

## **William Caspar Graustein Memorial Fund Investment Policy Statement**

### **Purpose**

The mission of the William Caspar Graustein Memorial Fund (the Memorial Fund) is to achieve equity in education by working with those affected and inspiring all to end racism and poverty. While working toward these goals, the Memorial Fund seeks to foster community vitality and collaboration across boundaries of difference within society and the communities it serves.

The Memorial Fund's working definition of *equity* is just and fair inclusion into a society in which everyone can exercise their individual agency and achieve justice, in order that everyone can reach their full potential. Equity work includes increasing awareness, deepening understanding, and taking action, particularly at the institutional and structural levels.

The Memorial Fund intends to generate positive social and environmental impacts alongside financial returns. Mission and impact investments will be pursued across asset classes, subject to the same diligence standards as all investments, in order to deepen the connection of Memorial Fund governance and investment strategy to the Memorial Fund's mission and enterprise operations.

### **Principles**

The Principles that will guide the Memorial Fund's investment decisions include the following:

1. All investing is impact investing. All investments in operating enterprises and tangible assets generate some form of social and environmental impact, be it positive or negative. Impact investors are *intentional* in their desire to pursue positive results and mitigate negative outcomes. The Memorial Fund is intentional in its pursuit of positive impacts and will actively seek strong mission alignment where feasible.
2. The risk and financial return of mission investments extend beyond financial metrics alone and also encompass risks and financial returns to the underlying investees. The health of the portfolio can only be sustained by the health of its investees. As mission investors, the Memorial Fund will embrace the quantitative and qualitative analyses required to assess measures of risk and financial return for the Memorial Fund and the communities in which it invests.
3. Investment decisions are evidence-based and fundamentals-driven. Investment decisions will be based on thorough due diligence and clear evidence of both potential benefits and risks. The Memorial Fund also understands that as it invests in evolving markets, high priority communities, and/or newer strategies, there will sometimes be a lack of historical data to support an impact thesis. The investment diligence process will require human interpretation and judgment to ensure mission and financial risk/return alignment.
4. Seek investment opportunities in Connecticut. Capital may be strategically invested in Connecticut to further pursuit of mission and enhance the programmatic and philanthropic activities of the Memorial Fund. Such investments may be implemented both via conventional

funds as well as more innovative financial structures that seek to build self-sustaining communities.

5. Seek to do no harm. The Memorial Fund seeks to avoid businesses and investment strategies that significantly conflict with its mission. Specifically, the Memorial Fund is opposed to tobacco, private prisons, and weapons manufacturing and will seek to screen such investments from its portfolio. Further, the Memorial Fund will not invest in strategies with a thesis explicitly focused on profiting from fossil fuels (e.g., natural resources equities funds, private oil and gas extraction funds, or coal assets) or distressed investments (e.g., funds that explicitly focus on financially distressed companies and properties) that extract equity from the communities and people it serves.
6. Mission- and impact-investing involves multiple tools. The Memorial Fund will utilize a range of investment strategies and structures across the financial risk/return spectrum to achieve its financial and mission goals. While the majority of investments will be expected to generate financial returns that compensate for the risk taken, the Memorial Fund may also pursue program-related investments (or risk equivalents) that are expected to generate high levels of impact, but may not generate financial returns that correspond to the expected higher levels of risk. Beyond capital deployment and manager selection, the Memorial Fund may utilize other impact investing strategies such as active ownership and engagement with companies, managers, and peers.
7. The Memorial Fund recognizes that full achievement of mission objectives extends beyond its efforts alone. The Memorial Fund's mission is an endeavor that requires many partners. Mission investing provides an opportunity for strategic and purposeful collaboration with other investors and investees. The Memorial Fund will seek to learn from others, influence others, and form enduring partnerships with peers and other enterprises. To support these collaborations and broader community learning, the Memorial Fund commits to being transparent about its strategy, portfolio, impacts, and lessons learned from its experiences.
8. When investing for mission, the Memorial Fund is also seeking to generate long-term learning benefits. In deploying capital in a manner aligned with its mission, the Memorial Fund understands that at times it will be investing in imperfect markets and supporting some enterprises with limited history of receiving institutional capital. Such investments present opportunities to build capacity within the asset management industry and communities, along with providing a valuable learning opportunity for the Memorial Fund. These investments should be considered within the framework of an impact thesis that supports the investment case, and states initial expectations for impacts and learning objectives.
9. The Memorial Fund will regularly assess and review the impact of its investments. The Memorial Fund commits to reflecting upon its actions and the principle of continuous learning so it can be an increasingly better steward of its constituents and capital. The Investment Trustee will encourage the Memorial Fund's investment managers to rigorously assess and (where possible) quantify the impact that their investments are having. The Investment Trustee will also regularly review the impact of the Memorial Fund as a whole, including both investments with an explicit impact focus and those which are not explicitly targeting positive environmental or social outcomes.

