Investment Policy Statement – Hattie M. Strong Foundation

Established October 2010

Purpose:

The purpose of this Investment Policy Statement ("IPS") is to:

- Document and formalize Hattie M. Strong Foundation investment philosophy, portfolio goals, expectations, objectives and guidelines;
- Set forth specific process and asset allocation targets for managing the portfolio to achieve the Foundation's goals;
- Establish rebalancing guidelines to manage portfolio risk;
- Facilitate effective communication between investment professionals and the Foundation's governing board;
- Comply with all applicable fiduciary, prudence and due diligence requirements and local, state, federal and international laws, rules and regulations.

Background

The Hattie M. Strong Foundation was established in October, 1928 to promote "the welfare of society by assisting such religious, educational, charitable and philanthropic work or organizations as may be deemed worthy, and particularly, so far as practicable, to supply funds to young men and women of promise with which they may obtain adequate academic, technical and professional educations".

It fulfills this mission through the making of grants to educational non-profit institutions in the Washington DC area and the awarding of scholarships to college students.[1] Its term of operation is perpetual.

Primary Investment Goal

The Foundation's primary investment goal is to achieve portfolio growth sufficient to deliver reasonably consistent financial benefits to its beneficiaries over time.

This goal is established with the understanding that capital market conditions may preclude real portfolio growth after complying with IRS minimum distribution requirements.

[1] The Foundation is currently transitioning from its historical administration of a revolving interest-free college loan program to a scholarship program. All decisions made regarding investment policy have been made based on future needs related to anticipated future grant and scholarship programs, rather than past.

Portfolio Objectives

1. Maximize return within reasonable and prudent levels of risk.

2. Manage the portfolio on a "total return" basis in conformity within the tenets of Modern Portfolio Theory.

3. Maintain an appropriate asset allocation expected to support reasonably consistent benefits to the Foundation's beneficiaries while still offering the potential for positive real returns within the current 5% IRS minimum distribution requirement.

Investment Management Method

The Foundation embraces a low cost investment methodology characterized by broadly diversified holdings of passive and index fund investment vehicles. Such investments will generally be bought and sold for the purpose of meeting cash flow requirements and to bring asset allocations back within established ranges, rather than for the purpose of trying to "beat the market".

Risk Tolerance

The Foundation must balance competing goals of providing consistent year-over-year operational and program-related funding while providing for enough portfolio growth to offset the impact of inflation on real spending power of the portfolio's principal.

Consistent with an ultra-long time horizon and the need to generate sufficient returns to support both portfolio growth and legal distribution requirements, the Foundation believes it is appropriate and necessary to bear a significant level of equity risk in its portfolio. The Foundation also believes that an allocation to fixed income is necessary to provide more consistency in annual returns and to reduce the unpredictability of support funding.

Investment Costs

Minimizing investment costs is an express imperative of this Investment Policy. It shall be the duty of the Board, the Finance Committee, Foundation executives and all retained consultants to consistently and scrupulously seek cost-effective investment vehicles in the construction, management, and administration of the Foundation's portfolio.

Appropriate Asset Classes

The Foundation accepts the investment philosophy that long-term portfolio performance is largely determined by strategic asset allocation. While interest-generating investments such as bonds offer relative stability of principal value, they provide little opportunity for real long-term capital appreciation. Equity investments offer significantly higher expected returns, but at the cost of higher risk. Broad diversification across different equity markets (both geographic and capitalization size) can improve the risk-adjusted returns of a portfolio.

Balancing the risks and rewards of each broad asset class, the following asset classes are deemed appropriate for investment:

- Cash
- Treasury Inflation Protected Securities (TIPS)
- Investment Grade Bonds
- Real Estate Investment Trusts (REITs)
- Large Capitalization U.S. Stocks
    - Growth
    - Value
- Large Capitalization Developed International Stocks
- Small Capitalization U.S. Stocks
    - Growth
    - Value
- Small Capitalization Developed International Stocks
- U.S. Micro Cap Stocks
- Emerging Markets Stocks

Acceptable Investment Vehicles

Passive exposure to the appropriate asset classes is the preferred portfolio strategy for achieving the Foundation's long-term financial goals. Low cost mutual funds and Exchange Traded Funds (ETFs) shall be deemed acceptable investment vehicles for implementation of the Foundation's portfolio objectives.

