



## **Tree Research & Education Endowment Fund Policy/Procedure Statement**

Subject: Investment and Spending Policy

Policy No.: 04-BOD

### **1. Purpose, History, and Responsibilities**

- a. Purpose: The purpose of this policy statement is to set forth the guidelines and objectives of the Tree Research & Education Endowment (TREE) Fund endowment fund. These guidelines are designed to ensure that there is a clear understanding between the investment manager and advisor and the TREE Fund Finance Committee. The guidelines set forth in this statement are to provide clear direction to the investment manager; however, they are not constructed to be so rigid that they become impractical. The guidelines set forth in the policy can be changed in writing only as economic conditions or prudence dictates as long as those changes remain within the fiduciary responsibilities of the Finance Committee and the Trustees. The TREE Fund corpus endowment will be invested as stated below.
- b. Organization: The ISA Research Trust was established in 1975 as a 501(c)(3), not for profit organization to provide a reservoir of money from which important research could be funded. Administered by the Executive Director of the Trust and overseen by a fifteen member Board of Directors, the mission of the Trust was to identify and fund projects with significant environmental, biological, social, and economic needs of arboriculture and urban forestry, including tree genetics, management, and care. After an acquisition in 2002 of National Arborist Association Fund (now TCIA) assets the Trust reorganized and created the Tree Research & Education Endowment Fund, a separate 501(c)(3) organization, led by a President/CEO and governed by a fifteen member Board of Trustees. The mission of the Tree Research & Education Endowment Fund is to support sustainable communities and environmental stewardship by funding research,

scholarships and education programs essential to the discovery and dissemination of new knowledge in the fields of arboriculture and urban forestry.

- c. **Funding:** The account is a tax exempt Endowment Fund. It has 501(c) public charity status with the IRS. The purpose of the Fund is to provide support for the organization's research and educational goals both now and in the future. An established portion of the investment return will be spent each year with the remainder reinvested. The reinvested portion will be the amount necessary to cover future years' cost increases. Therefore, the real value of the Endowment Fund should be maintained and preserved over time.
- d. **Investment Objective:** The investment objective of the TREE Fund endowment is to preserve principal, maximize the production of income, and maintain the future real value of the Fund over time. The Fund will consist of high quality securities following *prudent investor* rules and shall be broadly diversified at all times. The investment approach shall be disciplined and consistent over time and among asset classes. Allocations between asset classes shall be modified when such actions are expected to produce incremental return, to reduce risk, or both.
- e. **Management:** The Board of Trustees' management/oversight role is not in the day-to-day investment decisions. Rather, fund assets will be allocated to professional investment managers. It is the policy of the Board to give each investment manager full investment discretion with respect to assets under its management subject to this policy statement. An investment advisor will be hired to monitor investments that the investment manager makes. A Finance Committee of the Board of Trustees, comprised of persons with interest, knowledge, and experience, shall be responsible for selection, monitoring, acting as liaisons, evaluation, and termination of investment managers and advisors.

## 2. Investment Manager and Advisor

- a. **Investment Manager Responsibilities:** The assets of the TREE Fund endowment allocated to each investment manager are to be managed in accordance with the Investment Policy expressed herein, and/or expressed by written instructions by authorized individuals. The Manager(s) is expected

to exercise complete investment discretion over the assets it is allocated. Such discretion includes decisions to buy, sell or hold equities or fixed income securities (including cash and cash equivalents) in amounts and proportions reflective of that manager's investment philosophy and in accordance with the investment policy guidelines.

It is expected that the assets of the Endowment funds allocated to the manager(s) will be invested with care, skill, prudence, and diligence under the circumstances then prevailing that a *prudent person*, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with such aims.

The investment manager(s) is responsible for frequent and open communication with the TREE Fund on all significant matters pertaining to investment policies and the management of the Endowment Fund assets including, but not necessarily limited to:

- i. major changes in the manager's investment outlook, investment strategy and portfolio structure;
- ii. any significant changes in the ownership, organization structure, financial conditions or senior personnel staffing of organization;
- iii. immediate notices of transaction activity;
- iv. performance comparisons with appropriate market indexes;
- v. quarterly performance and valuation reports including market value of all positions, diversifications of the account, and current yield percentages to coincide with calendar quarters or at such times as the TREE Fund may request.

The investment managers will meet formally with the Finance Committee of the Board on an as-needed basis and a minimum of once per year to discuss investment results and current strategies. All documents, exhibits, written materials, etc. which will be used during the periodic conferences between the TREE Fund Finance Committee or Fund and the managers(s) must be submitted to and received by the TREE Fund at least five (5) business days in advance of these conferences. This will be coordinated by the investment advisor.

- i. The investment manager(s) will insure that duplicate confirmations are

provided to the TREE Fund and the investment advisor by any broker that executes transactions for the Endowment funds.

- ii. The investment manager(s) will ensure that monthly statements are provided to the Tree Research & Education Endowment Fund and the investment advisor by any broker that executes transactions for the Endowment funds.

