

6.7 **Investment Risk Tolerance and Return**: Over long periods of time, there is a relationship between the level of investment risk assumed and the level of return that can be expected. In order to attain higher returns, one must accept higher risk (e.g., volatility of return). The risk of principal loss can be minimized if the long-term investment mix is maintained over a holding period of three to five years.

A comfort level with investment risk influences how aggressively or conservatively a portfolio can be invested. Risk needs to be balanced with the need for returns to achieve the investment goals. The Board of Trustees is comfortable with **a low to moderate level of risk** as the Board is investing "other peoples' money." The Board desires long-term investment performance sufficient to meet the objectives. The Board understands that to achieve such performance the portfolio may experience periods of decline. The Board further understands that in a severe market, the potential recovery period could be extensive.

Although the Board prefers to limit the portfolio's volatility, it is more concerned with preserving the value of the NTEF accounts than maximizing capital growth and can tolerate declines in value through a market cycle.

A historical rate of return on a portfolio is not a guarantee of future investment returns, nor an indication of expectations regarding future results. This Investment Policy and Procedures shall not be construed as offering a guarantee.

6.8 **Policy Review and Revisions:** The Board of Trustees reserves the right to amend the Investment Policy Statement at any time it deems such amendment to be necessary or to comply with changes in federal law as these changes affect the investment of the foundation's assets. The Board of Trustees will review the Investment Policy Statement at least every five years.

Board Approved 8.30.11