



## **Investment Policy Statement**

**November 2019**

## **I. Introduction**

The Lighthouse Beacon for Youth Foundation, Inc. (hereafter referred to as the “Foundation”) was created to provide perpetual financial support to Lighthouse Youth Services, Inc. and its affiliates such as the Lighthouse Community School (the “Agency”). The Foundation has delegated to the Investment Committee (the “Committee”) the responsibility for directing and monitoring investment management of Foundation Investment Assets. The purpose of this Investment Policy Statement is to establish investing guidelines for the Foundation Investment Assets (the “Portfolio”) which includes

- the Board Designated Endowment Fund,
- the Board Designated Capital Reserve Fund and
- the Lighthouse Community School Board Designated Endowment Fund.

The statement also identifies the standards that will be used for monitoring the progress of the Portfolio’s investment program and for evaluating the performance of the manager(s) hired on behalf of the Foundation and its beneficiaries. The Investment Policy is issued for the guidance of the Investment Committee, the investment consultants, the investment managers, the custodian and the Lighthouse staff in the course of investing the assets. The Investment Committee is given the authority by the board to utilize the services of consultants, custodians, and managers to assist in the selection and management of the investments.

## **II. Role of the Investment Committee**

The Investment Committee (the “Committee”) is expected to use its best efforts and business judgement to direct and monitor the investment management of the Portfolio, and is accountable to the Board of The Beacon for Youth Foundation, Inc. for overseeing the investment of all assets owned by, or held in trust for, the Foundation.

- A. This Investment Policy Statement sets forth the investment objectives, mechanisms, and investment guidelines that govern the activities of the Committee and any other parties to whom the Committee has delegated investment management responsibility for Portfolio assets.
- B. The investment policies for the Portfolio contained herein have been formulated consistent with the Agency’s anticipated financial needs and in consideration of the Agency’s tolerance for assuming investment and financial risk, as reflected in the majority opinion of the Committee.

- C. Policies contained in this statement are intended to provide guidelines, where necessary, for ensuring the investments are managed consistent with the short-term and long-term financial goals of the Foundation. At the same time, they are intended

to provide for sufficient investment flexibility in the face of changes in capital market conditions and in the financial circumstances of the Agency. Each of the Funds have their own asset allocation and time horizons for investment holdings.

- D. The Committee will review this Investment Policy Statement at least once per year. Changes to this Investment Policy Statement can be made only by affirmation of a majority of the Committee, and written confirmation of the changes will be provided to all Committee members and the Foundation Board and to any other parties hired on behalf of the Portfolio as soon thereafter as is practical.

- E. It is the policy of the Investment Committee to avoid *conflicts of interest* in its operations in the selection of investment managers and funds. Therefore, no member of the Investment Committee shall have a pecuniary interest in any manager or fund being considered. Any *appearance* of conflicts of interest should be disclosed to the Investment Committee and the interested member should abstain from discussion and voting on the decision at hand. Exceptions to the above may only be made with the approval of the Lighthouse Beacon for Youth Foundation Board.

- F. Other responsibilities

1. Meet formally on a quarterly basis and review Portfolio performance.
2. Determine and revise the Asset Allocation Policy per Fund, as necessary.
3. Evaluate, retain and terminate investment managers as appropriate.
4. Present the Committee minutes and performance summary of the Portfolio's to the Foundation Board at least annually.
5. Inform the Foundation Board when there are any new members proposed for the Investment Committee. It will be the responsibility of the Foundation Board to approve the members of the Committee and the Committee Chair on an annual basis.

