



## STATEMENT OF INVESTMENT POLICY

Based on the responsibilities as set forth in the Declaration of Trust, the Finance Committee has developed this Statement of Investment Policy which serves the following purposes:

- Establishes objectives and guidelines for the investment of The Chicago Community Trust (“Trust”) assets that are consistent with the financial goals of the Trust.
- Provides written documentation of the expectations regarding the investment of the assets for which the Finance Committee has responsibility.
- Outlines criteria and procedures for the ongoing evaluation of the investments of the Trust.
- Outlines the duties and responsibilities of the various parties involved in the investment and oversight of the Trust assets.

This statement is intended to provide documentation for all responsible parties. It should be noted that the Finance Committee strongly encourages the Trustee Banks (hereafter referred to as “Investment Managers”) to proactively recommend any changes in the investment policies, objectives or guidelines that they believe are appropriate.

### INVESTMENT OBJECTIVES AND GOALS

The Trust's investment objectives are to manage the portfolio in a manner that will support the programs of the Trust and achieve, over time, a total return (i.e., both income and capital appreciation) sufficient to preserve the purchasing power of the portfolio, while at the same time maintaining a prudent level of risk. While superior investment performance in excess of spending and inflation will increase the purchasing power of the portfolio, the Trust acknowledges that new gifts and bequests will be the primary contributor of growth in the portfolio.

The investment goal is to achieve, over time, an average annual total return (net of fees and expenses) at least equal to the spending policy of the Trust plus the rate of inflation as measured by the Consumer Price Index. The Trust recognizes that its investment goal will not be met in every year or every measuring period and that these goals and objectives are intended to be achieved over time.

The total portfolio should be measured against its absolute investment goal (as set forth above), a custom benchmark that approximates as closely as possible the portfolio's target asset allocation, and a universe of comparable foundation and endowment funds.



Specifically, the performance of the portfolio as a whole should be measured against:

1. The Chicago Community Trust's spending policy plus inflation as measured by the Consumer Price Index.
2. A balanced index composed of: 45% of the S&P 500 Index, 10% of the Russell 2000 Index, 7.5% of the MSCI EAFE Index, 7.5% of the MSCI EM Index and 30% of the Barclays US Aggregate Bond Index. The finance committee will evaluate the risk and return of the policy benchmark versus the composite performance over long term periods (three years and longer).
3. A peer group of similar foundation and endowment funds.

### **INVESTMENT GUIDELINES**

Investment guidelines are the broad parameters within which the Investment Managers operate in executing and implementing the Investment Policy and making specific investment decisions. Outlined below are the Trust's investment guidelines:

- The Investment Manager should assure itself of the appropriateness of any individual investment.
- The appropriateness and use of asset types not specified in this Investment Policy Statement is subject to the approval of the Finance Committee.
- Cash equivalents may be held in the equity portfolio at the discretion of the Investment Manager.
- The volatility of the portfolio, as measured by standard deviation, should be similar or not significantly greater than that of the policy benchmark.
- No single issue may exceed the greater of 10% of the portfolio or 3% over the weight in the benchmark index, at market value.
- The portfolio may contain no more than 5% of the outstanding shares of any company, nor may the portfolio contain any stock where the manager's aggregate holdings for all clients exceed 15% of the outstanding shares.
- The average quality of the fixed income portfolio should be no less than A rated or better.
- Commingled or mutual funds are governed by the prospectus or stated guidelines of the fund and are exempt from the above guidelines.
- Investments in derivative securities and any investment that generates unrelated business tax liability are prohibited unless prior approval is given by the Finance Committee. Current prohibited securities include, but are not limited to:
  - Restricted (letter) stock
  - Short-sale contracts



- Option contracts
  - Futures contracts
  - Private placements
- The portfolio may contain opportunistic investments. Examples of opportunistic investments include real assets (timber, oil and gas), private placements, real estate, venture capital, REITS, and commodity trading. The Finance Committee's approval is required prior to making an opportunistic investment. In addition, the following guidelines must be met:
    - The investment must be diversified and exhibit prudent risk characteristics so as not to unnecessarily expose the portfolio to a high level of risk.
    - The investment must have a minimum track record of three years.
    - The portfolio's exposure should not represent more than 5% of the assets of the total opportunistic investment.
  - The Trust has made strategic allocations to asset classes such as high yield fixed income, absolute return and hedged equity. These alternative asset classes employ strategies which involve the use of lower rated securities, short selling, derivative contracts and leverage. Therefore, the prohibited transactions noted above do not apply to these asset classes; however, prior approval by the Finance Committee is required for all alternative asset classes.