## Priorities

The Memorial Fund will seek investment opportunities that focus on the following priorities, and will employ all forms of capital, both philanthropic and investment, to pursue these priorities. While these priorities may evolve over time, those described below provide a frame for defining and expanding the investment opportunity set to be considered by the Memorial Fund.

1. Equity in Education – The Memorial Fund strives to achieve equity in education by fostering learning environments that maintain high expectations for every child, from birth to adulthood, and provide whatever opportunities and resources are needed to help reach those goals.
2. Economic, Social, and Racial Equity – As a distinct but integral part of its pursuit of educational equity, the Memorial Fund will actively work against structural barriers that oppress people of color and those living in poverty. The Memorial Fund will strive not only to reverse the effects of structural racism and poverty, but also to promote greater awareness of these disparities and encourage healing in society through dialogue, action, policies, and practices that advance racial and economic justice.
3. Community Vitality – The Memorial Fund will seek to benefit low- and middle-income communities and people through investments that support increased access to resources, sustainable job creation, and inclusive economic activity and development.
4. Environmental Sustainability – Flourishing communities require sustainable ecological systems. Economically marginalized communities have historically experienced greater incidents of environmental degradation. Hence, the Memorial Fund will also encourage ecologically sustainable enterprises that reduce negative environmental externalities, mitigate climate risk, support enduring infrastructure, and maintain or enhance natural habitats and agricultural lands.
5. Improving Lives in Connecticut – An essential part of the Memorial Fund’s work is to listen to the stories of the people, families, and communities it serves. We seek to support and inspire the children of our communities.

## Financial Objectives

Investments will be considered in the context of the Memorial Fund’s purpose, priorities, and principles. It is the Memorial Fund’s intention, therefore, that achieving its financial objectives should never drive the Memorial Fund to invest in strategies which openly conflict with its mission.

The primary financial objective of the Memorial Fund is to attain over the long term (running five-year periods) an average annual total financial return (net of fees) equal to the Spending Rate plus inflation, which is defined as the Consumer Price Index for all urban consumers as calculated by the U.S. Department of Labor - Bureau of Labor Statistics. This objective leads to an equity-oriented investment strategy, which in turn implies that the total market value and amount available for grants will fluctuate on a year-to-year basis.

The secondary financial objective is for the Endowment to achieve a total annual financial return (net of fees) that exceeds the financial returns possible in the market (investing passively in index funds)

and compares favorably with the returns achieved by other endowed institutions (as monitored by Cambridge Associates). To that end, the Endowment should generate performance (net of fees) greater than the total return from a market composite benchmark equal to 70% MSCI All Country World Index (net) and 30% Bloomberg Barclays Aggregate Bond Index, measured over rolling five-year periods.

### **Spending Policy**

The spending rule for the Memorial Fund is to meet IRS-mandated spending requirements for private foundations, specifically, to make annual qualifying distributions equal to the minimum investment return of the organization's investment assets. Minimum investment return is defined as 5% of the organization's average investment assets.<sup>1</sup>

Although actual spending for the Memorial Fund will occasionally take advantage of grace periods and carry forwards according to needs, for planning and budgeting purposes the Memorial Fund shall target a fiscal year spending budget of 5.25% of the previous 36-month average of the net asset value of the investment portfolio.

