

JONES LIBRARY

NORTH AMHERST LIBRARY • MUNSON MEMORIAL LIBRARY

INVESTMENT MANAGEMENT POLICIES

ADDENDUM 1 – CAPITAL FUNDS

Adopted May 1, 2014

I. SCOPE

Pursuant to Paragraph III of *The Jones Library, Inc. Investment Management Policies*, these policies are intended to govern the investment of gifts, grants and contributions collected for major projects, but not intended for maintenance in perpetuity. They will not be considered to be part of, nor invested in accordance with, the policies in effect for the endowment. These funds shall be referred to as “Capital Funds.”

II. CAPITAL FUNDS INVESTMENT POLICIES

A. PURPOSE

The Board adopts this Investment Policy Addendum 1 to direct the management of The Jones Library, Inc. Capital Funds Account.

The Board hereby assigns to its Investment Committee the regular oversight of the Capital Funds and such other accounts as the Board may designate. The Investment Committee reports regularly to the Board. The Investment Committee may include members who are not on the Board.

B. INVESTMENT POLICY

This Investment Policy Addendum is to:

- Set forth the Board's philosophy and its investment objectives for the Capital Funds to guide its Investment Committee and Investment Manager;
- Inform the Amherst public as well as donors to and supporters of The Jones, Munson Memorial, and North Amherst libraries, both in Amherst and elsewhere, and to
- Provide the basis for monitoring and assessing the Investment Manager's progress and performance.

This Policy applies to the assets included in the Capital Funds.

C. FIDUCIARY DUTY

In pursuing the Investment Policy's objectives, the Board, the Investment Committee, the Investment Manager, and any employees of any of these are fiduciaries of The Jones and must act with the care, skill, prudence, and diligence that applicable law requires.

The Board observes and the Investment Manager must observe the “prudent investor rule” (Massachusetts Prudent Investor Act, Chapter 203C) which states in Section 3 that, “A trustee shall invest and manage trust assets as a prudent investor would, considering the purposes, terms, and other circumstances of the trust, including ... [other relevant circumstances]. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution.”

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All investment actions and decisions must be based solely on the best interest of The Jones, Munson Memorial, and North Amherst Libraries.

The Board may elect to have the Investment Committee or a Library Trustee member thereof serve as Investment Manager at no fee if the investments are made through mutual funds and exchange-traded funds (ETFs) that collectively replicate the risk and return characteristics of the benchmark for the Capital Funds.

Fiduciaries have a duty to provide timely, full and fair disclosure to the Board, in writing, signed and dated, of all material facts regarding any actual or potential conflicts of interests.

D. INVESTMENT OBJECTIVES

The Board's objectives for the Capital Funds are to preserve the real purchasing power of the principal in the medium to long term (i.e., 5-10 years), while providing an opportunity for some growth in accordance with market movements. To this end the objectives are to provide a total return, net of investment fees and expenses, of 2 - 4% above the rate of inflation (as measured by the Consumer Price Index).

The Investment Manager has complete discretion over the investment and management of the Capital Funds, subject to applicable fiduciary standards, and to the objectives set forth in this Policy.

The Board or, by agreement, its Investment Committee will promptly provide the Investment Manager with a copy of this Policy Addendum and with copies of any subsequent revisions to it.

E. STRATEGY

Inflation is a key component in measuring investment performance. The Board accepts that the long-term risk of not investing in equity securities generally outweighs their short-term risk of volatility.

As a result, a large portion of the Capital Funds may be invested in equity or equity-like diversified securities (see section on Allowable Assets, below).

Fixed income securities will be used to lower the Capital Funds' short-term volatility and to provide stable income, particularly during periods of weak or negative equity markets.

The Board recognizes that the proportion of the Capital Funds allocated to fixed income instruments may include money market instruments, and that these can be a strategic asset.

While the Investment Manager has leeway to vary the allocation between asset classes within the limits of this policy, the performance shall be measured against a benchmark that is 37.5% Russell 3000, 12.5% MSCI All World Index xUS, 50% Barclays Capital US Aggregate Bond Index.

