

SANFORD-SPRINGVALE ROTARY SCHOLARSHIP FUND

MISSION AND INVESTMENT POLICIES

MISSION STATEMENT

The mission of the **Sanford-Springvale Rotary Scholarship Fund** is to advance the cause of education in our community by providing financial assistance to area high school graduates to enable them to pursue a postgraduate education.

More specifically stated, the primary purpose for which the Corporation is formed is to advance the cause of education and to provide financial assistance to graduates of Sanford High School, Massabesic High School, Noble High School and the Sanford Regional Technical Center in order to enable them to pursue or continue a two or four year college, or a vocational training school with a two year program, or the equivalent. Such financial assistance shall be available to graduates of Sanford High School, Massabesic High School, Noble High School and Sanford Regional Technical Center on a nondiscriminatory basis.

A determination shall be made annually as to those students who may be academically and financially deserving of a scholarship. The determination shall be made by the **Sanford-Springvale Rotary Club's Scholarship Selection Committee** based upon recommendations by the school's teachers, administrators, and guidance counselors and, as appropriate, a personal interview.

Scholarships shall be awarded to students who demonstrate leadership potential, initiative, strong educational goals, contribution to the community, participation in extracurricular activities, and financial need. All members of the senior class are eligible to apply.

Children or grandchildren of members of the Sanford-Springvale Rotary Club shall not be eligible for these scholarships.

GIFT ACCEPTANCE POLICY STATEMENT

The **Sanford-Springvale Rotary Scholarship Fund (the Fund)** welcomes gifts and bequests from individuals and organizations that share the Fund's commitment to providing financial assistance to deserving youth in this community. The Fund's Directors encourage prospective donors to familiarize themselves with the organization's mission statement and its investment and spending policy. The mission statement is described above and the investment and spending policy are outlined in a separate statement.

To the extent that the terms of gifts and bequests are compatible with the mission and the investment and spending policies of the Fund, they will be welcome additions to the principal of the Fund. Gifts and bequests that entail restrictions as to use or purpose that conflict with the Fund's policies cannot be accepted. Those who contemplate such restrictions are encouraged to meet with the Fund's representatives to explore alternatives that could be mutually satisfactory.

INVESTMENT POLICY STATEMENT

Principles & Assumptions

For the sake of those who will succeed us as overseers of the **Sanford-Springvale Rotary Scholarship Fund**, we outline below the principles that underlie the policies in this document.

First, we are long term investors. This enables us to purchase long term assets, such as equities and/or equity based mutual funds that tend to provide high returns and good income growth over many years but whose price volatility precludes their use by those with shorter time horizons. By keeping a long term view in mind at all times, we hope to weather the periodic bad times when investors with short term orientations tend to quit the game. We expect this long term view to provide us with better long range results than will be earned by those who pick short term investments or who abandon ship during turbulent times.

Second, we expect equities or equity based mutual funds to provide greater returns, over the long term, than bonds or bond funds or cash. We say this knowing that both economies and markets suffer periodic (but normally brief) declines, and knowing that there have been and will continue to be some periods when cash and bonds outperform stocks.

Third, we expect the American economy to grow, in real (inflation adjusted) terms. We expect the economy to show modest real growth over full business cycles, even after allowance for occasional recessions. We expect stock prices to grow somewhat in line with the economy, although the naturally volatile nature of stock prices makes such growth invisible except when observed over periods of several decades. We expect dividends from stocks to grow slightly faster than inflation, more or less in line with the economy, and to fluctuate much less than stock prices do.

Fourth, we expect continued inflation. We believe some inflation is a natural by-product of our present political process. Its timing and severity we cannot predict, but we believe it will be of sufficient magnitude that to ignore it would damage our ability to meet our long term objectives.

Finally, our definition of risk is not the common one. Most investors define investment risk in terms of the volatility of short term total returns. This is appropriate for funds with a very short term time horizon, but inappropriate for a perpetual fund such as ours. Our endowment bears three potential kinds of risk. One comes from any mismatch between the cash flows out of the Fund and the cash flows coming in. Another source is the possibility that the assets we select do not do what we expect them to. The final form of risk is that of reacting inappropriately at an emotional period, most likely after a severe market decline. We hope to minimize these risks to as great a degree as is possible without harming the endowment's long term objectives. Because we have no intention of spending principal funds, we see risk in terms of threats to our income stream. Market value fluctuations do not matter.

II. Objectives

Recognizing that the establishment of these guidelines neither ensures their achievement nor limits what might be actually achieved, we set forth below our investment objectives in order of priority:

- (1) To provide the Fund with as much spendable income as possible to meet its needs now and in the future without favoring one period at the expense of the other. Said differently, we want the spendable income to rise as fast as inflation.
- (2) To have the spendable income stream be somewhat predictable in the near term and to have the real spendable income not decline significantly at any time.

- (3) To keep the market value of the endowment assets whole, after inflation, while recognizing that security price gyrations may keep market values over or underpriced for several years at a time.
- (4) To avoid risks that might reasonably impair our ability to meet Objectives 1, 2 and 3.

The stock and bond markets do not offer so-called free lunches: securities with high current income returns offer little or no income growth, while those that offer good income growth have modest or low current income returns. The table below shows the three asset classes used in this endowment.

