EVANSTON COMMUNITY FOUNDATION
INVESTMENT AND SPENDING POLICY
Ratified by ECF board on September 8, 2021

INTRODUCTION

This policy is adopted by the Board of Directors (the Board) of the Evanston Community Foundation (ECF) to codify the principles to be followed by the Investment Council (the Council) in the execution of its responsibilities. Both the Council and the Board are obliged to discharge their ongoing fiduciary responsibility to evaluate the performance of ECF's assets and its spending and, at least annually, to re-adopt this Policy with such changes as may be appropriate.

INVESTMENT OBJECTIVE

The principal investment objective of ECF is to preserve, in perpetuity, the purchasing power of its assets and to provide a growing stream of income to cover expenses and fund grants and programs. ECF is indifferent as to whether this objective is met through current income or appreciation in value of assets. The focus is on total return. ECF expects, over time, to achieve an annual total return which exceeds budgeted spending plus an amount equal to inflation (increase in the Consumer Price Index) during the preceding year. Over a market cycle this objective will insure that the investment strategies, budgeted spending and inflation expectations are coordinated sufficiently to preserve the purchasing power of ECF assets.

SPENDING OBJECTIVE (SPENDING RATE)

The annual spending objective for ECF operations is a maximum of 6% and a minimum of 3.5% of the three-year moving average of the market value of the board-designated endowment funds intended to be permanent and subject to this Policy (the Spending Objective). The Board determines the percentage to be used for the spending objective as part of ECF's annual budget process. For purposes of developing the annual budget, the three-year average will be calculated using monthly data for the previous two calendar years and an estimate for the current year using the monthly data through September 30. However, the spending objective drawn from the board-designated endowment funds will be calculated using the fund balances as of December 31 of each year in the calculation.

In addition to the Spending Objective, ECF may spend funds which do not affect the board-designated endowment funds, such as contributions for current grantmaking, programs or administrative expenses; income from fees and tuition; grants from donor advised funds; distributions from agency funds; charitable gift annuity payments; and other amounts determined by the Board to be allocated to the budget.

To preserve its strategic objectives, ECF may make multi-year grants if the length of commitments and dollar amounts are consistent with the need to limit financial exposure and maintain flexibility in spending.

Other endowed funds of ECF are subject to the same spending objective as the board-designated endowment funds, unless otherwise specified in the fund agreements. These funds include board-directed field of interest, donor-designated, and organizational endowment ("agency") funds. Policy guidelines for other endowed funds appear on page 4.

Membership

Council membership includes the ECF board chair, immediate past-chair, one or more vice-chairs and the Treasurer, if they are able to serve. The president and senior finance staff shall be ex-offico members. The Council may include members of the community who need not be ECF board members, as specified in ECF's bylaws. In considering members, the board chair shall strive to appoint members with the skills needed to perform the function of the Council and assist the board with its oversight of the investment function.

Operating Policy

The Board has fiduciary responsibility for ECF assets. At least annually, it receives an investment report submitted by the Council for the Board's review and approval.

The Council is delegated responsibility to manage the assets of ECF and meets not less often than four times each year. In discharging its responsibilities, the Council is authorized, within the parameters of this Policy, to engage and discharge investment managers and make asset allocation decisions. The Council may also recommend, for Board approval, the establishment of reserves, special funding requirements, conditions upon which funds should be accepted, and other related matters.

Prudent Management

The Board and Council acknowledge the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted in Illinois effective June 30, 2009 (760 ILCS 50/1) and affirm that all action taken with respect to investment and spending of ECF assets will be in accordance with its provisions.

The Treasurer and/or such other persons as may be designated by the Council or the Board are responsible for implementing decisions of the Council and the Board with respect to custody and investment of the assets of ECF in accordance with this Policy.

In discharging their responsibilities with respect to investment and application of assets of ECF, the Board and its Councils, officers and employees will act as prudent investors in accordance with this Policy. They will display the skill and prudence which an ordinarily capable and careful person would use in the conduct of his/her own business of like character. With respect to investing funds, they will use the care and skill of a reasonably prudent investor while recognizing the inevitability of assumption of risk. In this Policy and its implementation, ECF seeks a prudent balance between investment risk and potential return.

