

DuPage Foundation
STATEMENT
OF
INVESTMENT POLICY

Last Amended: 3/18/2021

ORGANIZATION VISION AND MISSION

Foundation Vision: To raise the quality of life throughout DuPage County.

Foundation Mission: To foster philanthropy, connect donors to area needs, and build community partnerships.

SCOPE OF THIS INVESTMENT POLICY

This Statement of Investment Policy (SIP) reflects the investment policy, objectives, and constraints of The DuPage Community Foundation d/b/a DuPage Foundation (Foundation). The Investment Committee (Committee) and Board of Trustees must approve any exceptions to the SIP. All individuals covered by this SIP must act with the care, skill, prudence and diligence then prevailing that an ordinary prudent person in like capacity and familiar with such business matters would exercise.

This SIP will be reviewed at least annually, and, if appropriate, can be amended to reflect changes in the capital markets, Foundation objectives, or other factors relevant to the Foundation.

INVESTMENT GOAL OF THE FOUNDATION

The Board of Trustees adheres to the philosophy that the Foundation will exist in perpetuity and should provide for grant making in perpetuity. Therefore, the overriding investment goal of the Foundation is to maintain the purchasing power of the aggregate portfolio by achieving a long-term net annual rate of return that equals or exceeds the rate of grants, fees, and inflation.

PURPOSE OF THIS STATEMENT OF INVESTMENT POLICY

The general purpose of this SIP is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical. The SIP:

1. Defines and assigns the responsibilities of all involved parties.
2. Sets criteria for the selection of investment managers and establishes a basis for evaluating investment results.
3. Establishes a clear understanding for all involved parties of the investment guidelines, goals, and objectives of fund assets.

RESPONSIBILITIES

Board of Trustees

The Board of Trustees of the Foundation has delegated supervisory authority over its investing activities to the Investment Committee. The Committee is responsible for regularly reporting on the Foundation's investments to the Trustees.

The Committee is authorized to retain an investment advisor or investment manager to assume the investment management function. In that regard, the Committee may enter into agreements with, delegate investment authority to, pay compensation to, and receive reports from one or more investment advisors and/or investment managers.

The Committee shall consist of members appointed by the Board of Trustees. The Committee will consist of a chairman, who may call upon the advice of other members on a case-by-case basis. The Committee will meet at least quarterly and maintain a record of its activities. The Committee will report at least annually to the Board of Trustees.

Investment Committee

The Committee is responsible for:

1. Managing the Foundation's assets in compliance with its mission and purpose.
2. Ensuring that the Foundation is in compliance with applicable laws and regulations.
3. Preserving and protecting the Foundation's assets as well as earning an appropriate rate of return on investments. To achieve this, the Committee will ensure that the future growth of the Foundation's assets is sufficient to offset or exceed grants, fees, and inflation; maintaining sufficient liquid reserves to meet obligations arising from planned and unplanned activities.
4. Setting return assumption expectations for the Foundation after consultation with outside advisors.
5. Setting and overseeing asset allocation across the total investment portfolio.
6. Identifying, selecting and overseeing the Investment Advisor (Advisor).
7. Identifying, selecting and overseeing Investment Managers not hired by Advisor.
8. Allocating funds for investment among selected Managers.
9. Setting expectations, including performance benchmarks, for Managers, and monitoring their performance at least quarterly; meet with each Manager at least annually.
10. Reporting periodically to the Board of Trustees regarding Committee activities and investment performance.
11. Reviewing and recommending changes to the SIP as needed.

Except as a donor's gift instrument otherwise requires, and consistent with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the following factors must be considered, if relevant, in managing and investing the investment portfolio, including the requirements for any specific institutional funds:

- general economic conditions;
- the possible effect of inflation or deflation;
- the expected tax consequences, if any, of investment decisions or strategies;
- the role that each investment or course of action plays within the Foundation's overall investment portfolio;
- the expected total return from income and the appreciation of investments;
- other resources of the Foundation;
- the needs of the Foundation and a given institutional fund to make distributions and to preserve capital; and
- an asset's special relationship or special value, if any, to the purpose of the Foundation.

Staff

The Committee expects the Staff, comprised of the President and Vice President for Finance, to provide monthly monitoring, supervision and administration of Foundation assets. At least four times per year, Staff will meet with the Committee and report on (i) the composition of portfolio assets, (ii) the performance of all portfolios and Managers, and (iii) any other significant matters concerning Foundation assets.

