

Establishment

The Endowment Fund of the Kiwanis Club of Glendale, financially administered exclusively through its foundation Glendale Kiwanis Youth, Inc., was established, promoted, and funds initially contributed during the 1990-1991 Kiwanis year under the leadership of Page Whyte. Increased promotion during the past five years, a regular program of recognition of contributors, and application of surplus contributions to the club's annual fundraising and cash gifts campaigns have continued to grow the fund.

Contributions

All tax-deductible, charitable contributions to the fund are administered through the 501(c)(3) foundation Glendale Kiwanis Youth, Inc. Contributions to the fund are applied to the principal amount thereof, none of which is available for projects of the club. Only the earnings (income, dividends, and capital gains) may be made available for the service programs of the club.

Any contribution or bequest of \$25,000 or greater may be designated for a restricted purpose upon proper guidelines for the investment of funds, and the application of income from those investments through the service program of Glendale Kiwanis Youth, Inc., similar to the model established for the Jim Batchelor Memorial Scholarship Fund.

Recognition

The Endowment Fund contributor board shall be displayed frequently at club meetings.

By action of the Board of Directors at its meeting of May 19, 1998, "contributors of at least \$1,000 to the Glendale Kiwanis Youth, Inc. Endowment Fund should be designated 'James Whitcomb Brougher Jr. Fellows' and shall be assigned a number chronologically, given a lapel pin and a collar ribbon with medallion, and an individual plaque shall be added to the Endowment Fund display."

Committee

The Endowment Committee was established by the Board of Directors at its meeting of November 18, 1997. The Endowment Committee shall be responsible for all aspects of the Endowment Fund including investment policy, contributions, promotion, and recognition.

The Endowment Committee shall consist of:

- Immediate Past President who shall serve as the Chair
- President-Elect
- Secretary
- Treasurer
- A minimum of two (s) registered security or investment advisors
- Three (3) members-at-large appointed by the Chair

The Endowment Committee shall:

- meet at least semi-annually in April and October of each year, with additional meetings called as necessary.
- provide for the management of funds unless the assets shall exceed \$1,000,000 in which case outside management of the funds will be considered

- review all confirmations and statements which shall be sent to the Secretary and disseminated monthly to the committee members with the foundation's financial report

By action of the Board of Directors at its regular meeting of December 16, 2002, Clifford Associates shall continue discretionary power to move investments to meet the adopted investment policy until June 30, 2003 at which time the club shall assume all responsibility for the management of the funds.

Background for Investment Policy

Comment. To date [May 1998] the only authorized investments for foundation funds are interest-bearing bank accounts, including certificates of deposit and money market accounts. That policy – its wisdom aside – is both inadequately documented and short of our needs. Specifically, even in light of our tax-exempt status, erosion of the purchasing power of the dollar combined with the expenditure of all or nearly all income degrades our capital position, year after year.

From another standpoint, revenues are more and more difficult to raise, especially with the reduced size of our membership. We must make better use of our resources. In that sense, *investment policies matter*.

Two developments have drawn attention to this issue: periodic episodes of large-scale damage from inflation, and the development of portfolio management theory. As to the latter, risk can now be effectively managed.

The Prudent Investor Act became effective in California on January 1, 1996. It is found in a section dealing with the duties of California trustees (*Probate Code #16046*), but is applied as well to service organizations under *The Uniform Management of Institutional Funds Act (Probate Code #18506)*.

The standard of care under *The Prudent Investor Act* is not based on risk alone, but rather on the appropriateness of the level of risk under all circumstances. Consistently, *The Restatement (Third) of Trusts (Prudent Investor Rule)* (1992), replicated virtually word for word in the California statute, flatly rejected case law and statutory approaches, often depression-influenced, which directly or indirectly resulted in restrictive lists of permissible investments, many of which provided levels of return so low that it was impossible to both generate substantial income and also protect the corpus from inflation. The new statute is designed to instead compel trustees and institutions to analyze and thoughtfully weigh the trade-offs between risk and returns, taking into consideration the needs and objectives of the fund. The trustee or institution should then consciously choose the level of portfolio risk and anticipated return appropriate to the particular fund.

The specific language of *Probate Code #18506* is as follows:

#18506. Standard of Care.

“(a) When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing property, appropriating appreciation, and delegating investment management for the benefit of an institution, the members of the governing board shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims to accomplish the purposes of the institution. In the course of administering the fund pursuant to this standard, individual investments shall be considered as part of an overall investment strategy.

“(b) In exercising judgment under this section, the members of the governing board shall consider the long and short-term needs of the institution in carrying out its educational, religious, charitable or other

eleemosynary purposes, its present and anticipated financial requirements, expected total return on its investments, general economic conditions, the appropriateness of a reasonable proportion of higher risk investment with respect to institutional funds as a whole, income, growth, and long-term net appreciation, as well as the probable safety of funds.”

The Prudent Investor Rule allows the board greater investment freedom than existed under prior law. For example, trustees and institutions were liable for portfolio losses even when the overall gains produced an acceptable total rate of return. Now, compliance with the new standards is judged as of the time an investment decision is made, not with the benefit of hindsight, leading to reduced liability for directors.

