ROCHESTER PUBLIC LIBRARY
INVESTMENT POLICY STATEMENT

I: PURPOSE:

The purpose of this investment policy statement is to provide for prudent management and investment of the Rochester Public Library (“RPL”) endowment in order to generate income for RPL operations, preserve and increase capital by a rate that exceeds inflation as measured by the Consumer Price Index, and provide a strong level of confidence for RPL donors, Boards of Trustees, and City and County residents. In addition, this investment policy statement is intended to help ensure compliance with the New York Prudent Management of Institutional Funds Act (“NYPMIFA”). Therefore this investment policy statement will:

1. Define the roles and responsibilities of all persons and committees responsible for overseeing, investing, and managing the RPL’s investment assets.
2. Provide guidelines for monitoring and evaluating investment performance, and then reporting on it to the RPL’s Board of Trustees, donors, and affiliated agencies.
3. Assure donors and affiliated agencies that the RPL follows prudent investment strategies and engages competent professionals to advise and manage investments.

II: DEFINITIONS:

1. “Funds” are the assets available for investment. Funds consist of gifts of cash, securities, and other assets made by individuals, families, and organizations.
2. “Investment Manager” is any individual, group of individuals or institution employed to manage investments.
3. “Consultant” is any individual, group of individuals or institution employed to provide advisory services, including advice on investment objectives, asset allocation, manager search and performance monitoring.
4. “Securities” are marketable investment securities.
5. “Custodian” is any major bank or nationally-recognized brokerage firm.
6. “Board Finance Committee” are members of the RPL Board of Trustees assigned responsibility for the oversight of the investment funds.

III: RESPONSIBILITY FOR MANAGEMENT OF FUNDS:

All invested funds shall by managed by the RPL Board of Trustees. At the discretion of the Board, an external agent or agents may be engaged to manage funds of the RPL. The Board Finance Committee is acting in a fiduciary capacity with respect to the Funds and is accountable to the RPL Board of Trustees for overseeing the investment of all assets owned by, or held in trust for, the RPL.

Except as otherwise provided by a gift instrument, the RPL has considered the following factors, if relevant, in managing and investing the Funds:
1. The purposes of the RPL;
2. The purposes of the Funds;
3. General economic conditions;
4. The possible effect of inflation or deflation;
5. The expected tax consequences, if any, of investment decisions or strategies;
6. The role that each investment or course of action plays within the overall investment portfolio of the funds;
7. The expected total return from income and the appreciation of investments;
8. Other resources of the RPL;
9. The needs of the RPL to make distributions and to preserve capital; and
10. An asset’s special relationship or special value, if any, to the purposes of the RPL.

IV: INVESTMENT OBJECTIVES AND GUIDELINES:

A. The 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 the RPL. The average annual investment return objective is 5% plus inflation, net of costs.

In establishing these objectives, the RPL has acted in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and has considered, to the extent relevant, the following factors:

1. The duration and preservation of the RPL;
2. The purposes of the RPL;
3. General economic conditions;
4. The possible effect of inflation or deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the RPL;
7. Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the funds, giving due consideration to the effect that such alternatives may have on the RPL; and
8. The investment policy of the RPL.

B. Fund assets will be managed as a portfolio comprised of an equity portion, fixed income portion and a real return assets portion. Cash investments will, under normal circumstances, be considered as temporary portfolio holdings and will be used for Funds liquidity needs or to facilitate a planned program of dollar-cost averaging into investments in the equity and/or fixed income asset classes.

C. Outlined below are the long-term strategic asset allocation guidelines determined by the Board Finance Committee for the Funds long-term objective and short-term spending constraints. Portfolio assets will be allocated across broad asset and sub-asset classes in accordance with the following guidelines:
<table>
<thead>
<tr>
<th>Asset class</th>
<th>Sub-asset class</th>
<th>Allocation Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td></td>
<td>59-69%</td>
</tr>
<tr>
<td></td>
<td>U.S.</td>
<td>60-80% (of equities)</td>
</tr>
<tr>
<td></td>
<td>Non-U.S.</td>
<td>20-40% (of equities)</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>U.S. Investment grade</td>
<td>18-28%</td>
</tr>
<tr>
<td>Real Return</td>
<td></td>
<td>8-18%</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>0-5%</td>
</tr>
</tbody>
</table>

D. In order to provide the Investment Manager with the ability to invest in various types of assets, the manager is further guided by the following definitions and delineations of activities:

1. Equities: The role of equities is to maximize total return, providing growth of principal and current income, thereby supporting spending requirements while preserving the purchasing power of the Fund’s assets. To serve these purposes, both domestic and international equities may be included in the Fund.

2. Fixed Income Securities: Fixed income investments enable the alignment of assets and liabilities in ways that will provide a deflation hedge, reduce volatility of the Fund and produce current income to support spending requirements. The portfolio will be diversified among bond issuers and may be invested in government, agency, mortgages and other asset backed securities, municipal, or corporate bonds.

3. Real Return Assets: The real return assets class is expected to provide a rate of return at or above the rate of inflation. These investments will help maintain the purchasing power of the Fund’s assets over time. These investments may include Real Estate Investment Trusts (REITS), commodities, Treasury Inflation-Protected Securities (TIPS), and other asset classes that have a history of doing well in periods of higher inflation.