The Committee designates Staff to act on behalf of the Foundation to:

1. Negotiate, sign and administer contracts with and terminate service providers as authorized by the Committee.
2. Monitor investment portfolios and compliance with the approved strategies.
3. Review investment management fees/expenses and report to the Committee at least annually.
4. Administer the flow of funds.
5. Coordinate the activities of outside Managers, Committee, Advisor, trustees, and legal advisor.
6. Ensure that all financial aspects comply with applicable laws and regulations.
7. Confirm appropriate level of insurance coverage for each Manager and any changes to policy annually.
8. Communicate exceptions to the Gift Acceptance Policy to the Committee.
9. Maintain a list of active Advisor and Managers.

Investment Advisor

The Northern Trust Company was hired to be the Foundation's Advisor on September 8, 2008. The Advisor will implement the asset allocation strategy as approved by the Committee including a completion strategy to complement the allocation of any other Managers selected by the Committee to ensure the overall mix is consistent with the target allocation.

The Advisor, when designated by the Committee, shall:

1. Advise the Committee on matters relating to the design, construction and implementation of investment portfolios, including performance measurement benchmarks and the allocation of assets.
2. Implement the portfolio asset allocation mix consistent with the directives set out in Attachment A hereto.
3. Periodically rebalance assets among portfolios and Managers to maintain asset allocation within guidelines.
4. Measure and report performance of the overall Foundation assets as well as of the various Managers tasked with managing a portion of the assets. This assumes that the assets in question are on the custody platform of the Advisor.

5. Ensure that Managers act in a manner consistent with the intentions of the Foundation and this SIP.
6. Meet with the Committee at least four times per year.
7. Act as a fiduciary for Foundation assets managed by the Advisor and not those assets delegated to other Managers.
8. Carry appropriate level of insurance coverage.
9. Assist in periodic review of the SIP.

Investment Manager

The duties and responsibilities of each Manager retained by the Committee include:

1. Manage the Foundation's assets under its care, custody, and/or control in accordance with the SIP and as expressed in separate written agreements when deviation is deemed prudent and desirable by the Committee.
2. Exercise investment discretion (including holding cash equivalents as an alternative) within the SIP objectives and guidelines.
3. Report, on a timely basis and on a schedule and format agreed upon with the Committee, portfolio holdings and activity, and investment performance results for all assets under its control, including cash. Results are to be reported on a time-weighted basis, net of all fees and expenses, and vs. benchmarks as agreed upon with the Committee. (See "Performance Objectives for Investment Managers" on page 6.)
4. Be available to meet with the Committee upon request.
5. Promptly inform the Committee of all substantive matters and events pertaining to the Foundation's assets it manages including, but not limited to: investment strategy, portfolio structure, market value of managed assets, fees and expenses, recommendations for guideline changes, ownership, organizational structure, financial condition, professional staff, and all material legal, SEC and other regulatory agency proceedings affecting the investment management organization.
6. When the Manager has such discretionary authority, promptly vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the Foundation.
7. Coordinate with the Foundation to meet its liquidity needs.
8. Liquidate non-cash gifts, namely securities, and re-invest proceeds as soon after the gift is completed as possible unless otherwise directed by the Committee.
9. Utilize the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity on behalf of the Foundation would exhibit, in accordance and compliance with all applicable laws, rules, and regulations for local, state, and federal entities as they pertain to fiduciary duties and responsibilities.

10. Inform the Advisor or Staff of the “soft-dollar” arrangements between the Manager and brokerage organizations and describing the services that are purchased with the soft-dollars generated by the Foundation’s assets. This information shall be updated annually and conform to industry standards.

11. Acknowledge and agree in writing to its fiduciary responsibility as set forth in the SIP.

SELECTION OF INVESTMENT MANAGERS

The Committee will hire appropriate Managers to manage the Foundation’s assets. Managers may be hired that specialize in specific asset classes, market sectors, or investment styles; managers also may be hired to construct a broadly diversified portfolio with exposure to multiple asset classes, market sectors, and investment styles. Managers that specialize must maintain the investment style and discipline they were hired to implement; style drift is prohibited.

Prospective managers must meet the following minimum criteria:

1. Be a bank, insurance company, investment management company, or investment advisor as defined by the Registered Investment Advisor Act of 1940.
2. Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.
3. Provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the manager relative to other managers of like investment style.
4. Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel.
5. Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
6. Have no outstanding legal judgments or past judgments that may reflect negatively on the firm.