### **III. Investment objective and distribution policy**

- A. The Portfolio is to be invested with the objective of preserving the long-term, real purchasing power of assets while providing a relatively predictable and growing stream of annual distributions in support of the Agency.
- B. For the purpose of making distributions, the Foundation shall make use of a total-return-based spending policy, meaning that it will fund distributions first from net investment income, then net realized capital gains, and then proceeds from the sale of investments.
- C. The distribution of Portfolio assets will be at the direction of the Foundation Board. It is an expectation but not a requirement that the Foundation Board and the Investment Committee will work together to ensure distributions do not exceed a level that would erode the Portfolio's real assets over time. The Committee will seek to reduce the variability of annual Portfolio distributions by factoring past spending and Portfolio asset values into its current distribution decisions. The Committee will review its distribution assumptions annually for the purpose of deciding whether any changes therein necessitate amending the Portfolio's spending policy, its target asset allocation, or both.
- D. Periodic cash flow, either into or out of the Portfolio, will be used to better align the investment portfolio to the target asset allocation outlined in the asset allocation policy at Section IV. A. herein.
- E. Current distribution policy: Up to 4% of the 36 month rolling average of the value of the Board Designated Endowment is allowed to be used by Management for projects upon specific approval of The Beacon for Youth Foundation, Inc. during the annual budget process or as the need arises.

### **IV. Investment Policies**

- A. Asset allocation policy
  - 1. The Committee recognizes that the strategic allocation of Portfolio assets across broadly defined financial asset and sub asset categories with varying degrees of risk, return, and return correlation will be the most significant determinant of long-term investment returns and Portfolio asset value stability.

2. The Committee expects that actual returns and return volatility may vary from expectations and return objectives across short periods of time. While the Committee wishes to retain flexibility with respect to making periodic changes to each Fund's asset allocation, it expects to do so only in the event of material changes to each Fund, to the assumptions underlying Foundation spending policies, and/or to the capital markets and asset classes in which each Fund invests.
3. Fund assets will be managed as a balanced portfolio composed of two major components: an equity portion and a fixed income portion. The expected role of equity investments will be to maximize the long-term real growth of each Fund's assets, while the role of fixed income investments will be to generate current income, provide for more stable periodic returns, and provide some protection against a prolonged decline in the market value of the Fund's equity investments.
4. Cash investments will, under normal circumstances, only be considered as temporary Fund holdings, and will be used for Foundation liquidity needs or to facilitate a planned program of dollar cost averaging into investments in either or both of the equity and fixed income asset classes.
5. Outlined below are the long-term strategic asset allocation guidelines by **Fund**, determined by the Committee to be the most appropriate, given each Fund's long-term objectives and short-term constraints. Fund assets will, under normal circumstances, be allocated across broad asset classes in accordance with the following guidelines:

#### **A.1. Board Designated Endowment Fund**

##### Purpose

The purpose of the Board Designated Endowment Fund is to raise unrestricted funds to maintain the financial stability and viability of Lighthouse and all of its programs. The Endowment can provide new or existing support for unfunded Lighthouse program initiatives. Temporary loans can be provided to Lighthouse Youth Services as authorized by The Beacon for Youth Foundation, Inc. Board of Trustees. In addition, the Endowment Fund can be used as collateral for long term financing needs.

### Time Horizon

The time horizon for the Board Designated Endowment Fund is long-term. Although there may be some short-term needs, there should be a long-term growth strategy for these Funds. This growth strategy will assume at a minimum a 10 to 20 year time horizon.

<b>Asset Allocation</b>	<b>Range</b>	<b>Target</b>
Cash	0-5%	0%
Fixed Income	20-40%	30%
Equities	60-80%	70%

### **A.2. Board Designated Capital Reserve Fund**

#### Purpose

The purpose of the Capital Reserve Fund is to hold monies from the New Life Properties entity for major initiatives and capital projects that are specified by Lighthouse's long-range strategic plan.

#### Time Horizon

The major objectives of this Fund will be to attempt to grow the principal without undue risk. Because of the potential short-term to immediate cash distribution needs of a project, the time horizon for the Capital Reserve Fund should be between one and three years.

<b>Asset Allocation</b>	<b>Target</b>	<b>Range</b>
Cash	0-5%	0%
Fixed Income	40-60%	50%
Equities	40-60%	50%

### **A.3. The Lighthouse Community School Board Designated Endowment Fund**

#### Purpose

The purpose of this Portfolio is for The Lighthouse Community School, Inc. to maintain or improve programming, staffing, or working capital. The funds are not permitted to be used to support any other Lighthouse Program.