E. Diversification and Limitations:

1. With the exception of fixed income investments explicitly guaranteed by the U.S. government, no more than 5% of the cost value of the RPL’s portfolio shall be invested in any single security issue. Diversified mutual funds and exchange traded funds are exempt.

2. No more than 25% of the value of the equity portfolio shall be invested in any single industry.
3. With respect to fixed income investments, for individual bonds, the minimum average credit quality of these investments shall be investment grade (Standard & Poor’s BBB or Moody’s Baa or higher).

4. The use of direct derivative instruments for speculative purposes (options, futures, etc.) and leveraging (as these investment techniques are normally defined), warrants, unregistered or restricted stock, or conditional sales contracts are prohibited, unless expressly authorized in writing by the RPL Board of Trustees.

5. Private equity, venture capital, hedge fund investment strategies, and private real estate investment assets will be treated collectively as alternative investments for the purposes of measuring the Funds asset allocation. While not specifically considered within this policy, alternative investments may not comprise more than 10% of total Fund assets and, to the extent they are owned, will proportionally reduce target allocations to the primary asset classes itemized above. Any alternative investment must be approved by the Board Finance Committee.

6. The Board Finance Committee and Investment Manager(s) are prohibited from purchasing securities on margin or executing short sales, and purchasing or selling derivative securities for speculation or leverage.

F. Investment Manager(s):

1. One or more investment managers selected by the RPL Board of Trustees are expected to manage the portfolio in accordance with the above policy and pursuant to their respective management assignments. Performance will be reviewed quarterly and measured against a blended benchmark of indices, peer group performance and the RPL’s total return objective.

2. The investment manager(s) shall submit to the Board Finance Committee, on a minimum quarterly basis, a statement showing all account activity for the period, including costs, market values, asset allocation, performance of comparable indexes, and changes from the previous report.

3. Rebalancing: It is expected that the Funds actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments. The Investment Manager may rebalance at any time to realign the current weightings closer to the target weightings in the portfolio. In situations involving multiple investment managers, the Board Finance Committee will use its discretion to rebalance the funds to the target portfolio allocations using incoming cash flow, scheduled portfolio rebalancing, or periodic rebalancing.

4. Monitoring: The Board Finance Committee will monitor the Funds investment performance against the stated investment objectives. At a frequency to be determined by the Committee, it will formally assess the portfolio and the composite performance of its underlying investments (net of fees) as follows:
a. The Funds absolute long-term real return objective.

b. A composite benchmark consisting of the following unmanaged market indices weighted according to the target asset allocations stipulated by the Funds investment guidelines.

V: ETHICS AND CONFLICT OF INTEREST:

Trustees and agents involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Trustees and agents shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Trustees and agents shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the RPL.

VI: REAL ESTATE:

With respect to assets, gifts, and investment opportunities relating to real property (i.e. mortgages, limited partnership interests) the Board Finance Committee will be responsible for the acceptance or rejection of gifts and the investment and monitoring of all assets. The Board Finance Committee will comply with all RPL investment policies when determining whether such gifts or investments are appropriate for the RPL.

VII: DONOR-DESIGNATED INVESTMENTS:

The Board Finance Committee shall determine whether to accept or reject non-marketable securities, an in-kind gift, or other stocks, in which the donor conditions that the gift be retained by the RPL as an investment. While the Board Finance Committee has the ultimate responsibility for monitoring, managing, and disposing of all of its investments, the RPL Director will advise the donor, in writing, that any marketable security will be sold and the donor will acknowledge this in writing prior to the acceptance of gift, and any losses incurred, will be borne solely by the RPL fund to which such gift has been credited and the RPL will not be responsible for nor provide an indemnification to such fund for any such losses. The RPL Director must receive the donor’s written acknowledgement of these terms and conditions prior to the acceptance of gift.

VIII: ENDOWMENT SPENDING AND ACCUMULATION POLICY:

A. The Board Finance Committee will manage permanent endowment funds in accordance with the requirements of the governing instruments executed by the donors at the time the funds were established or as subsequently amended.
B. For the purpose of distributions, the Fund shall make use of a total-return-based spending policy, with distributions from net investment income, net realized capital gains, and proceeds from the sale of investments.

C. The RPL’s annual target spending rates for distribution from the Funds shall be 5% of the average market value of the fund’s total assets over the past twenty (20) quarters. For newly acquired funds valued at more than 10% of the Funds portfolio, an annual distribution of 4% of the average portfolio for the preceding quarters will occur annually until twelve (12) quarters of investment activity is established. The surplus of total return less spending in any given year shall be retained and accumulated to maintain purchasing power of the fund at or above the rate of inflation. The annual spending rate shall be reviewed and authorized at least annually by the RPL Board of Trustees.

IX: ADOPTION:

This policy shall be adopted by resolution of the RPL Board of Trustees. The Board Finance Committee shall review the policy statement annually and recommended changes will be presented to the RPL Board of Trustees for consideration.

*Original December 12, 2011*
*Amended October 30, 2019*