**SAMPLE LAND TRUST**

**Investment Policy**

1. **Introduction**

Like all land trusts, **Sample Land Trust** (“**SLT**”) has funds of various kinds that provide lasting and stable financial support to the organization; some are restricted permanently or temporarily, some are unrestricted. Some are earmarked for specific purposes, others are general operating funds. Given these varying characteristics, the way in such funds (collectively, “the Portfolio”) are invested may differ. They may differ as to risk profile of the investment, term of the investment, liquidity, diversification or other factors. **SLT** has developed this Investment Policy (“Policy”) to establish guidelines for the Portfolio’s investment, and to provide accountability standards to monitor **SLT**’s investment program and to evaluate the performance of advisors and managers engaged by **SLT**.

1. **Role of the Finance Committee**

The Finance Committee (“Committee”) acts in a fiduciary capacity with respect to the Portfolio, and is accountable to the Board of **SLT** for Portfolio oversight. Committee has overall responsibility for all aspects of Portfolio management, subject to Board approval of specific parameters specified below in this document and reviewed annually. Policy sets forth investment objectives, guidelines, and policies that govern all investment activities of Committee and any parties the Committee engages to assist with and/or execute portfolio investment.

This Policy has been formulated consistent with **SLT’s** anticipated financial needs and in consideration of **SLT’s** tolerance for assuming investment and financial risk, as recommended by Committee and approved by the Board.

Policy provides guidelines for ensuring that the Portfolio’s investments are managed consistent with the short-term and long-term financial goals of **SLT**. Annually, or more often as determined by Committee, Committee will review the Policy and its parameters. Specifically, it will:

1. Recommend to the Board changes to the asset allocation for each type of fund specified in this document.
2. Recommend to the Board changes to the investment objectives, risk tolerance profile, target working capital reserve, and target return.
3. Recommend to the Board any changes to Policy and its guidelines to make Policy work more effectively.

Changes to Policy can be made only with approval of the Board.

1. **Investment Objective and Distribution Policy**

The Portfolio is to be invested with the objectives of preserving capital, achieving an inflation-adjusted return that will preserve the long-term, real purchasing power of assets and providing a predictable and growing stream of annual distributions in support of the **SLT**.

The distribution of Portfolio assets will be permitted pursuant to restrictions on the type of funds in question. For assets that are permanently restricted, distributions should not erode Portfolio’s real assets over time. Committee will review its spending assumptions annually to decide whether any changes therein necessitate amending the Fund’s spending policy, its target asset allocation, or both. A minimum of **$[AMOUNT]** will be made easily accessible by January of each year to cover operating expenses before fundraising income covers the cost of operations. Such liquid funds can be from current fundraising or from portfolio distributions.

1. **Portfolio Investment Policies**

**A. Asset Allocation Policy**

Committee recognizes that the strategic allocation of Portfolio assets across broadly defined financial asset and sub-asset categories with varying degrees of risk, return, and return correlation will be the most significant determinant of long-term investment returns and Portfolio asset value stability.

Assets will be managed as a balanced portfolio composed of two major components:

1. Operations Fund - consisting of equities, fixed income, and cash (see chart below)
2. Reserve Fund - in cash and cash equivalents

See Attachment A for the sub-funds comprising Operations Fund and Reserve Fund.

The role of equity investments is to maximize the long-term real growth of Portfolio assets, while the role of fixed income investments is to generate current income, provide for more stable periodic returns, and provide protection against a prolonged decline in the market value of Portfolio equity investments.

