ERIE COMMUNITY FOUNDATION

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES

NOVEMBER 2021

I. INTRODUCTION

The Investment Policy Statement was adopted by the Board of Trustees of the Erie Community Foundation (the Foundation) to ensure prudent investment of the pooled endowment "the Pool" in a manner consistent with the objectives stated herein. This Investment Policy Statement shall be used by the Investment Committee in its duty to oversee the investment portfolio. The policies and guidelines herein will be reviewed annually to ensure continued appropriateness.

II. INVESTMENT OBJECTIVES:

The overall **financial objectives** of the Pool are (1) to support current and future programming and grant-making of the Erie Community Foundation and (2) to preserve the purchasing power of the Pool.

The primary **investment objective** of the Pool is to attain a return net of investment fees, spending and other expenses of 5% above the rate of inflation over a full market cycle. Although the real return objective may not be met in every five-year period, it is nonetheless an attainable objective over time.

The spending policy is designed to ensure that the real value of the Portfolio is maintained over time. The amount to be spent in the coming year is estimated each December 31st and reviewed and approved by the Investment Committee annually. Annual spending is comprised of two components:

1. Target spending rate at 4% of generally a 20-quarter rolling average of market value, adjusted to reflect material net cash flows.
2. Annual administrative costs.

III. ROLES AND RESPONSIBILITIES

A. Board of Trustees (the Board)
   - Approve the Investment Policy Statement.
   - Approve hiring and firing of Advisors based on recommendation of the Investment Committee.
   - Delegate responsibility for oversight of the portfolio to the Investment Committee.

B. Investment Committee (the Committee)
   - Execute fiduciary responsibility to monitor the portfolio.
   - Set asset allocation policy.
   - Approve recommendations related to the investment of funds and on other financial questions; Committee Chairman and Vice Chairman have the authority to direct recommendations, with support of the Committee, between scheduled meetings or conference calls.
   - Conduct annual review of the Investment Policy Statement.
   - Conduct annual review of Investment Advisor to ensure they are providing prudent advice to the Foundation. Recommend hiring or firing of Investment Advisor to the Board.
   - Report at least annually to the Board on assets over which the Committee has authority and/or oversight. Such reporting should include 1) fair market value of major classes of assets and in total; 2) change in fair market value compared to periods previously presented; 3) overall investment returns (net of fees); 4) total fees to manage and maintain the invested assets and major components thereof; and 5) total additions and withdrawal of funds for any recent period(s) presented.

C. Staff

- Day-to-day oversight of the portfolio and the implementation of any changes approved by the Committee.
- Reallocate assets among approved managers and funds in accordance with the policy targets, ranges, and rebalancing policies specified herein.
- Review and execute investment-related documents.
- Maintain appropriate fund accounting.
- Monitor existing relationships with managers, the Investment Consultant, and other service providers.

D. Investment Advisor/Consultant

- Communicate with the Committee on matters relating to the investment portfolio via regular Committee meetings, conference calls, and written communications.
- Advise the Committee with respect to asset allocation and implementation.
- Provide updates on asset allocation, performance and liquidity.
- Measure and evaluate the overall portfolio and investment manager performance.
- Report on developments that have had or may have a material effect on portfolio performance.
- Deliver regular performance reports to the Foundation.
- Periodically review investment policies and objectives.

E. Investment Managers

- Manage the portfolio in accordance with the portfolio's investment policy and manager-specific guidelines.
- Notify the Staff and Advisor as soon as practical of (1) material malfeasance by any portfolio manager or senior ranking employee; (2) material disciplinary action by any regulatory authority; (3) material change in portfolio managers, analysts, or ownership control of the manager; (4) violation of investment guidelines; (5) change in the investment guidelines.
- Provide timely reporting of monthly and quarterly results.

F. Custodian

- Maintain safekeeping of securities owned by the Pool, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales.
- Perform regular accounting of assets owned and held in custody as well as movement of assets into and out of accounts.

