

**Colorado Humanities Reserve Funds
Statement of Investment Policies, Objectives and Guidelines**

September 12, 2020

INTRODUCTION

The purpose of this Statement of Investment Policies, Objectives and Guidelines (the “Policy”) is to provide a basis for Colorado Humanities through its Board of Directors to properly discharge its responsibilities with respect to the maintenance and enhancement of the Colorado Humanities’ Reserve Funds (the “Reserves”).

This Policy and other guidelines stated herein will be reviewed by the Finance and Infrastructure Committee (the Finance Committee) and presented to the Board of Directors for approval at least annually, but may be reviewed and approved more frequently at the request of the Finance Committee Chair, the Chair of the Board or the Executive Director. The Policy will be updated and modified as required to recognize current laws, market and economic conditions as well as the current income needs of Colorado Humanities.

This Policy governs the investment management of the Reserves’ investments. The Finance Committee of the Colorado Humanities Board has the primary responsibility for this Policy, adherence thereto and the overall management of the Reserves’ investments. The Colorado Humanities Board retains the ultimate authority for the Reserves.

The Finance Committee is responsible for all aspects and decisions related to investments of the Colorado Humanities’ Reserves. Colorado Humanities may hire an independent investment advisor to provide professional investment management oversight, review, verification and/or consultation to assist the Finance Committee to discharge its responsibilities. The advisor would provide reports and updates to the Finance Committee and the Executive Director. The Finance Committee will periodically review the independent investment advisor’s actions in order to monitor the advisor’s performance and ensure that the advisor acts within the scope of the advisor’s duties.

PURPOSE

The purpose of the Reserves is to provide enduring support for Colorado Humanities’ educational programs and facilities by providing a reliable flow of funds to the operating budget, thereby helping ensure the quality of Colorado Humanities’ operations both currently and for the indefinite future.

The primary investment objective of the Reserves is to grow assets in real terms in perpetuity, and disburse funds to Colorado Humanities to carry out its mission, while assuming appropriate levels of risk. The term “in real terms” refers to growth of assets in excess of inflation, accumulating an ever-increasing asset base over and above the purchasing power of the original reserves.

GOALS

It shall be the policy of Colorado Humanities’ Finance Committee to manage the Reserves to achieve the following goals:

- a. Preserve capital.
- b. Maximize current income commensurate with preservation of capital.
- c. Demonstrate long-term principal growth.
- d. Consider Socially Responsible Investments, which align with Colorado Humanities’ values.

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INVESTMENT POLICIES

The Finance Committee will manage the Reserves’ investments. All statements and reports will go to the Colorado Humanities Executive Director and the Finance Committee. The Finance Committee will prepare and distribute reports for reporting to the Board.

Distributions will be made in accordance with this Policy as decided by the Board.

The fundamental goal of the Reserve Fund is to annually pay out to Colorado Humanities an amount deemed prudent while growing the corpus in real terms to maintain equivalent purchasing power for Colorado Humanities’ future. Upon receipt of the previous fiscal year's year-end investment earnings (dividend and interest statement), and upon consultation with the Executive Director, the Finance Committee may recommend to the Board for approval, the withdrawal of up to 50% of the increase in the account's value from the previous year end, which includes interest and growth, to be applied to the Colorado Humanities budget. At the recommendation of the Finance and Infrastructure Committee, the Board may also consider taking funds from earnings or principal for identified needs. The amount to be paid out or accumulated each year will be determined by considering the following factors, if relevant:

- (1) the duration and preservation of the Reserves;
- (2) the purposes of Colorado Humanities and the Reserves;
- (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) Colorado Humanities' other resources; and
- (7) all other aspects of this Policy.

Asset allocation and diversification are critical factors in the management of the Reserves' total portfolio. The Finance Committee will employ methodology based on proven asset allocation models and will consider, among other factors, appropriate risk tolerances and growth and payout objectives in establishing its asset allocation. The Finance Committee, together with any professional investment managers will annually review strategic asset allocation targets and ranges.

The Finance Committee is responsible for rebalancing of the Reserves' portfolio within the guidelines of this Policy. Rebalancing is intended to bring actual allocations reasonably close to strategic targets. Deviation from ranges and strategic targets is permissible if recommended by the Finance Committee and approved by the Board. Rebalancing will normally be implemented incrementally over appropriate time periods and typically not in lump sum moves.

Investments may be held in separate or commingled accounts unless the Finance Committee specifically decides differently.

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INVESTMENT OBJECTIVES

The primary investment objective of the Reserves is to grow the corpus in real terms in perpetuity, while annually distributing an amount deemed prudent to Colorado Humanities for its programs and administrative expenses in pursuit of Colorado Humanities' mission.

