

Joseph T. Simpson Public Library
Endowment Fund Policy
Adopted January 8, 2019

Whereas the Joseph T. Simpson Public Library (“Library”) has previously established an Endowment Fund (the “Fund”), the intention of this document is to establish rules and guidelines for the management and utilization of the Fund.

The Finance Committee is charged with oversight of the management of the Fund in a manner which builds upon the existing assets and furthers growth of the Library without exposing the assets to excessive risk.

Acceptance and Acknowledgement of Gifts should follow the Library’s general policy on gift acceptance and acknowledgement (See Gift Solicitation and Acceptance Policy). If the gift is a designated gift, the income there from shall be distributed by the Finance Committee as directed by the donors at the time of their gift, or as directed by will or other gift document, if such direction is in conformity with the general purposes of the Gift Solicitation and Acceptance Policy. However, under no circumstances may the principal be used which donors designated to be held in perpetuity, for a fixed number of years which have not yet been completed, or until the occurrence of a specific event which has not yet occurred.

The Fund is a permanent fund, the principal of which shall be held in perpetuity.

The permanent nature of endowment funds creates a challenging objective - maintenance of the purchasing power of endowment assets in perpetuity. Asset allocation and spending policies should be established with a long-term perspective in order for the endowment to maintain its purchasing power.

This objective can only be accomplished by linking the Fund’s investment objectives with its spending policy. Spending at levels that are inconsistent with investment returns will either diminish or enhance future endowment levels. Too much current spending will cause future endowment support for operations to fall; too little current spending will benefit the future of the organization at the potential expense of funding immediate needs. Stated differently, the Fund should provide the same relative level of support for designated programs this year, next year, and for decades into the future. In summary, it should be the Library’s objective to preserve the real purchasing power of the Fund by seeking long-term return expectations which either match or exceed the spending rate plus inflation.

The trustees should view the Library’s endowment as a permanent fund, one having a perpetual life. Therefore, the Library is willing to rely on projections of long-term market performance and not be overly concerned by short-term reversals in the markets. The general policy shall be to diversify investments within both equity and fixed-income securities so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

FUND INVESTMENT POLICY

I. GENERAL CONSIDERATIONS

- A. The purpose of this policy statement is to articulate the broad guidelines that will be applied to the long-term management of the Fund.
- B. The Fund is intended to provide operating and capital improvement support to the Library in perpetuity and, accordingly, is invested with a long-term horizon. Although year-to-year volatility is reduced through diversification of investment strategies, the emphasis will be on the long-term, total rate of return. The concept of total return takes into consideration a combination of overall growth to the asset base through capital appreciation as the primary return driver with current income production as an important, but typically a secondary objective.

II. ASSET ALLOCATION/SPENDING POLICY/RETURN EXPECTATIONS

- A. The primary objective of the Fund investment portfolio is to generate a long-term, total rate of return (income plus appreciation) that will permit real growth in Fund assets while funding an annual payout rate (spending policy) that is expected to equal roughly 4% of the trailing twelve quarter average (3 years) market value of the Fund corpus.
- B. Fund assets will be invested with a target of between 65-80% in equity securities (common stocks) and 20-35% in fixed income securities (bonds).
- C. Such an asset allocation has historically provided total returns in excess of the aforementioned spending policy, net of fees.

Governance

This Investment Policy Statement (“IPS”) serves as a strategic guide in the planning and implementation of an investment program that governs the investments associated with the Joseph T. Simpson Public Library’s Endowment Fund.

Purpose and Scope

This IPS should establish a clear delineation of the expectations of the Joseph T. Simpson Public Library Board of Trustees (Board) with respect to the Finance Committee’s and the Investment Advisor(s)’ oversight and management of the Fund.

This IPS is intended to:

- A. Define the investment assets to be governed by the IPS and allocation of duties among the Board, its Finance Committee and the Investment Advisor(s) with respect to such assets;
- B. Establish reasonable objectives for return and risk expectations, incorporating the following constraints: current time horizon; liquidity constraints; and any other unique circumstances regarding the Fund;
- C. Establish the appropriate target allocation and the parameters around restricted security types and asset classes;
- D. Encourage effective communication between all parties involved in the oversight, management and operations of the Fund(s).
- E. Establish the Board’s and the Finance Committee’s expectations regarding reports to be delivered by the Investment Advisor(s) and the frequency of meetings with the Investment Advisor(s).

Further, this IPS is intended to provide investment objectives that are sufficiently specific to be meaningful, but adequately flexible to be practicable. The objectives in this IPS are designed to establish an attitude and philosophy to guide the Board and the Finance Committee toward the desired policies and performance in oversight of the Library’s assets.

The Finance Committee will be responsible for adopting a recommendation for the Fund’s investment strategy and overall Fund management, as set forth in this IPS. The Investment Advisor(s) will be responsible for the recommendation of an investment strategy, and, once adopted, the management and implementation of the selected strategy.

The Board and Finance Committee recognize that this IPS requires periodic reexamination and, if necessary, revision, if it is to continue to effectively produce the intended strategic results. If it is determined that this IPS needs to be amended, it is the mutual responsibility of the Investment Advisor(s) and the Finance Committee to initiate written communication to effect such change.