



FIRST UNITARIAN SOCIETY IN NEWTON

FUSN Issuance 2013-23

Policy **Information**

From: Gordon Moriarty
Chair, Board of Trustees

Date: March 2, 2013

Subject: Board of Investment (BOI) Investment Policy and Operating
Procedures

Purpose: To publish the updated Board of Investment (BOI) Investment
Policy and Operating Procedures

Background: At its regular meeting on February 12, 2013, the Board of Trustees
voted to update the existing Board of Investment (BOI) Investment
Policy and Operating Procedures

Policy: The updated policy is attached

Effective Date: February 12, 2013

FUSN BOI INVESTMENT POLICY AND OPERATING PROCEDURES

April 30, 2008

Updated February 2013

Investment Policy:

- **Overall long-term objective:** To preserve the real (i.e. constant purchasing power) value of FUSN's endowment over a 5-10 year horizon, before growth from new gifts.
 - Aim for two or less loss-making years over this investment horizon.
 - Grow both the unrestricted and restricted endowment to enhance FUSN's financial flexibility.

- **The target return:** 5% total return, above inflation, after all expenses, with volatility as low as practical and at acceptable levels. In addition, target return should beat the blended benchmark:
 - 40% S&P 500 Index
 - 20% Barclays Aggregate Bond Index AG bond
 - 20% Wilshire 4500 Index
 - 20% EAFE Index

BOI's asset allocation, and the long-term historical returns of these asset classes, should be consistent with these targets.

- **Asset allocation:** Recognizing the long time horizon of FUSN's permanent endowment, a growth-oriented "efficient frontier" asset allocation method will be employed to generate attractive returns with moderated volatility. Currently Ibbotson's "growth" model portfolio (tax-exempt version) is essentially being followed. This portfolio has 19% in fixed income (including cash) against 81% in equities and is expected to have volatility of 1.5x its average returns.

- **Investment Guidelines:** Current asset class allocation targets are:

31%	Large-cap Equities (14% growth, 17% value)
12%	Mid-cap Equities (5% growth, 7% value)
11%	Small-cap Equities (4% growth, 7% value)
16%	International Equities
5%	Emerging Market Equities
4%	REITs
13%	Domestic Bonds (can include up to 5% in lower quality – higher yielding bonds)
4%	International Bonds
2%	Commodities/Energy (Equities)
2%	Cash Equivalents
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100%	

- **Review of asset allocation:** The percentage targets will be reviewed with FUSN board annually. BOI has discretion to reallocate individual allocations to other asset classes provided that these do not deviate by more than 5 percentage points from the model portfolio being followed.
- **Rebalancing:** BOI will compare holdings against allocation targets at BOI meetings and at least semiannually. The BOI will subsequently rebalance any allocation where actual holding differs from target by a significant amount but certainly if the divergence is five percentage points of total assets or 50% of the target percentage for that asset class.
- **Evaluation of investments:** Semiannually discuss historical performance and the continued attractiveness of individual investment positions.
- **Passively managed investments:** As a small-institutional investor, the BOI will generally emphasize low costs and indexing approaches rather than active investing (or shareholder advocacy/community investing/non-marketable securities, etc.). Normally the BOI will avoid purchasing or holding individual stocks, preferring to hold mutual funds and exchange traded funds.
- **UU values:** The BOI will manage its activities consistent with UU values through socially responsible investing (SRI). Maximum use of socially-screened investments will be employed provided that they are consistent with overall asset allocation targets and do not lead, in the BOI's judgment, to an overall portfolio underperformance likely to exceed 20 basis points.
- **Diversification:** Concentration of investment in passively-managed, indexed pooled funds is allowed. An individual, actively-managed pooled fund will not

exceed 25% of total assets. Holdings of any individual equity will not exceed 2% of assets.

- **Performance tracking:** The total return of FUSN’s portfolio will be compared against a target-asset-allocation-weighted mix of appropriate indices (the policy benchmark) and with the UUA’s General Investment Fund (GIF) total net return.