<u>Asset Type</u>	<u>Investment Purpose</u>	<u>Expected Total Return</u>	<u>Time to Realize Expected Return</u>
Cash	Defensive	Lowest	Very Short
Debt Securities	Fixed & Predictable Income	Moderate	Medium
Equity Securities	Growing income and Principal	Highest	Very long

III. Strategy

Because of the very long term nature of our obligations, and their being denominated in real dollars rather than nominal dollars, the Fund ordinarily will be invested mostly in equities. The investment manager(s) may deviate from this standard whenever they deem it advisable, but only within the limits set down under Restrictions below.

The normal asset allocation for this Fund will be 25% bonds, 75% equities, and a negligible amount of cash.

The objective of the equity portion of the portfolio will be to provide a dividend stream that grows at least as fast as the inflation rate.

The objective of the bond portion of the portfolio will be: first, to dampen overall price volatility enough to dissuade future trustees from liquidating stocks at an adverse moment; second, to provide a high but stagnant income stream to supplement the modest current income from stocks; and third, to provide an insurance fund which can be drawn upon in an emergency.

IV. Restrictions

While realizing that all investments involve both uncertainty and risk, and that some (but not all) kinds of risk bear long term rewards, we do not wish to take unnecessary risks with the endowment portfolio. Assets allocation will be bound by the following limits.

Cash & Cash Equivalents	0% to 10% of portfolio
Debt Securities (2)	15% to 35% of portfolio
Equity Securities (3)	65% to 85% of portfolio

(2) Including bank savings certificates with maturities beyond 6 months.

(3) Including convertible bonds and preferred stocks.

At least 80% of the debt securities must be issues rated A or better by a major national rating service. If this restriction is exceeded because of a downgrading of securities already in the portfolio or because of price appreciation, those securities may remain in the portfolio; however, the managers may not purchase any more such issues until those in the portfolio fall back below these limits. At least 80% of fixed income mutual funds must be rated 4 star or better by **Morningstar, Inc.**

If the **Scholarship Fund Committee (the Committee)** chooses to have separate managers for the bond and equity portions of the Fund, then each manager must abide by the cash restriction shown above.

V. Spending Policy

The **Scholarship Fund Committee (the Committee)** will recommend the level of spendable income to the Board of Directors annually. We expect that spendable income will grow roughly in line with inflation in the future (except when there are significant capital gifts to the Fund, which would permit the spending rate to grow at a faster pace.

The spending policy of the Fund is to allocate for spending an amount not to exceed 5% of the rolling average of the invested portfolio for trailing three years. To assist in planning, the amount paid would be based on the completed three year period prior to the initiation of the budget process. For example, for the year ending December 31 2009, the calculation would be as follows:

12/31/2007	\$298,148
12/31/2008	\$196,207
12/31/2009	<u>\$229,381</u>
Total	\$723,736

$$\$723,936/3 = \$241,245$$

$$\$241,245 \times 5\% = \$12,062$$

The **Sanford-Springvale Rotary Scholarship Fund** has chosen to appropriate expenditures for intended purposes, either as much dividend income or as much of the net appreciation, realized and unrealized, as is prudent This policy is intended to be consistent with the Uniform Management of Institutional Funds Act of the State of Maine.

Further stipulations are as follows:

At no time will expenditures be allowed that would reduce the balance of investments below \$200,000. In the event that market losses reduce the balance below \$200,000, the spending from investments will cease until the remaining balance is restored to \$200,000. If, in the event that the market values should change significantly between

the time the Club budget is developed and the time a commitment must be made, the Committee will reassess its spending policy and determine if the budget projection for scholarship awards is within the policy guidelines.

In the event that the Directors wish to spend an amount greater than that determined by the method described above, the shortfall may be covered by contributions or fund-raising efforts separate from the Scholarship Fund.

In the event that the Directors wish to expend an amount less than that determined by the method described above, the excess will be reinvested in the Fund.

VI. Performance Measurement & Evaluation

Ultimately the success of this account will be measured against its stated objectives. The performance will be the result partly of the constraints and guidelines established in this Statement, and partly the results of the investment manager's actions.

Our inflation measure will be the Consumer Price Index for Urban Consumers.

VII. Supervision

The **Scholarship Fund Committee (the Committee)** will be solely responsible to the full Board of Directors for the administration of these scholarship funds, and will make periodic reports to the Board.

The Committee will consist of four (4) including the Treasurer and three (3) members at large appointed by the Board who may or may not be Board members. The present Committee commends to their successors the idea that large committees typically make very poor money managers.

The Committee will meet at least quarterly to monitor the performance of the investment manager(s). At least once each year the Committee will review this Policy Statement to ensure that it remains appropriate and is complete.

VIII. Instructions for Investment Manager(s)

The **Scholarship Fund Committee** requires prompt notice of any change in (1) the manager's fundamental investment strategy, (2) company policy regarding number of accounts managed per individual, (3) personnel or (4) firm ownership. We also request prompt notice of any deviations from the restrictions outlined in Section IV.

We request that the manager(s) provide quarterly statements showing the separate returns of the stock and bond portions of the account, as well as results for the whole portfolio (if managed by one manager). Each quarterly report should include a summary of activity during the period, the reason for such activity, and a statement concerning the tactics currently in use for carrying out the mandate of this Committee. The latter two may be presented orally rather than in writing.