IV. INVESTMENT GUIDELINES:

In determining suitable investments for the Pool, the Investment Committee will periodically assess the full scope of the Foundation's financial holdings and obligations to evaluate the extent to which the overall financial position seems reasonably consistent with the organization's objectives and risk tolerance. The asset allocation parameters outlined below will be the primary mechanism by which the Committee will adjust the risk exposures in the Pool. Assets held outside of the Pool will be governed by their own set of guidelines as detailed in the appendix.

Asset Class	**Target (%)**	**Range (%)**	**Specified Asset Class Benchmark Indices**
Global Equity	50	45 - 55	MSCI All Country World Index
Private Investments	20	15 - 25	MSCI ACWI – lagged Mission Related Investments: Self-Benchmarked
Diversifying Assets	15	10 - 20	HFRI Asset Weighted Composite
Fixed Income	13	8 – 18	Bloomberg 3-10Yr Treasury Index
Cash	2	0 - 7	BofA/ML 91-Day Treasury Bill Index

The Pool's investments shall also be diversified within asset classes and by manager. The purpose of this diversification is to provide reasonable assurance that no class of securities, manager or individual holding will have a disproportionate effect on the Pool's aggregate results. To achieve its long-term investment objective, the Pool's assets shall be invested primarily in equities, but will also include allocations to asset classes that serve to offset the effects of inflation and deflation and provide enhanced diversification. Unless approved by the Committee, single active managers will be limited to a maximum position size of 10% of the total Pool and aggregate fund family exposure will be capped at 35% of the total Pool.

In order to accomplish the investment goals, portfolio investments must be diversified to seek the real return objective at a tolerable level of risk. The following types of assets are among those approved for investment:

> **Global Equities.** This is comprised of equity investments in U.S. and non-U.S. companies, including emerging and frontier markets. The allocation will be diversified by country, economic sector and market capitalization. The principal purpose of this portion of the portfolio is to provide for long-term growth of the capital pool.
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> **Private Investments**. This is comprised of Private Equity/Venture Capital and Private Real Estate / Natural Resources / Infrastructure, and other non-marketable securities. These investments are intended to outperform traditional equity investments over the long term. Liquidity will be considered in the context of the overall portfolio.
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> **Diversifying Assets.** The purpose of Diversifying Assets is to reduce the return volatility of the overall portfolio, while generating long-term returns between Global Equity investments and Fixed Income investments. The Diversifying Assets investments will be diversified by manager and strategy, and comprised of funds with high levels of transparency, reasonable liquidity and little portfolio leverage.
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> **Fixed Income.** The principal purpose of the Fixed Income investments is to reduce risk by reducing the overall volatility of returns. Components of this part of the portfolio may also serve as a partial hedge against periods of prolonged economic contraction associated with poorly performing equity investments in the case of nominal bonds. The majority of the Fixed Income portfolio shall be comprised of high-quality government and corporate securities, as these securities typically outperform other fixed income securities in an economic contraction or a flight to quality associated with a short-term economic shock.

Investments in each of these asset classes can be implemented through separately managed accounts or commingled vehicles (e.g., institutional-class mutual funds, non-marketable partnerships). The appendix contains specific investment guidelines for separately managed accounts.

Rebalancing. The Committee will review asset allocation and consider potential transfers necessary to approximate the target asset allocation or to move back within target ranges on a quarterly basis. As well, the Committee may actively decide to overweight or underweight an asset class relative to target while remaining in the ranges

Liquidity: The liquidity profile of the overall portfolio will be closely monitored. A minimum of three years of expected spending plus outstanding capital commitments to private investments should be easily accessible within a three-month period.

Derivatives: Derivatives may be used by asset managers or directly as a risk reduction tool or in situations where they offer a more practical or lower cost alternative to cash instruments. They may not be used for speculative purposes.

Leverage: Leverage is a complex factor whose risk cannot be adequately captured in a single number. Individual managers may use leverage consistent with their risk controls and strategy; however the Pool shall not extend beyond the dollar amount placed with the manager. Leverage is not permitted at the total fund level.