Distributions from the Endowment

- **Unrestricted Endowment Payout:**

- Budgeted payout for the upcoming fiscal year will be based on the four-quarter average market value of the unrestricted endowment portion of the portfolio ending with the December 31 quarter of the current fiscal year.
- FUSN Board and BOI agreed to reduce the targeted annual payout from 5% to 3% over 4 years as follows:

	Target Distribution	Lower Range	Upper Range
2013	4.5%	4.0%	5.0%
2014	4.0%	3.5%	4.5%
2015	3.5%	3.0%	4.0%
2016+	3.0%	2.5%	3.5%

- Payout for the following fiscal year will be the same as that for the current fiscal year subject to any changes in the target ranges. For example if for 2012 the payout was \$50K, then the payout for 2013 would be \$50K if the payout is between 4.0% and 5.0% of the four-quarter average market value; if the payout is below or above this range, then the new payout will be 4.0% or 5.0% of the four-quarter average market value, respectively.
- The BOI may also exercise judgment in recommending a payout that is outside the above range, provided that it believes it is consistent with the currently planned long term Target Distribution payout goal of 3% from 2016 forward.

- **Restricted Endowment Payout:**

- The BOI will attempt to manage the multi-year average payout from the restricted endowment funds to approximate the Target Distribution of the market value as of December 31, but will distribute more or less than this amount in individual years. When restrictions permit, the BOI may also distribute more than Target Distribution

of the total restricted endowment when such increased distributions are offset by smaller distributions from the unrestricted endowment.

- The expenditure rate for certain funds will be as directed by Board of Trustees as well as by the governing instruments of the restricted fund in question.
- A restricted endowment fund that has a potential payout amount may not actually pay out anything in the next fiscal year, or may pay out a lesser amount.
- Individual restricted funds must have sufficient appreciation over book value (i.e., principal) to cover payout unless the governing instrument permits payout of principal.
- Book value (i.e., principal) will increase with the addition of donations and be reduced by distributions, where allowed, but will not be reduced as a result of investment performance.
- Book value of restricted funds is based on the 1982 analysis.

- **Special Funds**

- Investment and expenditure rate of certain funds will be as directed by Board of Trustees.
- Krick Fund is invested on a pooled basis along with other restricted funds.
- Payout from the Krick Fund is based on December 31st market value. This new quarterly payout takes effect with January payment. Payout is calculated based on high and low collar percentages of 5.5% and 7.5%. The payout amount will remain the same as the previous year if that amount is between these percentages (as a percentage of the December market value of the Krick Fund). If the potential payout is beyond the high or low collars, then the corresponding collar percentage will be used to calculate the payout. The long-term goal is to average a 6% payout and the BOI may adjust the payout outside the specified range to reduce any long-term bias away from 6%.
- The last payment from the Krick Fund is expected to be on July 1, 2013. No payout will be made after September 11, 2013 at which time this fund will be merged into the unrestricted endowment.
- Building Reserve Fund is included with the pooled investments, but the annual payout (if any) is at the discretion of the Board of Trustees and can include principal.

Operating Procedures:

- **Donations of Securities:** The BOI will process donations of securities to FUSN. In general, securities donated to FUSN will be sold as soon as practical. Donations will be valued as of the day the securities appear in the BOI Fidelity (or other) account, at the average of the high and low prices for that day. This policy applies

both to donations to the endowment and gifts to FUSN for the annual canvas or to special appeals (e.g., capital campaigns).

- **BOI will acknowledge donations** promptly. Per IRS Pub. 1771, the written acknowledgements will include FUSN's name, a description of the donated securities, and a statement that no goods or services were provided by FUSN in return for the donation (assuming that is true). As a courtesy to the donor, we will also provide the valuation we recognized on receipt, but make no explicit recommendation as to the appropriate valuation for the donor's tax purposes.
- **Reporting:** The BOI will prepare an annual report to the Society as soon as practical after the May 31st end of its fiscal year. At least once every two years the BOI shall report to the BOT on its performance and success in meeting objectives.
- **Record Keeping:** FUSN Annual Reports including the BOI's annual report are archived by the FUSN office administrator; Fidelity and key financial statements will be kept in written form by the secretary for seven years; documentation on gifts of securities will be kept for three years; trade confirmations can be discarded at the end of each year.
- **Minutes of BOI meetings:** Will be archived in both printed and electronic form by the BOI Secretary.
- **BOI membership turnover:** Members of the BOI should serve staggered three year terms, limited to two consecutive terms. Upon exiting, a BOI member may eligible to rejoin BOI provided after a minimum of a one-year hiatus.
- **BOI Meeting Frequency:** BOI will meet in person no less than quarterly throughout the year.
- **Documents incorporated by reference:** The BOI has a chart of responsibilities for the BOI Chair, Secretary and Member, an annual calendar and various spreadsheets for accounting and reporting. These are updated or reviewed at appropriate intervals.

