

The American Chestnut Foundation

Statement of Investment Policy

As approved by TACF Board of Directors – Board Approved: 08/13/2021

Introduction.

The American Chestnut Foundation (TACF) holds all investment assets in a fiduciary capacity to support its mission and purpose. These standards for investment are those of a prudent investor as articulated in applicable state laws. These investment objectives and directions are set forth to promote that stewardship.

Purpose of the Investment Policy.

The Board of Directors of TACF (Board) agrees that proper execution of its fiduciary responsibilities may, from time to time, call for additional resources to provide advice and guidance in investment decisions. The Board has established a committee (Finance Committee) that has adopted this Statement of Investment Policy (Policy). This Policy guides the management of investment assets. It is sufficiently specific to provide guidance while remaining flexible. This Policy is adopted by the Board in order to:

- define and assign responsibilities;
- offer guidance and limitations to the investment managers, if engaged, regarding the investment of operating reserves, capital reserves and other specific funds; and
- establish a basis for measuring performance and evaluating investment results.

Investment Objectives.

The primary investment objectives are:

- to protect and preserve the purchasing power of TACF's assets by earning a total return for each fund which is appropriate given the fund's time horizon, risk limitations and liquidity needs.
- to set forth the appropriate risk level based on TACF's tolerance for loss and desire for return;
- To establish appropriate asset allocations to assure liquidity for operating and capital project needs;

- To have appropriate controls and insurance to safeguard TACF's assets from theft, fraud, misuse, or insolvency of a custodian; and
- to make sure expenses of investment management are transparent and reasonable.

Responsibilities of the Finance Committee.

The Finance Committee will work closely with TACF staff member designated as the finance manager (Finance Manager) and President of TACF, and has authority, subject to Board approval, to hire custodians, investment managers, consultants, attorneys, auditors, or others fulfilling the fiduciary responsibility of the Board.

The primary responsibilities of the Finance Committee are to:

- understand cash flows of TACF in good and bad times and reduce long term risks by having adequate operating and capital reserves while also taking into account available credit lines;
- select qualified investment managers and custodians when and as deemed appropriate;
- meet annually with any investment managers to review the performance of portfolios, evaluate results and report back to the Board;
- review all costs associated with the management of the portfolios including manager fees, custodial costs, trading expenses, fund fees, and less transparent costs;
- coordinate with the Finance Manager to assure the availability of quarterly performance reports on all funds; and
- evaluate annually, with the Finance Manager and President, TACF's operating risk exposure to see that reserves are at realistic levels, including the short term flexibility provided by available credit lines.

Specific Fund Goals.

The following specific descriptions address the Operating Fund and Capital Reserve Fund. If other funds are added, similar guidelines will be provided. These guidelines will be evaluated periodically, **but at least every five years**

OPERATING FUND

Purpose. The Operating Fund, including operating, payroll, interest-bear accounts and lines of credit and short-term bonds, will provide sufficient cash to meet the budgeted financial obligations of TACF in a timely manner.

Investment Objectives. The investment objectives of the Operating Fund are:

- preservation of capital;
- high liquidity through investments with maturities limited to twelve months or less;
- low cost/operational efficiency minimizing service fees, transaction costs and internal administration costs; and
- readily accessible funds, when considered with available lines of credit and short-term bonds, adequate for a forward-looking period of six (6) months of normal operation.

Asset Allocation. The Finance Manager and/or Controller or any registered investment advisor retained by TACF shall be authorized to invest the fund as follows:

- certificates of deposit that are federally insured;
- interest bearing accounts that are federally insured;
- US Government securities;
- federal agency securities;
- money market funds investing in government sector; and
- short-term bonds

Reporting. The Finance Manager will report quarterly to the Finance Committee on interest income and investments held as part of the Operating Fund.

CAPITAL RESERVE FUND

Purpose. The Capital Reserve Fund will meet significant capital or organizational expenses planned in the budget and hold reserves for unexpected opportunities as well as difficult economic times when revenues decline. This fund is available for expenditures as conditions and criteria are met, and as approved by the full Board.

Investment Objectives. The investment objectives of the Capital Reserve Fund are:

- preservation and growth of capital;
- availability of funding for significant innovation or capital improvement; and
- income for at least 6 months' operations, over and above the operating fund.

Asset Allocation. This fund will maintain broad market equity exposure and fixed income investments. The allocation between these investments will be reviewed and approved by the Finance Committee periodically, and at least each year. The allocation of investments is addressed in a separate set of guidelines adopted from time to time by the Finance Committee (**TACF Investment Guidelines**).

Allowable investments. The Finance Manager and/or Controller or any registered investment advisor retained by TACF shall be authorized to invest the fund as follows:

- cash, cash equivalents, and short-term bonds as described for the Operating Fund;
- large, mid and small capitalization domestic equities;
- international equities;
- investment grade fixed income; and
- alternative investments with transparency.

Reporting. The Finance Committee will report to the Board, at least quarterly, the performance of the Capital Reserve Fund.

Spending Policy. Refer to **TACF Investment Guidelines** for current investment spending guidance.

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Investment Guidelines

As Approved by the TACF Finance Committee: March 16, 2021

Introduction. These investment guidelines (Guidelines) are adopted and modified from time to time as provided in TACF Statement of Investment Policy as approved by TACF Board of Directors. These Guidelines address asset allocation, donations of stock or other equities, and capital reserve spending.

Asset Allocation

The Finance Committee approves the range of asset allocation for the Capital Reserve Fund, this range of equities to cash and bonds (equities/cash & bonds) is from **60/40 to 90/10**. The Finance Committee will work with investment managers or directly with investment entities to adjust asset allocations based on market conditions, trends and outlooks. Changes in asset allocation within this range will be with Finance Committee approval, and Executive Committee of TACF Board concurrence.

Donations of Stock

TACF maintains a separate account in Capital Reserve Fund for donations of stocks and bonds. All donations are received into this account and transferred to an operating account unless they are restricted subject to donor instruction. Any departure from this rule for an individual donation will require Finance Committee approval.

Spending of Capital Reserves

The Capital Reserve Fund is intended for growth of the Foundation and emergency operational needs. Capital reserves are not intended for ongoing operational expenses. It is the guidance of the Finance Committee that the fund be maintained at a level at least sufficient to fund normal operations of TACF for a period of six (6) months, over and above the six-month reserve in operating accounts, for a total of twelve (12) months of reserves for operations (6 months in operating and 6 months in capital reserves).

In addition, any capital reserve funds in excess of the 6-month operating are available for capital expenditures if an expenditure meets Board-approved criteria and the expenditure receives full Board of Directors approval.

Qualifying criteria for capital reserve expenditures include, but are not limited to:

- exceptional Foundation growth opportunities such as innovative research opportunities;
- major capital improvements, only as approved in advance by the full Board of Directors.

EXAMPLE:

Assume Annual Operating Budget of \$2,800,000

Current Operating

Operating (Ops & Interest-Bearing) = \$1,300,000

Line of Credit = \$300,000

Bonds = \$750,000

Total Current Operating = \$2,350,000

OPERATING to be maintained at a minimum of \$1,400,000 (6 months of annual op expenses)

Current Capital Reserve Fund

Equity Fund = \$2,900,000

CAPITAL RESERVE to be maintained at a minimum of \$1,400,000 (6 mo annual op expenses)

Available expendable Capital Reserve = \$1,500,000