One aside: a guide reviewed in preparation of these materials provides that any committee to which is assigned oversight of investment counselors must be composed of only board members. That is incorrect in California. *Corporations Code #9210(b)* which provides in relevant part:

“(b) The board may delegate the management of the activities of the corporation to any person or persons provided that the activities and affairs of the corporation shall be managed and all corporate powers shall be exercised under the ultimate direction of the board.”

Following is the specific recommendation of the Endowment Committee relating to the proposed investment policy for the Endowment Fund of Glendale Kiwanis Youth, Inc.:

Preamble

It is the belief of the Board of Directors that all funds of the foundation are held by it as a fiduciary, both as a matter of law and moral obligation. More specifically, all such funds are held by the board as a steward in performance of its duties. The following investment objectives, policies and directions (“the Policies”) are to be judged and understood in light of that sense of stewardship.

Delegation

The Board of Directors has delegated supervisory authority over its financial affairs to its Finance Committee. The Finance Committee and its agents shall be guided by and act in accord with the investment policies here described, as well as all applicable law. The board reserves to itself the exclusive right to revise the Policies.

The Finance Committee of the foundation is authorized to retain one or more investment counselors (“Counselor”) to assume the investment management of those funds and assets owned or administered by the foundation for itself or for its members and supporters. In discharging its authority, the Finance Committee shall act in the place and stead of the board and may receive reports from, pay compensation to and enter into agreements with such Counselors. The Finance Committee may also grant exceptions to the Policies, provided that such exceptions are promptly communicated in writing to the full board at its next regularly scheduled meeting.

Section 1. Summary

The Investment Policy Statement for Kiwanis Club of Glendale considers the above information. It is to document and ensure the long-term adherence to an investment program. It covers the policies, practices and procedures for managing the investment assets of the Endowment Fund.

Plan Title: Glendale Kiwanis Youth, Inc.
Total Assets: \$ 200,000 (approximate amount on December 31, 2002)
Time Horizon: 10 years
Return Objective: 7.47% (pre-tax gross)
7.47% (after-tax net)
Risk Tolerance: Moderate

Section 2. Objectives

These are the main objectives of the investment program. The objectives have been developed in conjunction with a review of the foundation's (Glendale Kiwanis Youth, Inc.) financial resources, financial goals, asset allocation, risk tolerance and time horizon.

1. To take a reasonable amount of investment risk. To maximize return at that risk level
2. To maintain a prudent diversification of the investment assets.
3. To have the ability to meet the financial goals when each is expected to occur.
4. To minimize potential tax liabilities.
5. To maintain a level of cash reserves in order to meet short-term emergency expenditures.
6. To periodically monitor and revise the portfolio as required.

Section 3. Time Horizon

This investment program is based on an investment time horizon of at least ten years. The investment program does attempt to consider the active management of short-term investment fluctuations. The asset allocation has been developed as a long-term strategy for the management of the investment assets.

Section 4. Risk Tolerance

The foundation's ability to tolerate the uncertainties, complexities and volatility inherent in the investment markets has been considered in the development of this investment program. The risk tolerance assessment for this portfolio is shown in the Summary section. This profile was developed in part through the use of a risk profiling questionnaire and committee discussions.

Section 5. Expected Performance

The long-term expected rate of return on this portfolio is shown below. It is based on the expected long-term total return for each asset class and its percentage weighting in this portfolio. This is compared against the assumed long-term average rate of inflation (as measured by the Consumer Price Index). The difference between our rate of return and the inflation rate is the real (after-inflation) expected return. Actual performance will vary from these assumed rates. The portfolio return may also be reduced by the deduction of advisory, money management, custodial and transaction fees.

Portfolio Return Objective: 7.47% (pre-tax gross)

Kiwanis Club of Glendale

Policies and Procedures Manual

Endowment Fund

7.47% (after-tax net)

Long-Term Inflation Assumption: 3.50%

Section 6. Holding Limits

The Kiwanis Club of Glendale's portfolio was developed subject to certain holding limitations. These are limitations on the minimum and maximum percentage investment in each asset class.