#### Time Horizon

The time horizon for The Lighthouse Community School Board Designated Endowment Fund is long-term, between 5 and 10 years.

<b>Asset Allocation</b>	<b>Target</b>	<b>Range</b>
Cash	0%	100%
Fixed Income		0%
Equities		0%

#### B. Diversification policy

1. Diversification across and within asset classes is the primary means by which the Committee expects the Portfolio to avoid undue risk of large losses over long time periods. To protect the Portfolio against unfavorable outcomes within an asset class due to the assumption of large risks, the Committee 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, no single investment security shall represent more than 5% of total Portfolio assets.
  - b) With the exception of passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single investment pool or investment company (mutual fund) shall comprise more than 20% of total Portfolio assets.
  - c) With respect to fixed income investments, the credit quality for individual bonds shall be investment grade (Standard & Poor's BBB or Moody's Baa or higher).

### C. Rebalancing

It is expected that the Fund's actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset and sub asset classes. The Fund will be rebalanced to its target normal asset allocation under the following procedures:

1. The investment manager will use incoming cash flow (contributions) or outgoing money movements (disbursements) of the Fund to realign the current weightings closer to the target weightings for the Fund.
2. The investment manager will review the Fund quarterly to determine the deviation from target weightings. During each quarterly review, the following parameters will be applied:
  - a) If any asset class (equity or fixed income) within the Fund is +/-5 percentage points from its target weighting, the Fund will be rebalanced.
  - b) If any fund within the Fund has increased or decreased by greater than 20% of its target weighting, the fund will be rebalanced.
3. The investment manager may provide a rebalancing recommendation at any time.
4. The investment manager shall act within a reasonable period of time to evaluate deviation from these ranges.

### D. Other investment policies

Unless expressly authorized by the Board of the Beacon for Youth Foundation, the Committee and its investment managers are prohibited from:

1. Purchasing securities on margin or executing short sales.
2. Pledging or hypothecating securities, except for loans of securities that are fully collateralized.
3. Purchasing or selling derivative securities for speculation or leverage.



4. Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected, given the objectives of their Portfolio.

If ineligible investments are received through gifts or other donations, they will be reviewed and retained at the discretion of the Committee; otherwise they will be sold.

## **V. Monitoring portfolio investments and performance**

The Committee will monitor the Portfolio's investment performance against the Portfolio's stated investment objectives. At a frequency to be decided by the Committee, it will formally assess each Fund and the performance of its underlying investments as follows:

- A. Each Fund's composite investment performance (net of fees) will be judged against the following standards:
  1. The Fund's absolute long-term real return objective.
  2. A composite benchmark consisting of the following unmanaged market indexes weighted according to the expected target asset allocations stipulated by the Fund's investment guidelines.
    - a. U.S. Equity: CRSP US Total Market Index
    - b. Non-U.S. Equity: FTSE Global All Cap Ex US Index
    - c. Investment Grade Fixed Income: Barclays Capital U.S. Aggregate Bond Index
    - d. International Fixed Income: Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index (US Hedged)
    - e. Cash: Citigroup 3-Month T-Bill Index
- B. The performance of professional investment managers hired on behalf of the Portfolio will be judged against the following standards:
  1. A market-based index appropriately selected or tailored to the manager's agreed upon investment objective and the normal investment characteristics of the manager's portfolio.
  2. The performance of other investment managers having similar investment objectives.

- C. At its discretion and in keeping with the Portfolio's overall long-term financial objective, the Committee will evaluate Portfolio and manager performance over a suitably long-term investment horizon, generally across full market cycles or, at a minimum, on a rolling five-year basis.
  
- D. Investment reports shall be provided by the investment manager(s) monthly. Each investment manager is expected to be available to review portfolio structure, strategy, and investment performance quarterly with the Investment Committee.