

# Clayton Library Friends

## Investment Policy Statement for the Clayton Library Friends Endowment Fund

(Approved by the CLF Board 27 April 2004  
and amended by the CLF Board on 17 July 2007.)

### I. PREAMBLE

The invested funds of the Clayton Library Friends (CLF) Endowment Fund, hereinafter referred to as the "Fund," is an investment portfolio of monies contributed by members and supporters of CLF. The primary objective of the Fund shall be to preserve capital and produce current income. A secondary objective shall be to grow the Fund through appreciation of the Fund's assets. The Fund is held as a CLF asset under the authority of the CLF Board of Directors, hereinafter referred to as the "Board," for the primary purpose of providing realized investment income to support CLF programs that directly benefit the Clayton Library Center for Genealogical Research, a component of the Houston Public Library. Since the Fund's primary objective is to preserve capital and produce realized investment income, it is the understanding of the Board that the long-term total return may be lower than that from a portfolio that is more heavily weighted in equity securities.

It is further understood that the Board is responsible for the implementation of and adherence to the policies and objectives of the Fund as set forth in this document and that the Board may retain professional investment management to manage the investments of the Fund and to provide advice and counsel in such matters.

### II. INVESTMENT OBJECTIVES & GUIDELINES

- A. **Rate-of-Return Objectives:** The fixed income portion of the Fund is expected to achieve, over the measured period as defined in paragraph II B, a Rate of Return that exceeds the combined average of the Lehman 1-3 Year Government Index and the Lehman Aggregate Bond Index. The equities portion of the Fund is expected to achieve, over the same measured period, a Rate of Return that exceeds the Standard and Poor's 500 Index. Total Rate of Return is defined as all interest and all realized and unrealized gains and losses, net of all investment related expenses, including the investment manager's retainer.
- B. **Measured Period:** For purposes of measuring a rate of return, the performance of the Fund shall be measured over a rolling three-year period.
- C. **Fiduciary Standards:** The assets of the Fund are to be invested and managed in accordance with generally accepted standards of fiduciary responsibility. The safeguards that would guide a prudent investment manager are to be strictly observed. All transactions utilizing assets of the Fund are to be undertaken for the sole benefit of the Fund and of CLF.

### III. INVESTMENT GUIDELINES

- A. **Fixed-Income:** Assets of the Fund's fixed-income portfolio shall be no less than 50% nor more than 70% of the Fund's total value, with a target allocation of 60%.
1. **Permissible Fixed-Income Investments:** Assets of the Fund's fixed-income portfolio may be invested only in cash equivalents or fixed income securities as follows:
    - Treasury bills,
    - Money market funds,
    - Certificates of deposit,
    - U.S. Government and agency securities,
    - Corporate notes and bonds,

- Mortgage backed bonds,
  - U.S. dollar-denominated Eurobonds and Yankee bonds.
2. **Fixed Income Portfolio Characteristics:** The assets of the Fund's fixed income portfolio shall, as a group:
- Have a weighted average maturity as measured by their market value of between two and ten years;
  - Have a maximum maturity of any individual issue of not more than twenty years;
  - Have a weighted average portfolio quality as measured by market value of "A" or better as rated by Standard and Poor's;
  - Have no fixed income security rated at less than "BBB" grade by Standard & Poor's;
  - Maintain adequate diversification by issuer and sector, except that this requirement shall not apply to instruments of the United States government or agencies thereof, which may be held in any amounts within this component of the Fund.
- B. **Equities:** Assets of the Fund's equities portfolio shall be no less than 30% nor more than 50% of the Fund's total value, with a target allocation of 40%. The Fund's equity portfolio may include U.S. domestic and non-U.S. securities with emphasis on stocks that the investment manager believes to be quality issues characterized by relatively low volatility. The following restrictions apply:
- Equity holdings in any one corporation shall not exceed 10% of the total equity portfolio, with the exception that gifted securities may exceed 10% of the equity portfolio until such time as the Board directs a re-balancing of the equity portfolio.
  - The equity investment in any single company shall not exceed 1% of the company's outstanding equity.
  - The equity investment in non-U.S. securities shall not exceed 15% of the Fund's equity portfolio.

#### IV. INVESTMENTS AND TRANSACTIONS WHICH ARE NOT PERMITTED

The following investments are not permitted:

1. Bonds issued by any tax-exempt authority;
2. Instruments or other indebtedness that are privately placed and for which there is no public market;
3. Corporate instruments rated at below "B" grade by Standard & Poor's or, if Standard & Poor's is no longer rating corporate instruments, an equivalent rating by another recognized bond rating agency selected by the Board;
4. Commercial paper rated less than "A-2" (S&P) or "P-2" (Moody's);
5. Direct placement of mortgages on real property;
6. Letters of Credit guaranteed by the Fund;
7. Options or futures contracts of any kind;
8. Direct investment in gold or other commodities.

## V. INVESTMENT MANAGEMENT

- A. **Professional Support:** The Board, at its discretion, shall retain the services of one or more professional, licensed, investment managers to implement the policies set forth in this document. The manager(s) will be furnished with, and expected to manage, the Fund's fixed income and equity portfolios in accordance with this policy. In acknowledgment of the policy, managers retained by the Board shall sign the policy statement and any subsequent amendments thereto. The management fees shall be set forth in a letter of agreement between CLF and the manager(s).
- B. **Manager Discretion:** Managers retained by the Board will have full discretionary investment authority over that portion of the Fund assets for which they are responsible, subject to the guidelines set forth herein.
- C. **Commingled Funds:** Managers retained by the Board may not invest Fund assets in any commingled funds without prior specific approval of the Board, except that this provision shall not apply to money market funds where liquidity and short-term investing are prime considerations.
- D. **Securities Trading:** All security trades shall be on a best execution basis emphasizing the greatest benefit to the Fund and the lowest cost, net of all transaction fees and expenses. Placement of orders shall be based on the financial viability of the brokerage firm with the assurance of prompt and efficient execution. The Board reserves the right to require directed brokerage.

## VI. REVIEW PROCEDURES

- A. **Review and Amendments:** The Board, or its appointed Committee, shall review this policy annually to determine if amendments or modifications are desirable. Amendments, when approved by the Board, shall be communicated promptly to all interested parties.
- B. **Management Reporting:** Once each year, managers retained by the Board are to be present at a meeting of the Board as jointly agreed by the manager and CLF secretary. The manager will review the performance of the Fund's fixed income and equity portfolios within the context of the Investment Policy. Managers are required to provide quarterly written reports regarding Fund activity, investment strategy, performance, and economic and market analyses. Managers are required to submit a written report to the Board addressing the pertinent factors whenever the performance criteria set forth in Paragraph II A above are not achieved for two consecutive quarters. Managers are also required to inform the Board regarding the investment firm's organization, decision-making process and style as well as any significant changes in the firm's personnel.
- C. **Performance Measurement:** The Board will annually review, at its March meeting, the performance of the Fund and management for the prior calendar year in accordance with the policies and objectives set forth in this document.