Asset Class	Holding Limits					
	Non-Qualified Assets		Qualified Assets		Annuity Assets	
	Min %	Max %	Min %	Max %	Min %	Max %
Cash Equivalents	0.00%	100.00%	0.00%	100.0%	0.00%	100.0%
T-Notes/CDs	0.00%	100.00%	0.00%	100.0%	0.00%	100.0%
Inter-Term Govt Bonds	0.00%	100.00%	0.00%	100.0%	0.00%	100.0%
Long-Term Govt Bonds	0.00%	100.00%	0.00%	100.0%	0.00%	100.0%
Corporate Bonds	0.00%	100.00%	0.00%	100.0%	0.00%	100.0%
Mtge Backed Bonds	0.00%	100.00%	0.00%	100.0%	0.00%	100.0%
High Yield Bonds	0.00%	100.00%	0.00%	100.0%	0.00%	100.0%
Large Value Stocks	0.00%	100.00%	0.00%	100.0%	0.00%	100.0%
Large Growth Stocks	0.00%	100.00%	0.00%	100.0%	0.00%	100.0%
Small Value Stocks	0.00%	100.00%	0.00%	100.0%	0.00%	100.0%
Small Growth Stocks	0.00%	100.00%	0.00%	100.0%	0.00%	100.0%
MidCap Stocks	0.00%	100.00%	0.00%	100.0%	0.00%	100.0%
Balanced Funds	0.00%	0.00%	0.00%	100.0%	0.00%	100.0%
Real Estate	0.00%	0.00%	0.00%	100.0%	0.00%	100.0%
Futures/Commodities	0.00%	0.00%	0.00%	100.0%	0.00%	100.0%
Venture Capital/L.P.	0.00%	0.00%	0.00%	10.0%	0.00%	10.0%
International Stocks	0.00%	0.00%	0.00%	100.0%	0.00%	100.0%
International Bonds	0.00%	0.00%	0.00%	100.0%	0.00%	100.0%
Emerging Equities	0.00%	0.00%	0.00%	10.0%	0.00%	10.0%

Section 7. Asset Allocation

Based on the foundation's financial resources, financial goals, time horizon, tax status, holding limitations, risk tolerance and expected investment performance, a recommended portfolio has been determined. The portfolio balances risk and reward and attempts to achieve the stated objectives of the investment program. The composite asset allocation for the investment program is as shown:

Inter-Term Govt Bonds	23.50%	\$47,000
Large Value Stocks	22.50%	\$45,000
Large Growth Stocks	22.50%	\$45,000
MidCap Stocks	5.00%	\$10,000
T-Notes/CDs	23.50%	\$47,000
Cash Equivalents	3.00%	\$ 6,000

Section 8. Monitoring and Review

The Endowment Committee will meet at least twice annually (quarterly if necessary) to make sure that the investment program continues to achieve its stated objectives. The investment performance of the program shall be compared against the appropriate benchmarks.

Transaction confirmations and statements will be sent to both the Chair and to the Secretary. They will then be disseminated to the rest of the Endowment Committee in a timely manner.

In the event the financial assets of the Kiwanis Club of Glendale exceed \$1,000,000, outside financial management will be considered by the Endowment Committee.

Section 9. Rebalancing

The percentage weighting to each asset class within the investment portfolio will vary. The percentage weighting within each asset class will be allowed to vary within a reasonable range of +/- 5% to 10% depending upon market conditions. When rebalancing is required, investment yield and net cash inflows will be used to meet the strategic asset allocation targets. If cash flow is not sufficient to meet the target allocation for an asset class, the Committee, subject to approval by the Board of Directors, will decide whether to effect transactions in order to rebalance the asset allocation.

Section 10. Selection Criteria

Investment products used to implement the investment program shall be subject to selection criteria. At a minimum, the investment product must be registered, have sufficient historical performance, provide timely compliant quarterly performance, provide necessary details about the firm (personnel, clients, fees, etc.), and strictly adhere to a clearly articulated investment philosophy. Each investment product will be monitored for adherence to this investment policy guidelines, major changes in the product, and comparative performance with similar investment products.

Transactions

All purchases of securities shall be for cash. Margin purchases are prohibited, as are short selling and commodity transactions.

Moral Issues

It is the aim of the foundation to invest in companies the business conduct of which is consistent with the foundation's goals and beliefs. Therefore, the Committee shall use its best efforts to avoid investing directly or through mutual funds in the securities of any company known to participate in businesses the Committee deems morally offensive.

Conflict of Interest

It is imperative that the club avoid any conflict of interest or appearance thereof. To ensure this, no club member shall have a financial interest, or the appearance thereof, or receive any gain or compensation, directly or indirectly, from the investment activities. Savings and checking accounts that are used exclusively as depositories for endowment funds shall be excluded from the above; however, any such interests must be fully disclosed to the Board, and approved by same.

Reporting Requirements

- *Monthly.* The brokerage company holding the investments shall provide the Endowment Committee a monthly written report containing all pertinent transaction details for the preceding month, including:
 - ◊ the name and quantity of each security purchased or sold, with the price and transaction date;
 - ◊ an analysis for each security of its description, percentage of total portfolio, purchase date, quantity, average cost basis, current market value, unrealized gain or loss, and indicated annual income and yield at market; and
 - ◊ an analysis for the entire portfolio of the current asset allocation by investment category.
- *Periodically.* The Endowment Committee shall meet at least semi-annually to provide detailed information about (a) asset allocation, (b) investment performance, (c) future investment strategies, and (d) any other matters of interest to the Committee and the Board of Directors.
- *Annually.* The brokerage company shall provide an annual summary of all transactions in each fiscal year, together with a report of investment performance for the year.
- *Cash Flow Requirements.* The foundation shall be responsible for monitoring and evaluating its cash distribution requirements from any managed account. The Committee is responsible for providing adequate liquidity in the accounts to meet the cash flow requirements so presented.
- *Board Review.* All such reports shall be reviewed by the Finance Committee and timely presented to the Board of Directors, together with the comments and recommendations of the committee.