Portfolio Accounting

Accounting for portfolio contributions and withdrawals and calculation of investment rates of return are in accordance with standards adopted by CFA Institute. Allocation of investment fees and expenses is based upon actual results for each fiscal year using monthly data.

Fund Accounting

Net investment results are allocated monthly among all ECF funds participating in the portfolio, using the funds' average daily balances.

Performance targets

ECF currently evaluates the performance of its investment portfolio against specific performance targets as described below.

Asset Class	*Benchmark*
Equities	Blend comprising 80% of the Wilshire 5000 Index and 20% of the MSCI-ACWI, a global equity index
Fixed Income	Blend comprising 80% of the Barclays Capital Aggregate Bond Index and 20% of the J. P. Morgan Global Bond Index
Other	CPI +5%

The risk and return profiles of each mutual fund or other commingled holding shall be reviewed regularly against their peer groups using standard statistical sources (e.g. Lipper or Morningstar).

Diversification Policy

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

A) With the exception of fixed income investments explicitly guaranteed by the U.S. Government or its agencies, no single investment security, whether purchased or received by gift, shall represent more than 5% of total portfolio assets. Similarly, no more than 5% of the securities of any one issuer, measured at market, may be held in the portfolio, again, excluding issues of the U.S. Government or its agencies.

B) With regard to those investments in the ECF portfolio that are held in the form of diversified investment company assets ("open-end funds"), investment pools, or exchange-traded funds ("ETFs"), no holding shall comprise more than 10% of total portfolio assets, measured at market. The one exception to this guideline is a passively managed investment vehicle (created by a nationally recognized sponsor of such vehicles) seeking to match the returns on a broadly diversified market index, which shall not comprise more than 20% of total portfolio assets, measured at market. This exception applies only to open-end funds and not to ETF's.

C) If the Investment Council determines that a portfolio of individually managed securities is appropriate, then it will develop and operate such a portfolio under (or provide to the investment manager) a set of separate guidelines addressing portfolio diversification and concentration of risk.

Asset Allocation

ECF recognizes that asset allocation is the single largest determinant of a portfolio's long-term return. Accordingly, consistent with the prudent investor concept, ECF is deliberate in the formulation of its long-term strategic asset mix. It relies on (1) optimization modeling using the expected returns, standard deviations and correlations of and between various asset classes, (2) the experience and judgment of the members of the Council and its advisors, and (3) review of the asset allocation strategies of other successful peer institutions. The underlying premise for this process is that equities continue as the dominant asset class, but that further diversification can reduce volatility (risk) and improve long-term returns.

Approved asset classes are presented below. All asset classes need not be utilized at any one time, and the Council may modify the list from time to time. The principles in this Policy, coupled with the liquidity of investments, make it unnecessary to have an allocation for cash.

Equities	45 - 65%
Domestic (minimum of 30%)	
Foreign, including Emerging Markets (maximum of 20%)	
Fixed Income	15 - 35%
Domestic (minimum of 15%)	
Foreign, including Emerging Markets (maximum of 10%)	
Other*	0 - 20%
Real Estate	
Commodity Indexes	
Hedge Funds	
Private Equity	

* The Other category includes investments that are not projected to provide risk/reward profiles similar to equities or fixed income. Investments in Other will be limited to the sub-classes specified above. The maximum investment in any of the specified sub-classes is 10%.

In the ordinary course, gifts of securities or other property will be sold at the earliest opportunity, and the proceeds will be invested consistent with the strategies established in this Policy. However, the Council may decide to retain a gift of marketable securities if it meets the criteria established in this policy. In the event ECF accepts gifts of non-marketable securities, real or other property that cannot be liquidated on a current basis, the value of such property will not be included in the investment pool and will be excluded from ECF's investment return calculations, until such time as it is sold and the proceeds from its sale are received.

All financial assets of ECF are commingled for investment management purposes, but in special circumstances, such as the establishment of an annuity or life income fund, assets may be segregated and invested in an appropriate manner to match the required income stream as determined by the Council. At the end of the term, the remaining assets will be reallocated in accordance with this Policy.

At its discretion, ECF may elect to meet the short-term investment objectives of certain donors, agencies, and qualified organizations by agreeing to credit them with a rate of return equivalent to a short term investment benchmark, such as 90-day Treasury Bills, such arrangements being limited to no more than 10% of the Foundation's total Endowment at any time. The Foundation's usual and customary fees and pro rata expense sharing arrangements will apply to these funds.