Each investment manager is expected:

- i. to be covered by liability and fiduciary insurance, and
- ii. to have its employees fully bonded unless otherwise exempted by law or government regulation;
- iii. to not be involved in any conflicts of interest that would rise to violations of law in the provision of services under its agreement

b. Investment Advisor Responsibilities:

The following services will be provided to the TREE Fund:

- i. Investment Policy Planning-Review, as needed, the investment policy and update as necessary to meet the goals of the TREE Fund.
- ii. Manager Search- Provide assistance with identifying and retaining an investment manager that is qualified and whose investment style complements the objectives of the TREE Fund.
- iii. Performance Measurement-Prepare on a quarterly basis a Performance Measurement Report that details the manager's ranking among like investors and the investment return on designated funds managed by the manager(s).
- iv. Communication-Coordinate on a continual basis with the investment manager and the Trustees on all activities or actions taken affecting the Endowment Fund, meet with the Finance Committee at least once per year (and with the Board of Trustees at least annually) to report on the Endowment Fund and investment manager's performance.
- v. Conflict of Interest-Avoid any conflicts of interest that would rise to violations of law in the provision of services under its agreement and certify that it does not accept payments from nor make payments to managers who will be considered in its search under this agreement.
- vi. Commissions-Monitor the agreed commission rates of the managers

as well as any other factors to avoid potential conflicts of interests.

### 3. Investment Policy

- a. Policy: Each investment manager shall acknowledge, in writing, the receipt of this statement and the acceptance of its terms. If an investment manager believes, at any time, that any changes, additions, or deletions to this statement are advisable, it shall be the manager's responsibility to recommend such changes to the Finance Committee.

An investment manager shall be responsible only for those assets under its management and shall not aggregate such assets together with the assets under the management of any other investment manager in determining whether a particular guideline or limitation has been met.

Fund assets should always be invested in accordance with high fiduciary standards and with recognized nonprofit institutional investment standards. All investments for the Fund should be with care, skill, and diligence that a prudent person would exercise. Investment strategy should be based on disciplined investment methodology. The Board generally seeks investment firms that manage more than \$250 million and investment managers with a successful track record, although smaller firms will be considered if appropriate.

The Board's highest priority is to preserve and enhance the value of the assets. The goal of the portfolio is to achieve a total rate of return of at least 7% net after fees and commissions on a balanced account. The equity component of the portfolio will return a minimum of 1% over an equally weighted S&P 500. Performance for both parameters should be achieved when measured over a three-year period. This policy will be reviewed from time to time to reflect changing conditions.

- b. Time Horizon: Fund assets should be invested to maximize return in the long-term as opposed to being invested to minimize short-term volatility. Fund objectives are long-term in nature. Additional funding is expected to be made as gifts or bequests for endowment are received from time to time.
- c. Distribution Policy: The distribution policy will be adopted by the TREE Fund Finance Committee. It is the intent of the TRE Fund Board of Trustees that funds be distributed from the Endowment for the purpose of supporting the

Fund's research and education goals. It is the goal of the Fund to distribute 5%, with an allowable range of 4%-6% based on a 12 quarter rolling average of the endowment corpus annually. This percentage will be reviewed annually by the Finance Committee followed by a recommendation to the TREE Fund Board of Trustees for approval.

- d. Asset Allocation: All cash and securities of the Fund will be under the management of one or more professional money managers. The Board realizes that these asset allocations will fluctuate as market conditions and management style dictates, however, a target allocation of 65% equities and 35% fixed income will serve as a guide. Fund assets will remain within the following guidelines:

Asset Class	Target Range
Equities	50% - 75%
Fixed Income	25% - 50%
Cash	0% - 10%

The Board of Trustees may alter the above policy and investments at any time as fund objectives and market conditions dictate.

- e. Equities: Equities must be traded on major exchanges. Short sales, margin transactions or similar investment activities are prohibited. No assets should be invested in securities whose issuers are currently filed in petition for bankruptcy. Gifts of closely held stock will be liquidated and reinvested as soon as possible.

Within the above guidelines, the investment managers have full responsibility for security selection and diversification. However, the investment managers should not invest more than 5% at cost or 8% at market of the account total in an individual security and not more than 20% in a single sector.

- f. Fixed Income: Investment in fixed income securities may be selected from appropriately liquid preferred stocks, corporate debt securities, obligations of the U.S. Government and its agencies, foreign governments and equity equivalents. These investments will be subject to the following limitations:
- No issues may be purchased with more than 30 years to maturity
  - Investments in securities of a single issuer (with the exception of the U.S. Government) must not exceed 5% of the Fund's total market

value

- iii. Only corporate debt issues of investment grade of A or better may be purchased
- g. Summary: The Board of Trustees recognizes that investment performance results are influenced by the degree of risk assumed in the portfolio. By outlining specific investment quality requirements and performance goals and maintaining a regular program of communication, there should be a clear understanding of how and why the results were achieved. Both performance goals and degree of willingness to assume risk may change over time and this policy may be changed accordingly, in writing, by the TREE Fund Board of Trustees.

This Investment Policy Statement is approved by action of the Board of Trustees of the Tree Research & Education Endowment Fund at a Board Meeting on this 8th day of April, 2013. This Investment Policy Statement is for all Tree Research & Education Endowment Fund Endowment Fund assets, unless otherwise restricted, and it supersedes any and all other documents approved prior to this date.

Issued by

Date revised: 8/26/13

Board Action (give date of vote) April 8, 2013

-or-

TREE Fund Chairman's Signature \_\_\_\_\_

-or-

President/CEO's Signature \_\_\_\_\_