### **Portfolio Construction and Asset Allocation**

To achieve its investment objectives, the Endowment shall be invested in both equity and debt securities in public and private markets. The Investment Trustee retains the authority to determine the overall allocation between these two asset classes, and whether assets are invested with commingled or separately managed funds. Through the course of economic cycles the allocation between the equity and debt portions is expected to be the single most important determinant of the total Endowment's investment performance.

The purposes of the equity portion are to realize capital appreciation to provide funds for spending and to preserve and enhance purchasing power after spending. It is recognized that the equity portion by itself will likely experience greater market variability and risk than the debt portion.

The purposes of the debt portion are to provide a hedge against economic contraction and avoid having to liquidate equities in a market downturn, to reduce the overall volatility of the Endowment, and to produce current income in support of spending needs.

In addition to allocations to equity and debt investments, the Investment Trustee may also allocate a portion of the Memorial Fund to strategies designed to provide exposure to sources of financial return other than traditional equities and debt. These diversifying investments may include, but are not limited to, marketable alternative strategies (e.g., hedge funds) and real assets (e.g., real estate and inflation-protected securities).

The Endowment will be diversified both by asset class (e.g., equity and debt securities as defined above), investment strategies (e.g., types of diversifying investments and real assets), and within asset classes (e.g., by economic sector, market capitalization, industry). The purpose of diversification is to

---

<sup>1</sup> The term *net adjusted assets* may be substituted for *investment assets* and shall generally include all assets used to generate investment income and financial returns to financially support the foundation, and exclude exempt assets used directly in the foundation's ongoing activities.

provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the Endowment's financial returns and reduce the volatility of those returns over time. Volatility will be monitored and mitigated in order to support a reasonably stable and predictable stream of income for Memorial Fund programs and operations, as well as necessary cash flows for meeting capital requirements for less liquid and private investment management.

### **Investment Vehicles and Performance Measurement**

Dedicated, separate accounts invested by active managers will be governed by the provisions of account guidelines furnished to the managers by the Investment Trustee at the time managers are hired.

Investment in commingled vehicles will naturally limit the application of specific account guidelines, which the Investment Trustee recognizes in the process of selecting funds or managers for the Endowment. Commingled vehicles are governed by the guidelines set out in their prospectuses, which set the terms. The Investment Trustee and the Memorial Fund's investment advisors will consider the expected degree of mission alignment and potential for positive impact prior to investment.

Managers are expected to outperform their respective benchmarks over rolling three- and five-year periods. Appropriate benchmarks, with corresponding performance standards and time periods, will be established for all accounts at the time managers are hired.

### **Monitoring of Objectives and Results**

All objectives are in effect until modified by the Investment Trustee. On an annual basis, the Investment Trustee will review the Endowment's objectives and governing documents for their continued appropriateness. This review should consider the Endowment's investment policy statement, as well as its objectives, risk-tolerance, return target, and asset allocation.

On an ongoing basis, the Endowment will be monitored for mission alignment; the consistency of each manager's investment philosophy, risk, and return relative to objectives; and investment risk as measured by asset concentration, exposure to extreme economic conditions, and portfolio volatility.

Performance of the endowment and its investment managers will be reviewed by the Investment Trustee and the Memorial Fund's investment advisors on a quarterly basis, and evaluated over running three- and five-year periods. Similarly, the Investment Trustee and the investment advisors will annually review the impact of the portfolio as a whole. This effort is not static, but will evolve as the Memorial Fund's exposure to mission-aligned investments grows and as the availability of impact data increases. The Trustee and the investment advisors will regularly review managers in order to confirm that the factors underlying the performance expectations and mission alignment remain in place.

*Approved Friday, September 27, 2019*