

Investment Policy

Rotary Club of Michigan City Foundation, Inc.

PREAMBLE:

All funds of Rotary Club of Michigan City Foundation, Inc. (RCMCF) are held by the Board of Directors as a fiduciary. The following investment objectives and directions are to be judged and understood in light of that overall sense of stewardship.

DELEGATION:

The Board of Directors has supervisory authority over its financial affairs. The Treasurer is responsible for regularly reporting on investments to the full Board. In carrying out its responsibilities, the Board and its agents will act in accordance with the Investment Policy (Policy) and all applicable laws and regulations. The Board reserves the authority to approve any revisions to the Policy.

I. Foreword to Investment Policy:

The following Investment Policy for RCMCF has been developed from an evaluation by the Board of the needs and circumstances of RCMCF.

The following Investment Policy is intended to serve as a policy blueprint outlining how RCMCF's assets are to be structured and supervised. Any specific portfolio guidelines will be contained in separate documents.

RCMCF will invest the assets in accordance with the Indiana Uniform Prudent Investor Act.

II. Summary of Conditions and Assumptions:

This Policy is based upon several pertinent conditions and key underlying assumptions which are as follows:

A. RCMCF Circumstances

1. RCMCF is a permanent charitable organization which is intended to be in existence for the indefinite future.

2. Given its fund-raising expectations, RCMCF does not anticipate the need to sell existing portfolio assets in order to fund grants/scholarships or as necessary to fund expenditures related to other gifts. Therefore, the portfolio assets are long-term in nature.
3. There are two general sources of cash inflows. The first source consists of special gifts that are nonrecurring in nature. The second source of funds is generated from routine fund-raising activity.
4. Given the charitable nature of RCMCF, liquidity needs may vary from year to year. These liquidity needs will be reviewed and addressed by the Board.

B. RCMCF Objectives

1. It is RCMCF's objective that asset growth will continue through receipt of special gifts, routine fund-raising efforts, capital campaigns, and the appreciation of investments over time.
2. As part of its current growth objective, RCMCF's investment portfolio should be invested for asset growth with investment income being of secondary importance.
3. In order to preserve and expand its charitable spending powers, the RCMCF's investment portfolio must earn a return in excess of inflation.

C. Capital Market Assumptions

1. The U.S. economy will remain largely a free enterprise system without governmental ownership or direct control of major industries.
2. While the growth rates of the national economy, inflation levels, and interest rate patterns may not replicate past experience, the basic risk/return relationship between various classes of investments will remain consistent with the past. The assumption being made is that over long periods of time, classes of investments with higher fundamental risk characteristics will provide higher real returns than those with lower fundamental risk characteristics.
3. In order to quantify future risk and return expectations, the past risk and return histories of various classes of investments will be utilized with the understanding that they are intended to be representative of the relationships and magnitude of risk and return variations rather than precise targets to be attained.

III. Investment Policy:

- A. **Portfolio Structure** – In order to simplify administration and Policy implementation, the Board has determined to disaggregate RCMCF portfolio into two separate and distinct funds; the RCMCF Checking Account and the RCMCF Investment Account.
- B. **Spending Policy** – The Spending Policy applies to both the accounts. The Maximum Spending Policy should not exceed the combination of the following three components.
1. All fundraising contributions are available for spending unless otherwise directed. All bequests ~~or contributions of \$ or greater~~ will be added to the Investment Portfolio of RCMCF unless the donor or the Board shall otherwise direct.
 2. Investment income and earnings are available for spending. Maximum Spending, in a calendar year, is calculated by taking 5% of the market value as of December 31 of a prior year.
- C. **Asset Allocation** – The major determinant of short-term investment risk exposure and long-term return levels.
1. The Board has the authority to determine the overall target asset allocation for the RCMCF Portfolio. The Board will define the target asset allocation deemed most appropriate for the needs of the RCMCF Portfolio.
 2. As the asset growth permits, the portfolio asset allocation will be diversified to achieve a long-term target asset mix of:

0 – 10 %	Cash Equivalents
10 – 20 %	Fixed Income
70 – 80 %	Equities

This is believed to be the optimal allocation to provide a high long-term return potential with an acceptable level of related volatility risk.
 3. A range of $\pm 10\%$ has been identified as an acceptable degree of variation in the portfolio's equity/non-equity mix. The committee will review portfolio composition on a semi-annual basis and, if deemed necessary, will direct those assets be shifted over a 3-6 month timeframe to bring the portfolio within the acceptable range of asset allocation.
 4. The Committee has determined that a significant holding of a single stock is not conducive to the objective of a diversified portfolio. As such, no one stock will comprise more than 10% of the equity allocation.