V. MISSION RELATED INVESTMENTS

The Erie Community Foundation has pledged $10M of capital for mission related investments over a five-year period beginning 2019 (in addition to the $2,5M committed to EDEF), providing prospective attractive investment opportunities can be identified. The baseline expected return for such investments is a return of capital. Investment decisions are made by an ad hoc committee of the Board. The Investment Committee does not have investment authority over the investments and the investments will be self-benchmarked with regards to performance reporting. A separate $2.5M commitment was made to EDEF prior to this larger $10M pledge and will be tracked in similar fashion.

VI. ONGOING MONITORING

The Committee will monitor the Pool's performance. On a quarterly basis the investment advisor/consultant will prepare a report detailing performance compared to relevant market benchmarks for the Pool and underlying managers.

Two primary benchmarks will be employed in evaluating total Pool performance.

1. The **"Policy"** benchmark will reflect the long-term target weights and associated long-term asset class benchmarks specified in the investment guidelines.

2. The **"Dynamic"** benchmark will reflect the portfolio's actual manager weights and associated manager benchmarks.

From time to time, the Committee may change benchmarks to more accurately reflect the Pool's policies and actual investments.

The ultimate measure of success for the Pool is whether it has met its financial and investment objectives. While short-term performance will likely vary due to the volatility of capital market returns, the Pool is expected to meet its objective over most long-term periods (e.g., rolling ten-year periods or a full market cycle).

The performance of each of the four asset classes will be measured against asset class-specific benchmarks, with expectations specific to each asset class.

The investment managers will be monitored on a continual basis for consistency in each manager's investment philosophy and return relative to a manager-specific benchmark. Portfolio information will be reviewed by the Committee on a quarterly basis, but results will be evaluated over longer-term rolling five-year periods. However, the Committee will review managers regularly in order to confirm that the factors underlying performance expectations remain in place.

Emergency Termination of a Manager: Upon occasion, it may be necessary to move quickly to redeem funds invested with a manager. At the explicit recommendation of the Investment Consultant, the Committee Chair or Vice Chair and another member of the Committee, in concert with staff, may jointly approve the termination of an investment. An effort will be made to communicate with the full Committee in advance of liquidating a manager in this manner. It is expected that the circumstances which would require the use of this privilege will be rare and most likely related to operational issues, portfolio manager turnover, or similar issues. Poor performance will not typically constitute an emergency.

APPENDIX

ADDENDUM A

AREA INVESTMENT MANAGERS INVESTMENT ADVISORY POLICY

Investment Advisor Responsibilities

All assets of The Erie Community Foundation (the "Foundation") placed with an Investment Advisor (i.e., an entity or organization with which the Foundation places its assets for investment purposes) remain at all times the exclusive property of the Foundation. Subject to the guidelines set forth in this Policy, all investment decisions must be made by the Foundation.

- Investment performance will be measured by the Foundation's investment consultant, Cambridge Associates, LLC and reviewed quarterly by its staff and Investment Committee. The Foundation may replace an Investment Advisor at any time for any reason. Examples include performance which does not meet or exceed established benchmarks after notice and a reasonable opportunity to cure a deficiency in investment performance, excessive fees, or deviation from the terms of this Policy.

- Only authorized officers of the Foundation may request distributions from the investment account held by the Investment Advisor. All distributions must be made directly to the Foundation.

The historical performance of the Foundation's Investment Advisors will be maintained and reported to donors, charities, and the public as part of the Foundation's open communication practices.

The Investment Advisor and its employed investment managers will be held to the highest professional and ethical standards. The Investment Advisor must monitor the performance of its investment managers, who are involved in its relationship with the Foundation, to assure adherence to these standards. The Investment Advisor acknowledges that it will be required to conduct its activities in a manner that is consistent with the following:

1. Adherence to prudent investor guidelines and fiduciary standards widely used in the investment management industry is required. Investment responsibilities must be carried out in a manner that always promotes the best interests of the Foundation.

2. Monthly written reports in form and content approved by the Foundation, including portfolio activities and expected changes in the portfolio make-up or value, must be furnished to the Foundation by the 8th day of the following month (See Reporting Requirements below).

3. Representatives of the Investment Advisor will be expected to attend meetings with the Foundation's consultant, staff, or Investment Committee, as needed.