Rebalancing Policy

Periodic rebalancing is considered an important element of portfolio management. It ensures that strategic asset allocation does not depart more than proscribed limits from policy and thereby serves as an important risk management tool. In the case of similar-returning asset classes that are less than perfectly correlated, periodic rebalancing can sometimes contribute to modestly improved returns.

Rebalancing of Foundation investments should take into consideration established asset allocation targets and the potential costs of rebalancing. Rather than specifying "fixed period" rebalancing, the Foundation's policy shall be to establish specific allocation bands for each asset class and to rebalance the portfolio only when individual asset classes breach their bands.

Custodial Services

Foundation investments shall be held in the lowest cost custodial accounts available, taking into account basic reporting and online services necessary to properly administer the portfolio.

Cash Flow Management

The Foundation's cash flows shall be managed efficiently. To the extent that incoming cash flows exceed operating expenses (plus an amount necessary to maintain sufficient operating cash balances), such excess cash will be invested pursuant to the policy asset allocation. When disbursements are required, liquidations shall be made mindful of transaction costs and established asset allocations.

Investment Support

The Foundation shall retain such professional investment support as it may require to implement and administer this Investment Policy. It is anticipated that such advice will take the form of professional consulting and oversight services provided on an hourly basis rather than bundled services delivered within the construct of an asset-based fee. Such support services may include, but are not be limited to:

- Making initial asset class and allocation recommendations;
- Identifying suitable custodial and asset class investment vehicles;
- Monitoring the portfolio within rebalancing guidelines;
- Overseeing cash flow management to ensure integrity of portfolio allocation;
- Monitoring investment platforms to ensure that Foundation is utilizing lowest cost, most efficient vehicles from providers, as applicable;
- Preparing support materials for periodic HMSF meetings or review;
- Other services as required.

Periodic Review

The HMS Finance Committee shall meet no less than semi-annually to review the portfolio with respect to performance, changes in the asset allocation resulting from market fluctuations, rebalancing requirements and possible inclusion of additional or substitute asset classes or investment vehicles.

The Finance Committee shall review this IPS on an annual basis to determine whether stated investment objectives remain relevant to the Foundation's needs and circumstance and will report its activities to the full Board at regularly scheduled meetings.

As the portfolio consists primarily of "passive" investment vehicles that do not rely on security selection, performance will be reported for each investment vehicle relative to its respective benchmark. In addition, performance of the equity portion of the portfolio will be measured relative to the FTSE All-World index in an effort to quantify the added value of any portfolio "tilts".

1. Large Capitalization U.S. Equities (S&P 500)
2. Small Cap U.S. Equities – S&P 600 and S&P 600 Value/Russell 2000 and Russell 2000 Value
3. Investment Grade Taxable Bonds (Barclays Aggregate)
4. Global Equities (FTSE All World)
5. International Equities – MSCI EAFE
6. International Small Cap – MSCI EAFE Small Cap
7. Emerging Markets Equities – MSCI Emerging Markets
8. REITs – MSCI U.S. REIT

Changes to Investment Policy

The investment policies of the Foundation are meant to be durable and lasting, with revisions made only occasionally and upon duly deliberate consideration of the impact such changes may have on the long term operations and viability of the Foundation. It is not anticipated that changes will be made to policy or portfolio allocations merely in response to short-term market fluctuations.

Addendum 1

Proposed Asset Allocations – Revised May, 2013

Asset Allocation Summary (80/20)			
Fixed Income			**20.0%**
TIPS			**0.0%**
REITS			**5.0%**
Equities			**75.0%**
U.S.			
	Large		34.0%
	Small		9.0%
	Total		43.0%
Developed International			
	Large		17.0%
	Small		7.0%
	Total		24.0%
Emerging Markets			8.0%