DONOR- REQUESTED OR PROFESSIONAL ADVISOR-REQUESTED INVESTMENT MANAGER

When a donor or professional advisor requests that the funds being donated be managed by a specific investment manager or if the funds will be managed using an asset allocation that precludes the Foundation from using an existing pool, the Foundation will consider the request and may accept or reject it in its sole discretion, provided that the donation is \$1,000,000 or more. Exceptions may be made at the discretion of the Investment Committee. If accepted, the requested investment manager shall abide by the Foundation’s SIP.

PERFORMANCE OBJECTIVES FOR INVESTMENT MANAGERS

Due to the inevitability of short-term market fluctuations which may cause variations in investment performance, it is intended that the following performance objectives will be achieved by the Manager(s) over a moving five-year period, calculated on a time-weighted basis, net of investment management fees. However, the Committee does not guarantee that the Manager(s) will be given a five-year horizon and reserves the right to evaluate and make Manager changes at any time.

1. Each Manager’s performance, net of fees, will be measured against a representative market style index and will be expected to exceed this benchmark over a rolling five-year period.

2. When appropriate, each strategy will also be evaluated against a universe of strategies with a similar investment style and will be expected to rank in the top 50% over a rolling five-year period.

For investment managers hired to construct broadly diversified portfolios, the sub-advisor they employ will be evaluated against the criteria above. These diversified managers will also be evaluated against representative custom-weighted indices when available; otherwise, they will be evaluated against an appropriately weighted composite index consisting of the S&P 500 Index for equities and the Barclays Capital Aggregate Bond Index for fixed income.

MONITORING OF INVESTMENT MANAGERS

Performance will be evaluated at least quarterly to test progress toward five-year performance objectives. It is understood that there are likely to be short-term periods during which performance deviates from market style indices. During such time, greater emphasis shall be placed on performance comparisons with managers employing similar investment styles.

SPENDING POLICY

Long-term expectations may be expressed by the following equation currently:

$$\begin{aligned} &\text{Expected Average Annual Return Net of Fees} \geq \text{Grants} + \text{Inflation} + \text{Administrative Fees} \\ &\text{Currently, } (8-9\% \geq 4-5\% + 3\% + 1\%) \end{aligned}$$

Spending - Moving Average Determination

The Foundation will use the moving average method to plan year-to-year grants in order to reduce annual variations in the amounts distributed from the aggregate portfolio. The amount will be determined based on a 12-averaged-quarter moving average of portfolio market value. (That is, the moving average will be determined in the last quarter of the calendar year based on the twelve averaged quarters ending September 30 before the calendar year in which the funds are to be spent.) For funds less than three years old, the market value will be the average of all averaged quarters to date. This policy creates more consistent and predictable granting by the Foundation over the long term.

INVESTMENT GUIDELINES

I. Allowable Assets

A. Cash Equivalents

1. Treasury Bills
2. Money Market Funds
3. Short-Term Investment Funds
4. Commercial Paper
5. Banker's Acceptances
6. Repurchase Agreements
7. Certificates of Deposit

B. Fixed Income Securities

1. U.S. Government and Agency Securities
2. Corporate Notes and Bonds
3. Mortgage Backed Bonds
4. Preferred Stock
5. Fixed Income Securities of Foreign Governments and Corporations
6. Planned Amortization Class Collateralized Mortgage Obligations (PAC CMOs) or other "early tranche" CMOs

C. Equity Securities

1. Common Stocks
2. Convertible Notes and Bonds
3. Convertible Preferred Stocks
4. American Depository Receipts (ADRs) of Non-U.S. Companies
5. Long/Short Strategies
6. Stocks of Non-U.S. Companies (Ordinary Shares)

D. Mutual Funds and Exchange-Traded Funds

1. Mutual and Exchange-Traded Funds which invest in securities as allowed in this SIP.

E. Other Assets

1. Guaranteed Investment Contracts
2. Commodities
3. Real Estate Investment Trusts
4. Hedge Funds
5. Private Equity

F. Derivatives

1. With the exception of approved hedge fund strategies, the use of derivatives is limited to use as part of a risk management strategy or as investments which are equivalents of securities as allowed in this SIP.

II. Prohibited Assets and Transactions

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

- A. Real-Estate Properties
- B. Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs
- C. Short-selling and the use of margin trading

III. Diversification Policy

Diversification across and within asset classes is the primary means by which the Committee expects the Portfolio to avoid risk of large losses over extended time periods. To protect the Portfolio against unfavorable outcomes within an asset class due to the assumption of large risks, the Committee will take precautions to avoid excessive investment concentrations. The following guidelines will be in place.