4. The Investment Advisor will be expected to adhere to the investment strategy agreed upon during the approval process, or as modified by the Foundation and the Investment Advisor in writing from time to time.

5. The Investment Advisor will be expected to execute all transactions in the best interests of the Foundation, including procurement of the best net realized price for the purchase or sale of a security. Research and other services are expected to be included in the basic fee arrangement between the Foundation and the Investment Advisor.

6. Except as set forth in this paragraph, investments of the Foundation handled by the Investment Advisor will be "pooled" into a single account, regardless of the number of separate managers employed by the Investment Manager who share responsibilities for that account.

7. The Investment Advisor will be expected to promptly communicate all pertinent information to the Foundation regarding investments overseen by the Investment Advisor. Communications must include, but are not limited to:

    - Changes in the Investment Advisor’s personnel involved in the relationship with the Foundation
    - Changes in ownership of the Investment Advisor
    - Changes in the responsibilities of personnel involved in the relationship with the Foundation
    - Proposed changes in investment style or process
    - Proposed changes to the fee structure of the investment program

8. Any findings against the Investment Advisor or its principals, either by the SEC or any other regulatory authority, must be immediately reported to the Foundation. In addition, any litigation initiated against the Investment Advisor or its principals related to the firm’s business activities should also be immediately reported to the Foundation.

<u>Reporting Requirements</u>

The Investment Advisor agrees to the following reporting requirements:

- Monthly reports in form and content satisfactory to the Foundation
- A single 12-month cumulative report at year end for the “pooled” investment fund, as well as similar reports for any “non-pooled” funds permitted by this Policy
- Monthly cost basis of all investments
- Summary of monthly activities including:
    - Management fees, commissions, or other charges
    - Performance, net of fees, against benchmark(s) identified by the Foundation
    - Transaction costs (if any)
    - Addition/withdrawal activity in the account
    - Realized gains and losses
    - Unrealized gains and losses
    - Interest/dividend income
    - Total market value of the portfolio
    - Total cost basis of the portfolio

<u>Asset Allocation</u>

The Investment Advisor will be provided with a copy of the Foundation’s Investment Policy, as it may be amended from time to time by the Foundation. The Investment Advisor will be expected to adhere to that policy, as it may be modified by the Foundation and the Investment Advisor in writing from time to time.
The Investment Advisor may not initiate alternative asset strategies without the advance written approval of the Foundation’s Investment Committee. Permitted asset allocation ranges are shown below. By maintaining the Foundation’s portfolio within these permitted ranges, the Investment Advisor will be deemed to have complied with the Foundation’s asset allocation requirements.

The goal of the portfolio is to outperform the MSCI All Country World Index. The portfolio can employ a variety of equity strategies in order to achieve this goal including (but not limited to) dedicated US equity across the capitalization spectrum, international equity, emerging markets equity, and broad global equity strategies.

The geographic targets of this portfolio are as follows:

	Min	**Target**	**Max**
US Equities	45%	55%	65%
Non-US Equities (including International Equities and Emerging Markets Equities)	35%	45%	55%

From time to time, the geographic targets and/or benchmarks may be changed to more accurately reflect the portfolio's policies and actual investments.

Rebalancing

At the beginning of each calendar year, the Foundation will advise the Investment Advisor of the Foundation's anticipated quarterly withdrawal requirements, which shall be remitted to the Foundation at the end of each quarter. Withdrawals should be utilized as an opportunity to rebalance the Foundation's investment portfolio if necessary.

Investment-Related Fees

The Foundation reserves the right to evaluate investment fees for the Investment Advisor in light of actual advisory services, investment vehicles employed, custody charges, and trading costs in an effort to assure that fees are reasonable and consistent with industry standards. On an annual basis, the Investment Advisor will present to the Investment Committee a detailed report of all fees, commissions, and other charges related to the investments under management.

ADDENDUM B

NON-POOLED INVESTMENT ACCOUNT POLICY

Guidelines for Separate Non-Pooled Investment Account

If the Investment Advisor produces a donor who establishes a fund at the Foundation of $250,000 or more, that fund may be segregated and administered as a separate investment pool at the request of the donor.