5. Any permanently restricted gifts will be administered in accordance with The Indiana Uniform Prudent Investor Act.

D. Investment Return Objective

1. The Board expects the above defined target asset allocation to earn an average long-term annual rate of return in excess of inflation measured over the policy planning horizon as defined below. A minimum return equal to the rate of inflation is required to preserve real purchasing power.
2. The Board understands and expects that the actual, real rate of return can and will deviate from the average expected return during any single measurement period. The Committee has studied the range of potential returns over various time frames based upon historical rate of return studies and is comfortable with the periodic variability inherent in this asset allocation.
3. Investment results will be measured on a time weighted total rate of return basis which takes into consideration the timing of cash flow and includes both income and changes in market value.

E. Planning Horizon

1. Definition: The investment policy planning horizon is the period of time allocated for the execution of the Policy and the achievement of investment objectives. Changes in the liquidity needs or funding trends will signal changes in the portfolio objectives and a corresponding change in the planning horizon.

RCMCF is expected to continue operations into the foreseeable future. Consequently, the Board has the basis to adopt a long-term planning horizon of at least 25 years. While this planning horizon is intentionally very long-term in nature, the needs and circumstances of the charity and its investment policy objectives will be periodically reviewed for changes as required.

F. Investment Manager Selection Criteria

1. Investment manager selection shall be the responsibility of the Board.

G. Investment Guidelines

1. Cash Equivalents
 - * Treasury Bills
 - * Money Market Funds
 - * Commercial Paper

- * Banker's Acceptance
 - * Repurchase Agreements
 - * Certificates of Deposit
2. Fixed Income Securities – Rate A or Better
- * U.S. Government & Agency Securities
 - * Corporate Notes & Bonds
 - * Mortgage Backed Bonds
 - * Preferred stock
 - * U.S. Dollar Denominated, Developed Investment Grade Fixed Income Securities of Foreign Governments & Corporations
 - * Collateralized Mortgage Obligations
 - * Asset-Backed Securities
3. Equity Securities
- * Common Stocks
 - * Convertible Notes & Bonds
 - * Convertible Preferred Stocks
 - * American Depository Receipts (ADRs) of Non-U.S. Companies
 - * Stocks of Non-U.S. Companies (Ordinary Shares)
 - * REITs
 - * ETFs
4. Mutual Funds
- * Mutual Funds which invest in securities as allowed in this statement
 - * Mutual Funds investing in Commodities or Commodities Derivatives.
 - * Other ETFs

H. Prohibited Assets

Direct investments in the following:

Prohibited investments include, but are not limited to the following:

1. Commodities & Commodity Futures Contracts
2. Options
3. High-risk derivatives (as defined by those derivatives where the expected price volatility of the market value may fluctuate as a multiple of the underlying security)
4. Swaps
5. Unregistered of "letter" stock
6. Any investment designed to lever the portfolio

I. Prohibited Transactions

Direct investments in the following:

Prohibited investments include, but are not limited to the following:

1. Short Selling
2. Margin Transactions
3. Any transaction deemed to lever the portfolio

IV. Review and Revision of Statement of Investment Policy:

- A. The Board will review this Policy at least annually to ensure that its provisions continue to be reflective of the needs and circumstances of RCMCF.
- B. A special Policy review will be required when it can be objectively proven That one or more of the basic conditions and assumptions listed in Section II are no longer valid. This list of conditions to be monitored is not intended to be fully comprehensive, and other factors may cause the Board to review this Policy so long as the Board is persuaded that they are sufficiently critical to warrant a Policy change.
- C. Any revisions to this Policy must be approved by the Board.