- A. With the exception of fixed income investments guaranteed by the U.S. Government, no single investment security shall represent more than 10% of total portfolio assets.
- B. With the exception of passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single investment pool or investment company shall compromise more than 15% of the total Portfolio assets.
- C. With respect to fixed income investments, the Portfolio may not allocate more than 35% to investments that are below investment grade.

Adopted 3/10/03, Amended 9/12/11, Amended 5/20/13, Amended 3/17/16, Amended 3/15/18, Amended 9/17/2020, Amended 11/19/2020

ATTACHMENT A: INVESTMENT TARGET ALLOCATION

The following targets are to be applied to the allocation of the Foundation’s assets until such time as the Board revises this Attachment:

	Lower Range	Policy Normal Level	Upper Range
<u>Equity Portfolio:</u>			
Large Cap U.S. Equity	10%	20%	30%
Mid Cap U.S. Equity	0%	2.5%	5%
Small Cap U.S. Equity	0%	2.5%	5%
Developed International Equity	9%	13%	20%
International Emerging Markets Equity	<u>3%</u>	<u>6%</u>	<u>10%</u>
<u>Hedged Equity</u>			
Global Hedged Equity	0%	0%	0%
<i>sub-total equity</i>	24%	44%	65%
<u>Fixed Income Portfolio:</u>			
"Core" U.S. Fixed Income	14%	21%	30%
Inflation Protected Securities	0%	3%	5%
International Bonds	0%	0%	5%
High Yield Bonds	<u>0%</u>	<u>5%</u>	<u>10%</u>
<i>sub-total</i>	16%	29%	41%
<u>Alternative Investments:</u>			
Real Estate Investment Trusts	0%	3%	10%
Commodities	0%	2%	10%
Diversified Hedge Funds	0%	5%	10%
Diversified Private Equity	<u>0%</u>	<u>15%</u>	<u>20%</u>
<i>sub-total</i>	6%	25%	35%
<u>Money Market</u>	0%	2%	15%
<u>Grand Total:</u>		100.00%	

ATTACHMENT B: INVESTMENT PERFORMANCE BENCHMARKS

Overall Portfolio:

Blend of: 60% MSCI ACWI Index and 40% Barclays Capital Aggregate Bond Index

DuPage Custom Benchmark:

<u>Asset Class</u>	<u>Benchmark</u>	<u>Weight</u>
Global Equity	MSCI ACWI ND	44%
Core US Investment Grade	BC US Aggregate	21%
Inflation Protected Securities	BC US TIPS	3%
High Yield	BC High Yield 2% Cap	5%
Global Real Estate Investment Trusts	50% FTSE EPRA NAREIT Global Net 50% S&P Global Infrastructure	3%
Commodities	Bloomberg Futures Common. TR USD	2%
Hedge Funds	HFR Fund of Funds Composite	5%
Private Equity	Cambridge Private Equity Lag	15%
Cash	90 Day T-Bill	2%
		100%

Large Cap U.S. Equity:

S&P 500 Index
Russell 1000 Index

Mid Cap U.S. Equity:

S&P 400 Index
Russell Mid Cap Index

Small Cap U.S. Equity:

S&P 600
Russell 2000 Index

International Equity:

Morgan Stanley Capital International Europe, Australia, and Far East Index ("MSCI EAFE") Net Dividends (ND)
Morgan Stanley Capital International ("MSCI") Emerging Markets Free Index

Fixed Income:

Barclays Capital Aggregate Bond Index
Barclays Capital High Yield U.S. Corporate Bond Index (with 2% issuer cap)

Hedge Fund of Funds:

HFR Funds of Funds Index: Composite
HFR Funds of Funds Index: Conservative
HFR Hedged Equity

Commodities:

Dow Jones – UBS Commodities Index

Real Estate Investment Trusts:

FTSE – EPRA/NAREIT Global Real Estate Index

Short Term Investments:

90 Day T-Bill

Acceptance and Acknowledgment of the Statement of Investment Policy

I acknowledge receipt of the Statement of Investment Policy on _____ and accept its terms.

INVESTMENT MANAGER

Signature

Print Name

Title

Print Name of Firm

DUPAGE FOUNDATION

David M. McGowan

Signature

David M. McGowan

Print Name

President & CEO

Title

Date