Investment Advisor Responsibilities

All assets of The Erie Community Foundation (the "Foundation") placed with an Investment Advisor (i.e., an entity or organization with which the Foundations places its assets for investment purposes) remain at all times the exclusive property of the Foundation. Subject to the guidelines set forth in this Policy, all investment decisions must be made by the Foundation.

- Investment performance will be measured by the Foundation's investment consultant and reviewed quarterly by its staff and Investment Committee. The Foundation may replace an Investment Advisor at any time for any reason. Examples include performance which does not meet or exceed established benchmarks after notice and a reasonable opportunity to cure a deficiency in investment performance, excessive fees, or deviation from the terms of this Policy.

- Only authorized officers of the Foundation may request distributions from the investment account held by the Investment Advisor. All distributions must be made directly to the Foundation.

The historical performance of the Foundation's Investment Advisors will be maintained and reported to donors, charities, and the public as part of the Foundation's open communication practices.

The Investment Advisor and its employed investment managers will be held to the highest professional and ethical standards. The Investment Advisor must monitor the performance of its investment managers, who are involved in its relationship with the Foundation, to assure adherence to these standards. The Investment Advisor acknowledges that it will be required to conduct its activities in a manner that is consistent with the following:

1. Adherence to prudent investor guidelines and fiduciary standards widely used in the investment management industry is required. Investment responsibilities must be carried out in a manner that always promotes the best interests of the Foundation.

2. Monthly written reports in form and content approved by the Foundation, including portfolio activities and expected changes in the portfolio make-up or value, must be furnished to the Foundation by the 8th day of the following month (See Reporting Requirements below).

3. Representatives of the Investment Advisor will be expected to attend meetings with the Foundation's consultant, staff, or Investment Committee, as needed.

4. The Investment Advisor will be expected to adhere to the investment strategy agreed upon during the approval process, or as modified by the Foundation and the Investment Advisor in writing from time to time.

5. The Investment Advisor will be expected to execute all transactions in the best interests of the Foundation, including procurement of the best net realized price for the purchase or sale of a security. Research and other services are expected to be included in the basic fee arrangement between the Foundation and the Investment Advisor.

6. Investment strategies applicable to the separate "non-pooled" fund shall be governed by the fund agreement between the Foundation and the donor. The fund agreement will cover any modifications or changes to the overall policy, specifically changes to the financial objectives, investment objectives or asset allocation

policy. Unless approved by the Committee, non-pooled funds will conform with the asset allocation and benchmarks detailed in the Area Investment Managers Advisory Policy.

7. The Investment Advisor will be expected to promptly communicate all pertinent information to the Foundation regarding investments overseen by the Investment Advisor. Communications must include, but are not limited to:

    - Changes in the Investment Advisor's personnel involved in the relationship with the Foundation
    - Changes in ownership of the Investment Advisor
    - Changes in the responsibilities of personnel involved in the relationship with the Foundation
    - Proposed changes in investment style or process
    - Proposed changes to the fee structure of the investment program

8. Any findings against the Investment Advisor or its principals, either by the SEC or any other regulatory authority, must be immediately reported to the Foundation. In addition, any litigation initiated against the Investment Advisor or its principals related to the firm's business activities should also be immediately reported to the Foundation.

<u>Reporting Requirements</u>

The Investment Advisor agrees to the following reporting requirements:

- Monthly reports in form and content satisfactory to the Foundation
- A single 12-month cumulative report at year end for the "pooled" investment fund, as well as similar reports for any "non-pooled" funds permitted by this Policy
- Monthly cost basis of all investments
- Summary of monthly activities including:
    - Management fees, commissions, or other charges
    - Performance, net of fees, against benchmark(s) identified by the Foundation
    - Transaction costs (if any)
    - Addition/withdrawal activity in the account
    - Realized gains and losses
    - Unrealized gains and losses
    - Interest/dividend income
    - Total market value of the portfolio
    - Total cost basis of the portfolio

<u>Asset Allocation</u>

The Investment Advisor will be provided with a copy of the Foundation's Investment Policy, as it may be amended from time to time by the Foundation. The Investment Advisor may not initiate alternative asset strategies without the advance written approval of the Foundation's Investment Committee.