Outlined below are the long-term strategic asset allocation guidelines determined by the Committee to be the most appropriate, given the Operation Fund’s long-term objectives and short-term constraints. Portfolio assets will, under normal circumstances, be allocated across broad asset and sub-asset classes in accordance with the following guidelines:

|  |  |  |
| --- | --- | --- |
| **Operation Fund Allocation** | | |
| **Asset Class** | **Sub-Asset Class** | **Target Allocation** |
| Equity | U.S. | **##%** |
| Non-U.S. | **##%** |
| Fixed Income  and Cash |  | **##%** |

**B. Diversification Policy**

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

1. Except for fixed income investments explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of total Portfolio assets.
2. Except for passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single investment pool or investment company (mutual fund) shall comprise more than 20% of total Portfolio assets.
3. With respect to fixed income investments, for individual bonds, the minimum average credit quality of these investments shall be investment grade (Standard & Poor’s BBB or Moody’s Baa or higher).
4. **Rebalancing**

It is expected that the Portfolio’s actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset and sub-asset classes. The Portfolio will be rebalanced to its target normal asset allocation under the following procedures:

1. Incoming cash flow (contributions) or outgoing money movements (disbursements) of the Portfolio will be used to realign the current weightings closer to the target weightings for the Portfolio.
2. Committee will ensure that Portfolio is reviewed at least annually to determine the deviation from target weightings. During each annual review, the following parameters will be applied:
   1. If any asset class (equity or fixed income) within the Portfolio is +/–5 percentage points from its target weighting, the Portfolio will be rebalanced.
   2. If any fund within the Portfolio has increased or decreased by greater than 20% of its target weighting, the fund will be rebalanced.
3. Committee or an investment manager may provide a rebalancing recommendation at any time.
4. An investment manager shall act within a reasonable period of time to evaluate

deviation from these ranges.

**D. Other Investment Policies**

Portfolio investment managers are prohibited from:

1. Purchasing securities on margin or executing short sales.
2. Pledging or hypothecating securities.
3. Purchasing or selling derivative securities.
4. Engaging in investment strategies not in conformance with the objectives of this Policy

**V. Monitoring Portfolio Investments and Performance**

Committee will monitor the Portfolio’s investments against the Policy’s investment objectives. The Committee will formally assess the Portfolio on a semi-annual basis and the performance of its underlying investments as follows:

A. The Portfolio’s composite investment performance (net of fees) will be judged against the following standards:

1. The Portfolio’s absolute long-term real return objective.
2. A composite benchmark consisting of the following unmanaged market indexes weighted according to the expected target asset allocations stipulated by the Portfolio’s investment guidelines:
3. U.S. Equity: Wilshire 5000 Total Market Index
4. Non-U.S. Equity: MSCI EAFE +EM Index
5. Investment Grade Fixed Income: Barclays Capital U.S. Aggregate Bond Index
6. Cash: Citigroup 3-Month T-Bill Index

B. The performance of professional investment managers hired on behalf of the Portfolio will be judged against the following standards:

1. A market-based index appropriately selected or tailored to the manager’s agreed-upon investment objective and the normal investment characteristics of the manager’s portfolio.
2. Has the manager adhered consistently to the manager’s stated investment strategy?
3. The performance of other investment managers having similar investment objectives.
4. In keeping with the Portfolio’s overall long-term financial objective, the Committee will evaluate Portfolio and manager performance over a suitably long-term investment horizon, generally across full market cycles or, at a minimum, on a rolling five-year basis.
5. Investment reports shall be provided by investment manager(s) on a (calendar) quarterly basis or as more frequently requested by Committee. Each investment manager is expected to be available to meet with the Investment Committee once per year to review portfolio structure, strategy, and investment performance.
6. Committee will evaluate managers to ensure that strategy duplication is minimized and will evaluate portfolios to ensure that individual equity picks are not duplicated across managers.
7. **SLT**’s Conflict of Interest Policy shall carefully apply with respect to the Investment Management Policy. Policy recognizes that it may be advantageous to **SLT** to utilize an existing financial relationship of an individual director and Policy explicitly allows for such circumstance, subject to annual disclosure that identifies the parties and describes the nature and scope of the relationship and its potential conflict. If appropriate, such director with a relationship that presents a conflict shall recuse him/herself from discussion and votes, pursuant to the Conflict of Interest Policy.