

# **MONTGOMERY VILLAGE FOUNDATION, INC.**

## **RESERVE FUND INVESTMENT POLICY**

### **I. Purpose**

The purpose of the Reserve Fund Investment Policy is to establish the criteria by which the funds will be invested, reported and measured. Reserve funds include all cash and investments specifically designated by the Board of Directors for the future repair and replacement of MVF assets and/or acquisitions of new Village-wide amenities funded by the Capital Contribution Fee.

### **II. Investment Objectives**

The primary objectives of this portfolio are:

- A. To preserve capital on a real return basis after inflation with a secondary objective of a moderate growth of capital.
- B. To maintain liquidity of assets for cash flow needs.

### **III. Asset Allocations**

<b>CATEGORY:</b>	<b>TARGET</b>	<b>RANGE</b>
<b>Cash</b>	<b>5%</b>	<b>0% – 10%</b>
<b>Equities</b>	<b>20%</b>	<b>10% – 30%</b>
<b>Fixed Income</b>	<b>70%</b>	<b>65% – 90%</b>
<b>Real Assets</b>	<b>5%</b>	<b>0% – 10%</b>

When possible, new contributions and/or reinvestments of assets should be used to rebalance the allocation classes, but a review and rebalancing of the classifications will be done at least annually or when market conditions dictate, with a goal to maintain the investments within the target/range as defined above.

### **IV. Eligible Investments and Guidelines**

The following are eligible investments for this portfolio:

- A. Cash in money market or like financial instruments
- B. Fixed income securities:
  - 1. US Treasury bonds, notes and bills
  - 2. Federally insured certificates of deposit.
  - 3. Investment grade corporate bonds holding at least an 'A-' (S&P/Fitch) or 'A3' (Moody's) rating at the time of purchase.
- C. Equity Securities – domestic and international stocks.
- D. Real Assets – limited to publicly traded securities in the following categories:
  - 1. Real Estate
  - 2. Inflation-linked securities
  - 3. Commodities

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- E. Mutual funds and Exchange Traded Funds are allowable provided they invest in the securities deemed to be allowable above
- F. Diversification
  - 1. No more than 10% of the total portfolio combined may be in the securities of any one issuer with the exception of obligations of the US government and its agencies and federally insured instruments.
  - 2. No more than 20% of the total portfolio combined may be in the securities of a particular industry.

### **V. Approval of Investment Transactions – approval authorities for the transactions are limited by the transaction amount as follows:**

- |                                     |                                     |
|-------------------------------------|-------------------------------------|
| A. Treasurer                        | Transactions up to \$250,000        |
| B. Treasurer & Investment committee | Transactions \$250,000 to \$500,000 |
| C. MVF Board                        | Transactions over \$500,000         |

Transactions occurring within 7 days will be considered in aggregate for the above approval thresholds.

MVF's Investment Advisor shall have discretion to execute trades **within** sub-asset class, without prior approval, up to the \$500,000 transaction threshold. By definition, sub-asset classes include: large cap U.S. equity, mid cap U.S. equity, small cap U.S. equity, developed international, emerging markets, fixed income, inflation linked securities, commodities, and real estate.

Any changes **between** sub-asset classes or broad asset classes as defined by section III of the Investment Policy (equity, fixed income, real assets, or cash) require prior approval as per Section V. A-C.

### **VI. Performance Measurement**

The investment return of the Reserve Fund is expected to meet or exceed the rate of return of its own custom index of relevant and recognized indices in the same proportion as the actual allocation of each asset class in the portfolio. The composition of the custom index will be provided by the investment advisor as part of the performance reporting in Section VII. Generally, the portfolio will be compared to the following:

- |                 |  |
|-----------------|--|
| A. Cash         | Merrill Lynch 90-day Treasury Bills Index              |
| B. Fixed Income | Merrill Lynch 1-3 year Treasury notes                  |
| C. Equities     | 60% of the Russell 3,000<br>40% of the MSCI ACWI EX US |
| D. Real Assets  | 50% Inflation-linked bonds<br>30% Real Estate          |

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20% Commodities index

### **VII. Reporting**

The Foundation will use the services of an investment advisor(s) to implement and monitor adherence to the investment strategy in this policy. The advisor(s) are expected to recommend and transact purchases and sales of investments that meet the investment criteria within this policy and will monitor and provide timely reporting of the investment performance.

A. The investment advisor will provide the Treasurer and Investment Committee a review outlining the following:

1. The overall performance for the quarter, year-to-date and since inception,
2. The portfolio's performance relative to a custom index based on the target asset allocation,
3. The current portfolio asset allocation and deviations from target/range allocations specified in Section III,
4. Recommendations to buy sell or otherwise improve the portfolio within the limits of the policy statement.

B. Each quarter, Treasurer will report the following to the MVF Board:

1. The allocations comprising the portfolio.
2. The performance of the portfolio as specified above.

### **VIII. Conflict of Interest**

No Foundation Board member or staff member, or any committee member may participate in the making of an investment decision if he/she or any family members, to his/her knowledge, has a direct or indirect financial or other interest in such investment decision. If such an interest exists, the person concerned must disclose the interest and shall be disqualified from participating in the investment decision

Approved: October 27, 1988

Reaffirmed by MVF Board of Directors, May 23, 1991

Reaffirmed by MVF Board of Directors, April 28, 1994

Revised and approved by MVF Board of Directors, January 23, 1997

Revised and approved by MVF Board of Directors, October 22, 1998

Revised and approved by MVF Board of Directors, February 26, 2009

Revised and approved by MVF Board of Directors July 24, 2014

Revised and approved by MVF Board of Directors December 4, 2014