The Finance Committee will manage toward this long-term investment objective by establishing an efficient asset allocation that targets the highest portfolio return given an acceptable level of risk. The primary tool for risk management will be the diversification of the corpus across a variety of uncorrelated asset classes. The second tool for risk management is the process of consistently re-balancing the portfolio to the established strategic ranges. This promotes the process of reducing exposure in those asset classes where performance is potentially beyond its long-term average, while at the same time increasing exposure to an asset class that may have performed below its long-term average.

The Finance Committee will review the Reserves investments on a quarterly basis for the purpose of identifying any specific investments in companies that it finds objectionable. It is expected alternative investments such as real estate and hedge funds will generally not be used. Any such objections will be brought to the attention of the full Board which will decide the appropriateness of the investment.

The Finance Committee has established the following asset allocation as of March 7, 2020. Reserve funds will be invested in approximately 40% fixed income and 60% equities.

INVESTMENT PERFORMANCE

Colorado Humanities will establish performance objective and review procedures. Performance objectives will be clearly defined, coherent with CH's benchmarks, realistic and measurable. The Finance Committee will review investment performance in relation to the S&P 500 for equity funds and the Lehman Intermediate Gov./Corp. index for fixed income funds.

INVESTMENT GUIDELINES

Allowable Investments

Investments are generally limited to publicly traded domestic and international marketable securities within the fixed income and common equities asset class. Alternative investments such as real estate, venture capital, hedge funds, etc. will generally be avoided. The Reserves will not invest in tangible objects such as antiques, artwork, precious metals or stones, etc. The Finance Committee may from time to time authorize investments that do not meet these criteria. The Finance Committee will also review the investments in the Reserve Fund quarterly for appropriateness.

Investment Constraints

- 1) The use of options and other derivatives is prohibited unless explicitly approved by the Finance Committee.
- 2) Equity investments in any one company should not exceed 5% of the equity portfolio at time of acquisition or 8% of the equity portfolio at market thereafter.
- 3) Investments in equity of any one company should not exceed 5% of the market value of that company's outstanding equity.
- 4) Sector weightings in the portfolio should not exceed 200% of the weightings in the portfolio's benchmark index.
- 5) Foreign securities or ADR's not listed on a recognized exchange may not be purchased without the Finance Committee's consent.
- 6) The portfolio may not deal in short sales or margin transactions.
- 7) There are no restrictions on portfolio turnover or realizing gains.
- 8) The following transactions are prohibited: purchase of non-negotiable securities, short sales and selling on margin.
- 9) Real estate investments are limited to publicly or privately traded Real Estate Investment Trusts (REITs) or Limited Liability Companies (LLCs), which may or may not be leveraged. Direct Real Estate ownership for investment purposes is not allowed unless specifically authorized by the Finance Committee. All real estate investments shall be made with industry standard forms of limited liability structures such as Limited Partnerships, LLCs, publicly traded or private REITs (Real Estate Investment Trusts).
- 10) Convertible bonds and stocks will be considered relative to the underlying common stocks and will be viewed as equity commitments.
- 11) Fixed income investments should stress high quality and diversification. Securities must be rated at least investment grade.

Socially Responsible Investing

Colorado Humanities understands Socially Responsible Investments (SRI) as those investments that have been evaluated with the following values in mind:

- Education and Cultural Advancement with consideration for such goals as increasing literacy, equal access to quality early education, inclusive and quality education at all levels, making education affordable, promoting innovation in education, supporting advancement of the arts and humanities, supporting preservation and presentation of cultural histories and traditions.
- Justice and Equality with consideration to such goals as gender equality, decent work and economic growth, reducing inequalities, sustainable cities and communities, and peace, justice and strong institutions.

SRI investment returns should endeavor to match or exceed the S&P 500.

DUTIES AND RESPONSIBILITIES OF THE FINANCE AND INFRASTRUCTURE COMMITTEE

1. Assumes responsibility for making certain that assets are properly invested, controlled and safeguarded.
2. Drafts the investment policies and recommends to the Board overall Investment Objectives and Guidelines.
3. Establishes, monitors compliance and annually reviews this Policy.
4. Determines the asset allocation policy.
5. Establishes, monitors compliance and annually reviews strategic asset allocation targets and ranges and rebalancing policy.
6. Selects investment advisors.
7. Establishes investment manager mandates to include benchmarks, performance criteria, monitoring and reporting procedures, reasons for termination, etc.
8. Reviews monthly/quarterly investment managers and independent investment advisor reports.
9. Reports to the Colorado Humanities Board quarterly with special emphasis on the annual report.
10. Selects external experts to assist in the work of the committee as needed.
11. Acts in good faith and with ordinary, prudent care.
12. Uses any special skills or expertise its members possess in managing and investing funds.

Effective: April 15, 2005

Approved: April 15, 2005

Approved: April 21, 2006

February 2006, Colorado Endowment for the Humanities changed its name to Colorado Humanities.

Revised and approved: March 22, 2014; March 7, 2020, September 12, 2020, December 3, 2022