

# Community Foundation of North Central Massachusetts, Inc.

## Investment, Distribution and Fee Guidelines

### **Investment Options**

The donor may select an investment objective that best suits the fund's intended purpose. The Foundation provides information on performance, asset allocation, and fees for each of two investment options, the Balanced/Growth option and the Capital Preservation option. An explanation for each investment option follows:

**Short Term Fund (Less than 3 years)** – The primary investment objective of this Fund is stability of principal. This fund is appropriate for non-endowed funds or other situations where funds can be withdrawn with little or no advance notice, and/or in situations where only minimal fluctuations to principal can be tolerated. Agencies and donors with time horizons under three years should consider this strategy.

**Medium Term Fund (3-5 Years)** – The primary investment objective of this Fund is to provide payouts with moderate year to year volatility. This Fund may experience some reduction of purchasing power over time due to inflation. This fund is appropriate for endowed funds that require minimal, or no, nominal growth (before inflation) after payouts, or non endowed funds that have a time horizon that is between three and five years. This fund will most likely experience moderate fluctuations to principal.

**Long Term Fund (5+ Years)** – The primary investment objective of this Fund is preservation of purchasing power to provide a relatively stable, inflation adjusted, annual payout to support grant-making or other donor missions. This Fund is appropriate for endowed funds or non-endowed funds with time horizons beyond five years. There will be some inevitable volatility in principal value from this strategy but it may offer the potential for a sustainable payout plus inflation protection, understanding that this may result in a less stable payout from year to year.

### **Distribution Policies**

#### ***Endowment Funds***

The Community Foundation of North Central Massachusetts has adopted a total return approach to investment management under the Uniform Management of Institutional Funds Law for Permanent Endowment Funds. This allows the Foundation to capture more of the historically higher appreciation in the equity markets. "*Total return*" is a term used to describe the total change in fund value over a given time period that results from both income (interest and dividends) and capital appreciation (realized and unrealized gains).

Under this approach, a fund's income for grant making and/or distributions will be calculated by using a "***spending rule***" – a fixed annual rate established by the Foundation's Board of Trustees and defined as a percentage of the market value of the assets in the fund. For example, a spending rule for a given year might be 5% of the four-year average of a component fund's asset value. The amount available for grant making determined by this spending rule can include interest and dividend income, as well as realized and unrealized gains. Currently the spending rule is 4.5% of the average market value over the past 20 quarters. No distributions are allowed for one year from the time the endowment fund is established. Grants from the permanent endowment will be made at the June Trustees' meeting.

*It is important to note that depending on market conditions, in some years the spending rule may require the distribution of a portion of the principal balance in a fund.*

### **Donor Advised and Scholarship Funds**

The Foundation will from time to time receive advice from donors or their designees regarding disbursements from donor advised, or scholarship funds. This advice will be considered upon written request to the Foundation. The President and/or the Executive Committee of the Foundation are authorized to consider this advice and make distributions. (Please note that IRS regulations prohibit distributions to fulfill pledges and/or to secure benefits from the distribution recipient.) Disbursements will occur on the closest of the following dates: March 30, June 30, September 30 or December 30, unless otherwise agreed. The Foundation will send a letter to the donor or designee, confirming the action taken regarding his or her advice.

As Founder you may appoint new advisors at any time by submitting them in writing to the Foundation.

### **Reports**

The Foundation will provide donors or designees with quarterly Status Reports on the Fund's activity and performance. An Annual Investment Performance Report for each fund is included with the Status Report to be mailed following the June 30 fiscal year end.

### **Administrative Fees**

Administrative tasks associated with the management of funds include investigation of grants, receipt and acknowledgement of contributions, payment of grants, oversight of investment management, and compliance with federal and state reporting requirements. To support these activities, the Foundation charges a tiered annual fee ranging from 1% to 0.10% of the fund's market value. The fee is calculated as 1/12<sup>th</sup> of the fund's market value at the end of each month. The tiered fees are broken down as follows:

First \$2,000,000	1.0%
Next \$3,000,000	0.25%
Amounts Above \$5,000,000	0.10%

*A note about administrative fees: Fees not only support administrative operations, but also fund a portion of the Foundation's work in the community.*

### **Short-Term Fund Administrative Fees**

Non-endowed funds are invested for capital preservation and liquidity, in money market type investments. These funds are designed to be spent down over a relatively short period of time, for a donor's annual grant-making or a special project such as a building fund.

Fees charged for this type of fund are assessed monthly on the fund balance at a 1% annual rate. If the fund has a duration of less than one year, the minimum fee is 1% of the average monthly balance during the time the foundation holds the funds.

*A note about administrative fees: Fees not only support administrative operations, but also fund a portion of the Foundation's work in the community.*

### **Investment Management Fees**

The Investment Management Fee is based on a graduated scale depending on the amount of funds the Foundation has invested. The fee is calculated by taking the investments' market value at the end of the month multiplied by the current rate and then dividing by 12.

As of July 2005 the Investment Management fee rate for the Short Term fund is 0.10% per year.

As of July 2005 the Investment Management fee rate for the Medium Term and Long Term funds is 0.45%. Such fees are charged to the income and/or principal of the fund.

Initial: \_\_\_\_\_

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