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The Investment Manager shall diversify the Capital Funds' investments to a prudent degree. To that end, the Endowment shall not buy or hold individual company stocks. Commingled investment vehicles such as mutual funds and exchange-traded funds (ETFs) may be used.

The Capital Funds' investments shall be diversified by both asset class (e.g., equity investments, fixed income securities) and within each asset class (that is, by sector, such as, consumer durables, industrial, technology, telecommunications; geographic area; quality; size).

F. MARKETABILITY OF ASSETS

After giving consideration to the Capital Funds' longer-term liquidity requirements, which may include planned and unforeseen net distributions, the Investment Manager shall maintain the entire portfolio in liquid securities, defined as securities that can be transacted quickly and efficiently for the Endowment with minimal impact on market prices.

Notwithstanding the above principle, the Board may elect to receive and keep assets such as construction products and services.

G. ALLOWABLE ASSETS

Mutual funds and exchange traded funds (ETFs) that hold the following securities are considered allowable assets:

- Cash Equivalents: Treasury bills, money market funds, commercial paper, repurchase agreements, certificates of deposit.
- Fixed Income Securities: US government and agency securities, corporate notes and bonds, preferred stock, fixed income securities of foreign governments and corporations, high yield bonds.
- Equity Securities: Common stocks, convertible notes and bonds, convertible preferred stocks, American Depository Receipts (ADRs) of non-US companies, stocks of non-US companies (ordinary shares).
- Other Assets:
 - Uninvested cash may be held temporarily in insured or fully collateralized accounts with an approved custodian.
 - Mutual funds and exchange traded funds (ETFs) may have minor positions in currencies, commodities, real estate investment trusts, or futures. Funds held may use derivative instruments, provided that those instruments are used only for the purpose of eliminating or moderating investment risk and not for speculative purposes.

Each fund used is expected to operate within the parameters of its Prospectus. The Investment Manager is responsible for monitoring a fund's compliance with its Prospectus.

Unless this statement of Investment Policy allows for investment in a specific type of derivative security, the Investment Manager may NOT invest Endowment assets in derivative investments.

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H. PROHIBITED INVESTMENTS

The following types of assets or transactions are expressly prohibited:

- Direct Real Estate
- Venture Capital
- Private Placements
- Purchasing securities on margin
- Non marketable securities
- Hedge Funds

I. ASSET ALLOCATION GUIDELINES

The benchmark for the Capital Funds is a composite consisting of 50% equity – 37.5% Russell 3000, 12.5% MSCI All World Index xUS; and 50% fixed income – Barclays Capital US Aggregate Bond Index.

The Board believes it more important to generate consistent total return than to outperform the market in any given year.

The acceptable long-range asset allocation will generally be as follows, subject to temporary override during rebalancing, the phasing in and out of certain investments, or unusual market conditions. At such times the Investment Manager shall invest frictional cash in index funds that complete the allocations shown below as soon as practical.

- ASSET ALLOCATION OVERVIEW

Asset Class	Acceptable Range	Relevant Benchmark
	<u>EQUITY PORTION</u>	
<i>TOTAL EQUITY</i>	40 - 60%	
Domestic Equities	30 - 45%	Large Cap: S&P 500 Mid Cap: S&P 400 Small Cap: Russell 2000 Overall: Russell 3000
International Equities	8 - 15%	MSCI (Morgan Stanley Capital International) EAFE (Europe Australasia and Far East) Index
	<u>FIXED INCOME PORTION</u>	
<i>TOTAL FIXED INCOME</i>	40 - 60%	
Investment Grade	40 - 60%	BarCap (Barclays Capital) US Aggregate Bond Index
High Yield	0 - 10%	BarCap (Barclays Capital) US Corp High Yield Index
Cash and Equivalents	0 - 10%	Cash and cash equivalents are to be minimized until projects reach the point of draws.

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- CASH

The Library Director will provide the maximum possible notice of the anticipated draw scheduled for each project to the Investment Manager. The Investment Manager will manage cash flow to cover the anticipated withdrawals.

