

## **I. Introduction**

The Society of Herbarium Curators (hereafter “SHC”) unites the world’s herbarium professionals in discussion, training, action, and support for the benefit of herbaria, science, and society. In support of this mission, this Investment Policy Statement establishes guidelines for SHC’s endowment investment portfolio (the “Portfolio”). The statement also incorporates accountability standards that will be used for monitoring the progress of the Portfolio’s investment program and for evaluating the contributions of the manager(s) hired, if any, on behalf of the endowment and its beneficiaries.

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

The Investment Committee (the “Committee”) is acting in a fiduciary capacity with respect to the Portfolio, and is accountable to the Executive Board of SHC, for overseeing the investment of all assets owned by, or held in trust for, the Portfolio. Members of the Committee are not held accountable for less than desirable outcomes, rather for adherence to procedural prudence, or the process by which decisions are made with respect to endowment assets.

- A. This Investment Policy Statement sets forth the investment objectives, distribution policies, 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 endowment assets contained herein have been formulated consistent with SHC’s anticipated financial needs and in consideration of SHC’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 that the Portfolio’s investments are managed consistent with the short-term and long-term financial goals of the endowment fund. 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 SHC.
- D. The Committee will review this Investment Policy Statement periodically. Changes to this Investment Policy Statement can be made only by affirmation of a majority of the Committee and Executive Board, and written confirmation of the changes will be provided to all Committee members and to any other parties hired on behalf of the Portfolio as soon thereafter as is practical.

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

- A. Endowment funds are 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 SHC.

- B. Distributions from unrestricted endowment funds are to be made available for unrestricted purposes that further the mission and vision of the organization.
- C. In all instances, donor intent shall be respected when decisions are rendered concerning the investment or expenditure of donor restricted funds. Any attempt to lift restrictions on any fund shall be conducted in full compliance with the law.
- D. For the purpose of making distributions, a total-return-based spending policy will be used, meaning that distributions will be funded from net investment income, net realized capital gains, and proceeds from the sale of investments.
- E. The distribution of endowment assets will be permitted to the extent that such distributions do not exceed a level that would erode the endowment assets over time. The Committee will seek to reduce the variability of endowment distributions by factoring past spending and Portfolio asset values into its current spending decisions.
  - 1. The annual spending rate for the endowment income will be no more than 4% of a three-year rolling average of the value of the Portfolio with the expectation that this will permit the investment portfolio to continue to grow at a pace that compensates for inflation.
  - 2. The Executive Board will wait to begin spending from the Portfolio (composed of the endowment principle plus accrued value) until it has reached a threshold of \$30,000 (approximately 5 times the size of the 2019 SHC budget).
  - 3. The Committee will review its spending assumptions annually for the purpose of deciding whether any changes therein necessitate amending the endowment spending policy, its target asset allocation, or both.
- F. Periodic cash flow, either into or out of the Portfolio, may be used to better align the investment portfolio to the target asset allocation outlined in the asset allocation policy in Section IV. A. herein.

#### **IV. Portfolio investment policies**

- A. Asset allocation policy
  - 1. SHC is a tax-exempt organization as described in section 501(c)(3) of the Internal Revenue Code. This tax-exempt status should be taken into consideration when making investments.

2. SHC is expected to operate in perpetuity; therefore, a long-term investment horizon shall be employed. Interim fluctuations should be viewed with appropriate perspective.
3. Transactions shall be executed at a reasonable cost, taking into consideration prevailing market conditions and services and research.
4. Permitted investments include: stocks, bonds, money market instruments, mutual funds, and stock exchange traded funds (ETFs).
5. The following transactions are prohibited: commodities, derivatives, foreign denominated bonds, futures and margined transactions, high risk or junk bonds, initial public offerings, leverage or letter stock, life insurance contracts, options, precious metals, private placements, restricted securities, warrants.
6. A portion of investments should be consistent with the principles of ESG (i.e., Environment, Social, and Corporate Governance) investing as these values are consistent with working toward environmental and social health that benefits humans as well as plants and other living organisms.
7. Outlined below are the long-term strategic asset allocation guidelines determined by the Committee to be the most appropriate, given the endowment fund's long-term objectives and short-term constraints. Portfolio assets will, under normal circumstances, be allocated across broad asset classes in accordance with the following guidelines:

<b>Asset Allocation Range</b>	<b>Target</b>	<b>Limits</b>
<b>Fixed Income</b>	<b>30%</b>	<b>20 – 40%</b>
<b>Equities</b>	<b>70%</b>	<b>60 – 80%</b>

#### 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) Investments in the equity securities of any one company shall not exceed 5% of the portfolio nor shall the total securities position (debt and equity) in any one company exceed 10% of the portfolio.
  - b) Reasonable sector allocations and diversification shall be maintained.
  - c) Investments within the portfolio should be readily marketable.

- d) The investment portfolio should not be a blind pool; each investment must be available for review.

### C. Rebalancing

It is expected that the Portfolio'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 classes. The Portfolio will be rebalanced to its target normal asset allocation on an annual basis.

## 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 the Portfolio and the performance of its underlying investments as follows:

### Performance measurements standards

1. The investment goal of the total return fund is to achieve a total return (income and appreciation) of 4% after inflation and fees, over a full market cycle (3-5 years).
2. The benchmarks to be used in evaluating the performance of the main asset classes will be:
  - a) Fixed Income: Lehman Brothers Government/Corporate Index- Goal: equal or exceed the average annual return of the index over a full market cycle (3-5 years).
  - b) Equities: S&P 500 Index- Goal: equal or exceed the average annual return of the index over a full market cycle (3-5 years).
3. In keeping with the Portfolio's overall long-term financial objective, the Committee will evaluate Portfolio performance over a suitably long-term investment horizon, generally across full market cycles or, at a minimum, on a rolling five-year basis.
4. Performance reports will be provided to the Executive Board at least yearly with updates and recommendations as needed.