ALTERNATIVE INVESTMENTS

Alternative Investments generally employ non-traditional investment strategies utilizing equities, debt instruments, and commodities in public, but most frequently in private, markets. Alternative Investments have the potential for greater diversification, as well as an enhanced opportunity for return or the mitigation of risk or volatility compared to direct investments in public markets such as stocks, mutual funds, or exchange-traded funds.

Recognizing both the potential benefits and limitations of Alternative Investments, a prudent deployment of a portion of the ECF portfolio in Alternative Investment strategies, subject to appropriate due diligence and ongoing monitoring of such investments, should provide net benefits for the portfolio over the long term. Eligible Alternative Investment strategies may include all categories of illiquid investments: debt- or equity-focused, real estate, private equity, venture capital, commodities, and hedge funds. These examples provided are not meant to be exhaustive or to act as a limitation.

With regard to setting an appropriate asset allocation range for Alternative Investments, the current "Other" segment of the ECF Asset Allocation matrix provides for maximum exposure of 20% of the overall market value of the ECF Portfolio in liquid alternatives. Up to half of the "Other" segment, or 10% of the ECF Portfolio, may be allocated to illiquid Alternative Investments. The balance of the "Other" segment remains allocated for appropriate liquid investments. In determining the size of any specific investment under this Policy, reference should be made to the total subscription amount of the Alternative Investment strategy, as opposed to the initial investment amount. There is no timeline to reach the 10% limit, as commitments should be made on an opportunistic basis.

Investment Time Horizon

Consistent with the objective of ECF to preserve, in perpetuity, the purchasing power of its assets, it is appropriate to take a long-term view with regard to the investment time horizon. ECF recognizes that investment markets are cyclical and is willing to commit to investment themes for sufficient periods to capture the full cyclical values.

Managers

In the ordinary course of portfolio management, the Council does not handle individual security selection. External professional managers are engaged to provide day-to-day oversight and make individual investment decisions with respect to assets assigned to them. In some instances, this may be accomplished by an investment in a mutual fund or other commingled vehicle. In other cases, it may be accomplished by hiring a Qualified Professional Asset Manager to manage a separate portfolio.

Other Endowed Funds

1. Other endowed funds, including board-directed field of interest, donor-designated, and organizational endowment funds that have been in existence three years or more are subject to the Spending Objective set forth in this Policy. Such funds which have been in existence for less than three years are subject to the Spending Objective applied to the average fund balances for the periods the funds have been in existence. Distributions from these funds will be made after deducting allocated investment expenses and agreed upon fees.

2. Subject to governing accounting principles, the Leadership Fund (a Field of Interest Fund supports ECF's Leadership Evanston programing) is subject to the same principles applicable to the board-designated endowment funds. Although the Leadership Fund agreement provides that it shall pay a pro rata share of general operating expenses of ECF, the fund is subject to application of the Spending Objective, allocation of investment expenses, and annual fees in the same manner as other funds.

3. Charitable gift annuity agreements will be negotiated taking into account the guidelines established by the American Council on Gift Annuities, as well as by this Policy with respect to allocation of investment expenses and fees. Any additional fees and/or special arrangements necessitated by the unique nature of the annuity agreements will be evaluated by the Council.

4. Pass-through Funds (funds which are contributed with the understanding they will be expended currently) will be accepted with the understanding that they are subject to allocation of investment expenses and payment of such fees as may be agreed upon, including an annual fee of not less than 0.5% of the amount received.

DEFINITIONS – TYPES OF ENDOWED FUNDS

- **Board-designated endowment funds** – 'unrestricted' funds designated by the ECF board to grow in perpetuity while generating annual spending allowances (distributions) to support Foundation operations, grantmaking, and programs.
- **Board-directed field of interest funds** – funds established by donor(s) to support a broadly defined need or program area, for example, *arts education for youth.* Fund agreements include donor instructions for the program area to be supported by the fund's annual spending amounts, and ECF determines the specific recipient organizations/projects.
- **Donor designated funds** – donor establishes the fund to benefit a specific organization, and annual spending allowances (distributions) are offered to the organization.
- **Organizational endowments** – other nonprofit organizations place their endowment funds with ECF, and these funds become the property of ECF. Spending allowances generated by the funds are offered to the organizations annually.