All remaining cash shall be held at the Investment Manager's discretion per the above "Cash and Equivalent" direction. Since The Jones loses money on every dollar held as cash and any use of cash will make it difficult for the Investment Manager to meet the performance standard, we anticipate that the Manager will minimize cash except where the Investment Manager anticipates a market correction.

- GUIDELINES FOR FIXED INCOME INVESTMENTS

With the exception of U.S. Government and agency securities, no more than 10% of the total fixed income component shall be invested in securities of any one issuer.

Investment grade bonds are defined as holding the minimum S&P quality rating (or equivalent) of BBB (lower medium grade) or better at the time of purchase. High yield bonds are those with a rating below BBB.

Maturity of fixed income investments is left to the Investment Manager's judgment.

J. PERFORMANCE TIME HORIZON

The Board seeks desired investment results over a full market cycle, three to five years.

It does not expect that all investment objectives will be attained in each year, and recognizes that over one or another cycle the Investment Manager may produce significant over or under performance relative to the broad markets. The Board will therefore measure long-term investment returns using three and five year moving averages, and will compare performance to such broad, unmanaged indices as those referenced above in the Asset Allocation section. The use of an alternative benchmark must be approved by the Investment Committee.

The Investment Manager will be expected to match or outperform relevant indices over a full market cycle of three to five years. The Board reserves the right to evaluate and make any necessary changes regarding investment managers over a shorter term, using the criteria established under Evaluation of Investment Managers below.

K. IMPLEMENTATION

The Board intends the Investment Manager to achieve this Policy's objectives by using diversified portfolios of multiple, style-specific managers, mutual funds, and exchange-traded funds (ETFs).

The Board regards diversification among various management styles, industries, market capitalizations, lines of business, equity, and fixed income sectors as essential.

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The Board has selected and retained a qualified Investment Manager with which the Board intends to maintain a long term, mutually beneficial relationship, in the belief that, over time, an Investment Manager who understands The Jones Library's long-term goals and operations will be better able to contribute to its investment goals.

The Investment Manager may expect the Board, or by assignment, the Investment Committee to communicate:

- The Amherst Public Libraries' projected annual financial needs.
- The risk tolerance level for the Endowment.
- Reasonable investment objectives, and sound and consistent investment policy guidelines.
- Any material changes in the Capital Funds' status that could affect its management in the future.
- After reviewing the activity reports, whether the Capital Funds' investment strategy comports with this Policy and whether the Investment objectives and policies set forth herein continue to be appropriate. While both the Board and the Investment Manager expect changes in the Policy to be infrequent, changing market conditions, the development of new investment products, and other factors may suggest that this Policy be revised from time to time.
- The expectation that the Investment Manager shall attend Investment Committee meetings periodically and to make a formal presentation to the Board annually.
- The results of monitoring and evaluating the Investment Manager's performance according to the guidelines set out below.
- Any other projects referred to it by the Board.

L. EVALUATION OF INVESTMENT MANAGERS

The Investment Committee will review investment results quarterly. It will evaluate the Investment Manager annually, or as needed, based on the following criteria:

- Ability to meet or exceed the performance objectives stated in this Investment Policy.
- Adherence to his/her firm's Investment philosophy and style.
- Continuity of personnel and practices.
- Avoidance of regulatory action against the Investment Manager, principals of his/her firm, or any of its employees.
- Compliance with this Investment Policy.
- Provision of timely and accurate reporting at least quarterly.
- Provision of high quality customer service.

The Investment Manager will be expected to outperform relevant indices over a full market cycle, three to five years. Indices may include a "custom-blended" index with the approval of the Investment Committee.

The Board has the sole discretion to replace an Investment Manager. If an Investment Manager is to be replaced, the Investment Committee will evaluate potential managers on their investment objectives, investment style, performance, risk assessment, and account service, and make a recommendation to the Board.

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III. CAPITAL FUNDS SPENDING POLICY

A. GENERAL POLICY

The Board expects income from the Capital Funds to contribute to the Libraries' capital needs, but may, as needed and consistent with gift restrictions, use portions for the Library operating budget.

Overall spending policy is flexible and project-dependent, and we intend, as promptly as is prudent, to notify the Investment Manager of projected needs.

Board approval is required for spending on projects funded through the Capital Funds.