

## **I. INTRODUCTION**

This Investment Policy Statement for Third-Party Funds (the “Third-Party IPS”) reflects the investment policy, objectives, and constraints of any third-party managed accounts which utilize Third-Party Investment Managers (the “Managers”) recommended by the donor and selected by the Greater Houston Community Foundation (the “Foundation”). While the specific detail of the Foundation’s main Investment Policy Statement (the “IPS”) for Custodial Investment Pools does not apply, the general guidelines do apply and are summarized below.

Exceptions to the Third-Party IPS for specific accounts may be made with the formal written approval of the President of the Foundation and the Chair (or both Co-Chairs if there are two) of the Investment Committee (the “Committee”). This approval will contain an explanation for granting the exception. The Committee will review explanations for any exceptions granted during the year at the end of each calendar year.

## **II. GOVERNANCE & OVERSIGHT PROCESS**

The Board has the ultimate responsibility for the management of the assets of the Foundation, including any third-party managed funds. The Board has delegated the oversight of these assets to the Committee and Foundation staff, who in turn will review and approve all Managers and proposed investment policy including compliance procedures. It is expected that all Managers will comply with their own process to manage any third-party funds. All Managers will provide detailed monthly account statements and such other reports of portfolio structure, performance and investment strategy as the Committee or Foundation staff may reasonably request.

## **III. INVESTMENT OBJECTIVES, RISK & ASSET ALLOCATION**

The primary investment objective for each third-party fund is to exceed the performance of an appropriate benchmark over rolling five-year periods. The benchmark composition for each account will be determined at the onset of the relationship and will be reflective of the expected return and expected volatility which will be directed by the time horizon and spending level of the account.

Broad asset class exposure is expected to play the following roles in any account:

1. Equity provides exposure to long-term economic growth.
2. Fixed Income provides a mixture of first, stability to a portfolio’s returns during times of financial market distress and liquidity; and second, opportunistic exposure to mispricings and structural misperceptions.
3. Real Assets provide stability to a portfolio’s returns relative to inflation.
4. Alternatives/Multi-Strategy provides absolute return focused exposure and may have ability to invest across asset classes.

The mix of asset class exposure for each account should be in line with its investment objectives and risk tolerance. Asset allocation for each account will comply with the following guidelines:

	<b>Long-Term Growth <u>Oriented</u></b>	<b>Growth &amp; Income <u>Blend</u></b>	<b>Income <u>Oriented</u></b>	<b>Short Term <u>Money Market</u></b>
<b>Expected Time Horizon:</b>	>10 years	5-10 years	<5 years	<1 year
<b>Broad Asset Allocation:</b>				
Equity	>60%	40-60%	<40%	0%
Fixed Income	<40%	40-60%	>60%	100%

The Foundation recognizes that, because of overall market conditions, there may be certain short-term periods that a third-party account does not achieve its risk-adjusted performance goal. Short-term volatility will be tolerated in each account as long as its aggregate volatility does not exceed the expected volatility of its benchmark over any three-year period.

#### **IV. COMPLIANCE PROCEDURES**

In seeking to attain the investment objectives set forth, Managers shall exercise loyalty, prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act as passed in the state of Texas (TEXAS PROPERTY CODE § 163 (2007)).

Managers must be registered with the U.S. Securities and Exchange Commission (SEC), willing to accept fiduciary responsibility including required disclosures and maintain compliance with their own compliance procedures. Managers will confirm such compliance as requested by the Foundation. Managers will also have the following responsibilities as they pertain to:

1. Investment Strategy
  - a. Managers will take responsibility for designing an asset allocation appropriate for the account, taking into consideration the expected time horizon of the account, risk preferences of the donor, and targeted spending levels. Investment strategy and ongoing management of the account will be consistent with all guidelines in this Third Party IPS.
  - b. Managers will exercise full discretionary authority as to all buy, hold, and sell decisions for each security under management.

2. Reporting

Managers will produce a statement at the end of each month describing the portfolio asset class weightings, individual security positions showing both cost and market value, and all principal cash transactions, including all buys and sells in sufficient descriptive detail. For commingled assets, this statement should show unit position, unit value and relevant portfolio characteristics.

In addition to monthly statements, Managers must provide the Foundation with annual statements at the end of the calendar year. These consolidated annual statements should include:

- a. The investment strategy with which the account complies.
- b. The consolidated return of the account's investments for the calendar year.
- c. All fees attributable to the investment of the account for the calendar year.

**3. Performance Review and Evaluation**

Managers will participate in a meeting with Foundation staff as requested to review performance, asset allocation and investment strategy.

**4. Brokerage**

Selection of brokers is at the sole discretion of the Managers. Managers will use best efforts to obtain brokerage services based upon consideration of the twin objectives of best execution of trades and the lowest net cost to the Foundation. The Foundation reserves the right to direct brokerage services for any or all Managers when this is deemed to be in the best interests of the Foundation.

At the request of the Foundation or at least annually, the Managers of any separately managed account will provide detailed soft dollar budgets, as well as summaries of all transactions, showing executing broker/dealer and commissions paid.

**5. Voting of Proxies**

It shall be the policy of the Managers to use their best efforts to vote proxies for the exclusive benefit of the Foundation.

**6. Custody**

All assets are expected to be held in custody with a "qualified custodian<sup>1</sup>" as defined by the SEC. Foundation staff will review and approve all custody relationships.

---

<sup>1</sup> The SEC defines a "qualified custodian" as one of the following: (i) A bank as defined in Sec 202(a)(2) of the Advisers Act [15 U.S.C. 80b-2(a)(2)] or a savings association as defined in Sec 3(b)(1) of the Federal Deposit Insurance Act [12 U.S.C. 1813(b)(1)] that has deposits insured by the Federal Deposit Insurance Corp. under the Federal Deposit Insurance Act [12 U.S.C. 1811]; (ii) A broker-dealer registered under Sec 15(b)(1) of the Securities Exchange Act of 1934 [15 U.S.C. 78o(b)(1)], holding client assets in customer accounts; (iii) A futures commission merchant registered under Sec 4f(a) of the Commodity Exchange Act [7 U.S.C. 6f(a)], holding client assets in customer accounts, but only with respect to clients' funds and security futures, or other securities incidental to transactions in contracts for purchase or sale of a commodity for future delivery and options thereon; and (iv) A foreign financial institution that customarily holds financial assets for its customers, provided that the foreign financial institution keeps the advisory clients' assets in customer accounts segregated from its proprietary assets.

**V. MANAGER ACKNOWLEDGEMENT**

Signature below confirms receipt and indicates acceptance of this Third Party IPS.

Such acknowledgement was executed on this \_\_\_\_\_ day of \_\_\_\_\_.

Manager Firm Name: \_\_\_\_\_

Manager/Authorized Representative's Name: \_\_\_\_\_

Manager/Authorized Representative's Signature: \_\_\_\_\_