Investment-Related Fees

The Foundation reserves the right to evaluate investment fees for the Investment Advisor in light of actual advisory services, investment vehicles employed, custody charges, and trading costs in an effort to assure that fees are reasonable and consistent with industry standards. On an annual basis, the Investment Advisor will present to the Investment Committee a detailed report of all fees, commissions, and other charges related to the investments under management.

ADDENDUM C

SOCIALLY RESPONSIBLE INVESTMENT POLICY

I. INTRODUCTION

The Foundation's SRI Principles will be implemented in the context of the Foundation's overall Investment Objectives and Long-Term Asset Allocation. Investment strategy will be governed by the fund agreement between the Foundation and the donor. Unless approved by the Committee, non-pooled funds will conform with the asset allocation and benchmarks detailed in the Area Investment Managers Advisory Policy. The fund agreement will cover any modifications or changes to the overall policy, specifically changes to the financial objectives, investment objectives or asset allocation policy. The Investment Committee will assess the full scope of the Foundation's financial holdings and obligations to evaluate the extent to which the overall financial position seems reasonably consistent with the organization's objectives and risk tolerance.

II. SRI INVESTMENT GUIDELINES:

The portfolio's investments shall be diversified within asset classes and by manager. The purpose of this diversification is to provide reasonable assurance that no class of securities, manager or individual holding will have a disproportionate effect on the portfolio's aggregate results. To achieve its long-term investment objective, the portfolio's assets shall be invested primarily in equities, but will also include allocations to asset classes that serve to offset the effects of inflation and deflation and provide enhanced diversification. It may be appropriate to seek non-traditional strategies, particularly managers that employ Environmental, Social and Governance (ESG) characteristics to implement this policy.

It is not anticipated nor expected that SRI investing will adversely impact the performance of the portfolio. The Committee recognizes that there are tangible benefits to environmental stewardship, positive corporate action, and positive employee relations. The Committee further recognizes that it is difficult to dictate specific instruction to a mutual fund and these guidelines are just that, guidelines. Investment managers should seek to adhere to the spirit of these policies.

Efforts to mitigate environmental degradation, address issues of social justice and promote healthy communities should be incorporated as part of business and investment decision making. In light of the social, environmental and economic challenges of our time, fiduciary responsibility in the coming decades will dictate the integration of prudent financial management practices with principles of environmental stewardship, concern for community, and corporate accountability to shareholders and stakeholders alike.

The following are socially responsible considerations that we expect managers to consider.

A. Investments should not be made in any company which is a developer or a manufacturer of products in the general category of weaponry, including chemical and biological warfare, nuclear weapons systems, anti-personnel weapons, small arms and goods for the automated battlefield.

B. Investments in other companies deriving revenue from military contacts should be considered individually to determine the attitude of management to military contracts, their total amount and the percentage of sales they represent, the type of materials and services contracted for, and the direction of the company toward increasing or decreasing military involvement. Investments in companies among the top 100 defense contractors should be scrutinized with particular care.

C. Investments should be avoided in companies primarily involved in products or services of limited or questionable social value, such as intoxicants, tobacco, some luxury items or land speculation.

D. In judging investments, consideration should be given as to whether companies have a superior rather than an inferior record within their industry in areas such as the following:

    i. Environmental, conservation and pollution problems.

ii. Hiring and personnel practices.
iii. Health and safety of workers.
iv. General business practices, including advertising and financial practices.
v. Disclosure to their stockholders of information on business and social responsibility practices.
vi. Natural resource companies' recognition of the rights and cultures of native peoples.
vii. Relations with unions and with worker-organizing committees.

E. Because of differences in culture and values, it is exceedingly difficult to make judgments about companies with international operations. Further study will be required to determine ways of measuring whether the foreign operation of a corporation: (1) benefits the host country; (2) is consistent with the local culture and fosters human dignity; (3) avoids unnecessary depletion of resources of the host country; and (4) is sensitive to the aspirations of that country. Absolute size of the operation relative to the host country will be a factor.