### **INVESTMENT MANAGER DIVERSIFICATION POLICY**

The Chicago Community Trust is committed to retaining a diverse pool of investment managers without compromising investment performance. To ensure continuing consideration of a diverse group of candidates, when there is a search for a new investment manager or during the re-balancing of the portfolio, the finalists will include at least one qualified minority/women owned firm unless no such candidate can be identified. In that event, the Investment Committee will receive a description of the effort to locate minority/women owned firms within the search parameters and the reasons that the effort was unsuccessful.

The target allocation for minority and emerging manager representation in the investment portfolio is 20% with a minimum exposure of 5%.

A minority owned firm is defined as a firm that is at least 51% owned, controlled and operated by minority group members. For the purpose of this definition, minority group members are African Americans, Hispanic Americans, Asian or Pacific Island Americans, American Indians, Alaskan Natives, American Aleuts and native Hawaiians. A woman-owned firm is defined as a firm that is at least 51% owned, controlled and operated by women.



In general, the following definitions apply:

- Owned = at least 51% of the business or 51% of the stock is owned by minorities and/or women
- Controlled = actively exercising the power to make policy decisions
- Operated = actively involved in the day-to-day management of the enterprise

### ASSET ALLOCATION STRATEGY AND PERFORMANCE BENCHMARKS

The following asset allocation strategy has been established to provide a diversified portfolio in order to enhance total return and to minimize the risk of loss in any individual asset class.

Asset Class	Target Allocation	Range	Index Benchmarks
Equity and "Equity Like"	70%	60%-80%	
Large Cap Domestic	30%	20%-40%	S & P 500
Small Cap Domestic	10%	0-20%	Russell 2000
International	15%	0-20%	7.5% MSCI EAFE /7.5% MSCI EM
Hedged Equity	15%	0-20%	S&P 500 and HE
Fixed Income and "Fixed Income Like"	30%	20%-40%	
Fixed Income	10%	5%-20%	Barclays Aggregate
Absolute Return	20%	0-25%	Barclays Aggregate and AR
Cash	0%	0-10%	90 T Bills
Opportunistic Investments	0%	0-10%	

### REBALANCING

The Investment Manager is responsible for maintaining the investments within their permissible ranges. If any asset class moves outside of the established rebalancing range for two consecutive quarters, the Investment Manager should rebalance the portfolio.

The Finance Committee of the Trust will periodically review the policy asset allocation and policy benchmarks to ensure they remain appropriate for the needs of the Trust.

### SPENDING POLICY

The Trust invests on a total return basis and distributions are made in accordance with a spending policy established by the Trust. The annual spending rate falls within a range of 4% - 6% of the average market value, using a 12 quarter trailing average. The spending allocation includes/covers cash required for the Trust's grant-making, administrative cost, investment management and custody expenses. (Donor advised funds are excluded from the spending policy unless this election is made.)



## **DUTIES AND RESPONSIBILITIES**

### Responsibilities of the Finance Committee:

- To act prudently and in good faith on behalf of the Trust.
- Oversee the investment of the Trust assets.
- Establish and adopt an investment policy for Trust assets.
- Review investment policy on an ongoing basis and make such changes as may be required.
- Determine if the policy objectives and guidelines are being met.
- Set desired performance objectives and monitor the performance of the Investment Managers in meeting these objectives.
- Review the recommendations provided by the Investment Consultant and act in the best interest of the Trust.
- Approve any purchase or sale of individually managed securities or units of commingled, common trust or mutual funds outside of the recommended asset allocation range.
- To recommend the removal of any Investment Manager (meaning Trustee Bank as referenced on page 1 of the Policy Statement) who has, over a reasonable period of time, failed to produce a reasonable return with due regard to the safety of principal.
- Select and replace the Investment Consultant as appropriate.

