

Marrowstone Island Foundation

Investment Management Subcommittee (IMS) Policy DRAFT

Marrowstone Island Foundation Fund (the Fund) was created to provide perpetual financial support to the Marrowstone Island Foundation (MIF) which is a registered 501 (c) (3) organization in the state of Washington. According to the By-laws of MIF, the Investment Management Subcommittee (IMS) works with the Treasurer of MIF to manage the organization's financial assets including the Fund. This policy statement establishes the guidelines for the Fund's investment portfolio (the Portfolio). Financially, the Fund consists of the Portfolio and certain cash working capital account(s) managed by the Treasurer under the direction of the of the MIF Board of Directors (BOD). This 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 any manager(s) hired on behalf of the Fund and its beneficiaries.

In April, following the installment of new board members and officers, the president shall appoint three MIF members to serve a two-year term each as members of a subcommittee to the Finance Committee (FC). This subcommittee shall be known as the Investment Management Subcommittee (IMS) and will address any policy questions that might arise with regard to the organization's management of its financial affairs.

I. Role:

The IMS acts in a fiduciary capacity with respect to the Portfolio and is accountable to the MIF BOD for overseeing the investment of all assets owned by, or held in trust for, the Portfolio.

- A. This statement sets forth the investment objectives, distribution, policies, and investment guidelines that govern the activities of the IMS and any other parties to whom it has delegated investment management responsibility for Portfolio assets.
- B. The investment policies for the Portfolio contained herein have been formulated consistent with MIF's anticipated financial needs and inconsideration of its tolerance for assuming investment and financial risk, as reflect in the majority opinion of the MIF BOD.
- C. Policies contained herein 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 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 MIF.
- D. The IMS will review this Policy at least once per year. Changes to this policy can be made only by affirmation of a majority of the MIF BOD, and written confirmation of the changes will be provided to all MIF BOD members and to any other parties hired on behalf of the Portfolio as soon thereafter as is practical.

II. Investment Objective(s) and Distribution Policy

The Fund 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 MIF.

- A. For the purpose of making distributions, the Fund shall make use of a total-return-based distribution policy, meaning that it will fund distributions from net investment income, net realized capital gains, and proceeds from sale of the investments.
- B. The distribution of Fund assets will be permitted to the extent that such distributions do not reduce the variability of annual Fund distributions by factoring past spending and Portfolio asset values into its current distribution decisions. The IMS will review its distribution assumptions annually for the purpose of deciding whether any changes therein necessitate amending the Fund's distribution policy, its target asset allocation, or both.
- C. 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 outlined in the asset allocation policy, Section IV.A. herein.

I. Portfolio Investment Policies

A. Asset Allocation Policy

- 1. The IMS 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 IMS expects that actual returns and return volatility may vary from expectations and return objectives across short periods of time. While the IMS wishes to retain flexibility with respect to making periodic changes to the Portfolio's asset allocation, it expects to do so only in the event of material changes to the Fund, to the assumptions underlying Fund spending policies, and/or to the capital markets and asset classes in which the Portfolio invests.
- 3. Fund assets will be managed as a balance portfolio composed of two major components: an equity portion and a fixed income portion. The expected role of Fund equity investment will be to maximize the long-term real growth of Portfolio 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 Portfolio equity investments.
- 4. Cash investments will, under normal circumstances, only be considered as temporary Portfolio holdings, and will be used for Fund 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. Outline below are the long-term strategic asset allocation guidelines, determined by the IMS to be the most appropriate, given the Fund's long-term objectives and short-term constraints. Portfolio assets, will under normal circumstances, be allocated across broad asset and sub-asset classes in accordance with the following guidelines:

Asset Class and Sub-asset Class	Target Allocation
Equity	50%
U.S.	40%
Non-U.S.	10%
Fixed Income	50%
Investment grade	40%
Below-investment grade: <i>Standard & Poor's BBB</i> <i>Moody's Baa or higher</i>	10%
Alternative investments	See Section II.A.7
Cash	0%

6. The IMS will not invest Portfolio assets in illiquid or nonmarketable securities.
7. Investments in nontraditional securities including (but not limited to) venture capital, hedge funds, and real estate investment trusts (REITS) may be made to the extent that such investments are made through marketable mutual funds or exchanged-traded funds and in the judgment of the IMS can serve as a risk management tool. Such investments will be treated collectively as Alternative Investments for purposes of measuring the Portfolio's asset allocation. While allowed but not specifically encouraged by this policy, alternative investments may comprise not more than 10% of total Portfolio assets and, the extent they are owned, will proportionately reduce target allocations to the three primary asset classes itemized above.

B. Diversification Policy

1. Diversification across and with asset classes is the primary means by which the IMS 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 IMS 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. 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 and sub-asset classes. The Portfolio will be rebalanced to its target normal asset allocation under the following procedures:

1. Incoming cash flow (contributions) or outgoing money movements (disbursements) of the Portfolio will be used to realign the current weightings closer to the target weightings for the Portfolio.
2. The Portfolio will be reviewed annually to determine the deviation from target weightings. During each review, the following parameters will be applied:
 - a) If any asset class (equity or fixed income) within the Portfolio is +/-5 percentage points from its target weighting, the Portfolio will be rebalanced.
 - b) If any fund within the Portfolio has increased or decreased by greater than 20% of its target weighting, the fund will be rebalanced.
3. The IMS may provide a rebalancing recommendation at any time.

D. Other Investment Policies

Unless expressly authorized by the IMS, the Portfolio 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.

IV. Monitoring Portfolio Investments and Performance

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

- A. The Portfolio's composite investment performance (net of fees) will be judged against the following standards:
1. The Portfolio'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 Portfolio's investment guidelines.
 1. U.S. Equity: Wilshire 5000 Total Market Index (available at <http://web.wilshire.com/Indexes/Broad/Wilshire5000>)
 2. Non-U.S. Equity: MSCI EAFE + EM Index (available at <http://www.msci.com>)
 3. Investment Grade Fixed Income: Barclays Capital U.S. Aggregate Bond Index (available at <https://ecommerce.barcap.com/indices/index.dsmi>)
 4. Non-investment Grade Fixed Income: Barclays Capital U.S. Corporate High Yield Bond Index
 5. 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. In keeping with the Portfolio's overall long-term financial objective, the IMS 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) on a calendar quarterly basis or more frequently, as requested by the IMS. Each investment manager is expected to be available to meet with the IMS once pr year to review portfolio structure, strategy, and investment performance.

This policy was fully reviewed and approved by the Board of Directors September 21, 2023.

