

Sample Investment Policy

The NFP has two investment pools: the endowment pool (EP), and the operating cash pool (OCP). Each pool has a different purpose and investment goals. As such, this investment policy addresses each pool separately.

Endowment Pool

The purpose of the EP is to support the mission of the NFP by providing a substantial, sustainable flow of funds for operations. Developed over time through the generous gifts of the NFP's supporters, the EP provides a reliable source of funds for current and future use. The EP is the property of the NFP and held for its exclusive use, benefit, and purpose.

Operating Cash Pool

The purpose of the OCP is to achieve economies of scale necessary for maximizing investment returns and creating internal operating efficiencies. Funds in the OCP consist of net assets with donor restrictions, net assets without donor restrictions, board-designated net assets, and agency funds.

Overall Purpose of the Investment Policy

The purpose of this policy is to set forth the standards and guidelines governing the investment and management of the NFP's financial assets. This policy also defines the responsibilities of the governing board and any other party involved in managing the NFP's investments; and identifies or provides target asset allocations, permissible investments, and diversification requirements.

Responsibilities and Delegation of Authority

The board has ultimate responsibility for the prudent management of the NFP's investment assets. In carrying out its responsibilities, the board may delegate authority for the oversight of the EP and the OCP to the investment committee of the board (the "committee"). The board, the committee, and their agents will act in accordance with this policy and all applicable laws and regulations. The committee will review this policy on an annual basis and make recommendations for changes, as needed, to the board. It is expected that members of the board and committee, and the External Investment Manager will propose revisions to this policy, as needed, to support the NFP's investment objectives. All participants in the investment process shall act responsibly and in a manner that is consistent with their roles as fiduciaries of the NFP.

It is the duty and responsibility of the committee to

- review and approve this policy, which addresses
 - asset allocation targets,
 - investment guidelines relating to eligible investments, diversification and concentration restrictions, and performance objectives, and
 - acceptable risk levels.
- hire an external investment manager, consultants, bank custodian(s), and/or other experts, as needed, to manage the investments in accordance with this policy.
- monitor the external investment manager's and other experts' adherence to this policy and evaluate the performance of the portfolio using the objectives and guidelines stated herein.
- evaluate and recommend changes to the asset allocation targets and ranges, as necessary, to achieve the performance goals for the investments.

It is the responsibility of external investment manager to

- invest the assets placed in his or her care in accordance with this policy,
- report monthly investment performance results, and
- communicate any major changes in the economic outlook that may impact the investment strategy.

Investment Objectives

Endowment Pool

The primary investment objective of the EP is to provide a sustainable maximum level of return that is consistent with prudent risk levels. Support for current operations must be consistent with the long-term growth of the EP. Adherence to a sound long-term investment program, which balances short-term spending needs with the preservation of the real (inflation-adjusted) value of assets, is crucial to the long-term success of the EP.

Operating Cash Pool

The primary investment objectives of the OCP are to preserve capital, maintain necessary liquidity, and maximize investment return within appropriate risk constraints.

Acceptable Investments

Endowment Pool

Acceptable assets may include the following: [Include a list of acceptable investments such as the following examples.]

- Global equities. Equity investments in U.S. and international companies are typically among the most liquid and well-researched opportunities.
- Private capital. This asset class represents one of the most illiquid investment classes; however, private capital investments offer potentially attractive returns because they may take advantage of market inefficiencies and may benefit from active management strategies.
- Hedge funds/absolute return. Intended to supplement traditional equity portfolios, hedge funds generally combine long positions with short positions to reduce overall equity market exposure.
- Real assets. Investments include those assets for which the primary purpose is to provide a potential hedge against inflationary pressures and to achieve overall portfolio diversification.
- Fixed income and cash. The goal for the fixed income assets is to provide diversification for the total portfolio, reduce the overall volatility of the portfolio, and generate periodic predictable cash flows that can be used in support of annual spending requirements.

Operating Cash Pool

The following investments are permitted: [Include a list of acceptable investments such as the following examples.]

- Certificate of deposit [specify limit per institution]

- Money market funds with Moody's rating of AAA or Standard and Poor's rating of AAAm
- United States Treasury bills, notes, bonds, zero coupon bonds, STRIPs, and TIPS
- Securities issued by federally related institutions (with full faith and credit backing by the U.S. government)
- Commercial paper with an A-1 or P-1 rating
- Corporate notes and bonds if rated by at least two of the three rating agencies and those ratings at the date of purchase are no less than the following:
 - A3 by Moody's
 - A1 by Standard and Poor's
 - A by Fitch

Diversification

- The NFP will maintain a reasonable diversification of investment assets between asset classes and investment categories at all times.
- Investments in the equity securities of any one company shall not exceed [5 percent] of the portfolio nor shall the total securities position (debt and equity) in any one company exceed [10 percent] of the portfolio.
- No more than [25 percent] of the entire portfolio may be invested in the securities of any one industry sector.

Asset Allocation Targets

[The following are for example purposes only. Each NFP should set its own allocations, based on its investment objectives and cash needs.]

Rebalancing shall be done on a semi-annual basis, or more frequently if deemed necessary.

Endowment Pool

Asset Category	Target	Range
Global equities	45%	30%–60%
Private capital	15%	5%–25%
Hedge funds/absolute return	15%	5%–25%
Real assets	15%	5%–25%
Fixed income and cash	10%	0%–20%

Operating Cash Pool

Asset Category	Target	Range
Cash and cash equivalents	5%	0%–15%
Fixed income	50%	40%–60%
Public equities	45%	40%–60%

[This example is provided for illustrative purposes only. It contains many of the sample elements typically used in the creation of an NFP's investment policy. As with any policy of this nature, the NFP may wish to consult with a financial advisor for assistance in developing an investment policy that is appropriate for the size and complexity of the organization.]