### Responsibilities of the Investment Managers:

- Manage the Trust assets under their control in accordance with the policy, objectives and guidelines included herein, as may be revised from time to time by the Finance Committee, and subject to the authority and oversight of the Finance Committee.
- Recommend changes in the investment policies, objectives or guidelines to the Finance Committee, as appropriate.
- Act in a prudent manner with respect to investment of the Trust assets.
- Promptly inform Trust staff and the Finance Committee regarding significant matters pertaining to the investment of the Trust assets. This includes, at a minimum, the following:
  - Quarterly (based on calendar quarters) portfolio asset statements.
  - Quarterly report of performance.
  - Substantive changes in investment strategy and portfolio structure.
  - Significant changes in ownership, organization structure, financial condition or professional staffing
  - Brokerage commissions paid, in total and by broker, during each quarterly period and the average cost per share where commingled or mutual funds are used, a statement of brokerage policy and the average cents per share commission experience is acceptable.



- Proxies voted, in accordance with and where appropriate, by the policies established by the Finance Committee. Where commingled or mutual funds are used, a statement of proxy voting policy is acceptable.
- Maintaining such records as may be required to comply with any investment restrictions set by the donor, including investing and reinvesting funds subject to the provisions that may pertain to a particular fund.

#### Responsibilities of the Investment Consultants:

- Report quarterly investment performance.
- Analyze trends in manager performance, asset allocation and other objectives and make recommendations to the Finance Committee regarding the same.
- Evaluate and propose strategies relevant to the future of the portfolio.
- Assist in the selection of investment managers.
- Model portfolios and calculate investment results under selected scenarios.
- Assist in the continuity of the Finance Committee and staff education.
- Analyze recommendations proposed by Investment Managers and advise the Finance Committee as to the appropriateness of the recommendations.

#### Responsibilities of the Trust Staff:

- Act as the liaison between the Finance Committee, the Investment Managers and the Investment Consultant.
- Manage the investment activity to ensure sufficient Cash Flow to meet distribution requirements.
- Work with the Investment Consultants to compile information on investment return and performance for the Finance Committee's review.
- Interface with the Finance Committee to ensure necessary action items are brought to the Committee and that Committee decisions are implemented.

## REVIEW PROCEDURES

### Review of Policy

The Finance Committee, on an ongoing basis, will review all investment policies, objectives and guidelines.

## Review of Investment Results

The Finance Committee will monitor the performance of the Trust assets quarterly with the assistance of the Trust Staff, the Consultant, and the Investment Managers. The components to be included in these reviews are as follows:

- Review of the results for each Investment Manager given their investment strategy and market conditions.
- Comparison of the results of each Investment Manager against the objectives and policy guidelines set forth in this document.
- Comparison of the total fund performance against:
  - a universe of other professionally managed funds with a similar asset mix.
  - the Chicago Community Trust’s spending policy plus inflation as measured by the Consumer Price Index.
  - a balanced index composed of 45% of the S&P Index, 10% of the Russell 2000 index, 7.5% of the MSCI EAFE Index, and 7.5% of the MSCI EM and 30% of the Barclays US Aggregate Bond Index.
  - a peer group of similar foundation and endowment funds

## Review of the Investment Managers

- The Finance Committee, the Trust staff and the Consultant will review the performance of the Investment Managers and their adherence to the restrictions and policies applicable to the assets under management on a regular basis to determine whether the managers have performed in accordance with their stated investment approaches. On a quarterly basis, the managers are expected to provide a comprehensive review of strategy and performance, as well as an indication of anticipated portfolio changes. Each manager must promptly communicate significant changes in staffing, organization structure, assets under management or investment philosophy.
- On an ongoing basis, the managers will be evaluated to determine their progress toward achieving the investment objectives specified herein. Failure by a manager to achieve policy objectives may cause the Finance Committee to reexamine the manager's investment style and philosophy and may lead to a revised investment strategy.
- As requested, each manager will be expected to meet with the Finance Committee, the Trust Staff and the Consultant to provide:
  - A verbal and written review of their investment performance and portfolio structure.
  - A synopsis of their key investment decisions, their underlying rationale and expected future implications.
  - An organizational update.



THE CHICAGO  
COMMUNITY TRUST  
AND AFFILIATES