

## Bluffview Montessori School Investment Policy Statement

### IMPORTANT INFORMATION ABOUT YOUR INVESTMENT POLICY STATEMENT

*The following Investment Policy Statement (“IPS”) draft is provided to you as a partially completed template for your review and reference. Where applicable, policies, procedures, and guidelines presented herein are based on information provided by you and/or your financial advisor. While every effort has been made to ensure accuracy, please note that the ultimate responsibility for accuracy, applicability, and adherence to all statements contained within the final adopted IPS lies with the Board of Directors.*

Please contact your financial advisor with any questions regarding the IPS

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# **Investment Policy Statement**

# Bluffview Montessori School

Approved on March 20, 2019

By Board of Directors

This investment policy statement should be reviewed and updated at least annually. Any change to this policy should be communicated in writing on a timely basis to all interested parties.

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### EXECUTIVE SUMMARY

Type of Fund: Endowment

IRS Tax Identification: 41-1589141

Time Horizon: Greater than 3-5 years

Return Objective: 6% (4% over the Consumer Price Index) Modeled Loss: 13% (Probability level of 5% for any one year period) Spending Policy: 3-6% annually, 4.5% target

### INVESTMENT STRUCTURE

This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are designed to produce a sufficient level of overall diversification and total investment return potential over the long-term.

## **BACKGROUND**

A Bluffview Montessori School endowment was established in 2019 to provide supplemental revenue to the school for general operating expenses. The primary goal is to improve the quality of the student and family experience at Bluffview Montessori by making a greater investment in the talented and dedicated staff, specifically focused on the hiring, development, and retention of excellent teachers and support staff. The school has additional needs for technology, play space enhancements, and curricular expansion. Bluffview Montessori School currently receives an average of \$20,000 a year in donations, which constitutes approximately 1% of the school's annual budget.

Bluffview Montessori School is the second oldest charter school in the United States, and it became the first public Montessori charter school in the US in 1993. Since then, Bluffview has offered Winona area children (in grades K-8, plus a tuition-based preschool) a high-quality Montessori education founded on individualized instruction, mixed-age classrooms, a prepared environment, freedom of choice, and an international peace curriculum. Each classroom has a lead teacher (trained in Montessori methods) and a teaching assistant who work to create a calm, orderly environment that fosters student independence, choice, and growth.

Bluffview's status as a public charter school affords it the freedom to pursue innovative methods of instruction, as well as the ability to deliver the Montessori pedagogy to students at a public school price. Charter status also presents financial challenges, as charter schools do not have bonding authority and thus cannot access local levy aid as traditional public schools do. Increasing revenue for Bluffview's general operating expenses will allow the school to better support and retain its talented teaching staff and, ultimately, enhance the quality of instruction for Bluffview students.

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### **PURPOSE**

The purpose of this Investment Policy Statement (IPS) is to assist the Bluffview Montessori School's Board of Directors ("Board") in effectively supervising, monitoring and evaluating the investment of the Fund ("Fund") assets. In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific, to be meaningful, yet flexible enough to be practical. Any changes in investment policy should be in writing and communicated to all parties.

### **DUTIES AND RESPONSIBILITIES**

#### **Delegation of Authority**

The Board of Directors are fiduciaries, and are responsible for directing and monitoring the investment management of Fund assets. As such, the Board is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. Investment Consultant. The investment consultant may assist the Board in: Establishing investment policy, objectives, and guidelines; selecting investment options and managers; reviewing such options and managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
2. Investment Manager(s). If selected, the investment manager(s) has discretion to purchase, sell, or hold the specific securities that will be used to meet the Fund's investment objectives.
3. Custodian. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movements of assets into and out of the Fund accounts.
4. Additional specialists such as attorneys, auditors, actuaries, and others may be employed by the Board to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

Investment managers will be held accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment managers, each manager should request modifications which they deem appropriate.

## STATEMENT OF OBJECTIVES

In order to maintain the Endowment in perpetuity and meet its needs, the Fund will employ a strategy that emphasizes a balanced return, relying on both current income and growth of principal (from capital appreciation, dividends, and interest income). The objective of the portfolio, to provide growth, should be pursued over a perpetual timeframe through a program designed to maximize the returns without exposure to undue risk, as defined herein. In accordance with this Investment Policy, the total return objective is 6% total return annualized over the above timeframe. On a quarter-to-quarter basis, the actual returns will fluctuate and can be expected to exceed the benchmark about half the time.

Understanding that a long-term positive correlation exists between performance volatility (risk) and expected returns in the securities markets, the following short-term objective has been established:

The portfolio should be invested to minimize the likelihood of low negative total returns, defined as a one year return worse than -13%.

### Spending Policy:

The Board will apply a smoothing rule to mitigate the effects of short-term market volatility when calculating the level of annual spending. This rule will be applied:

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- A. Moving average. The equilibrium-spending-rate will be applied to an average of the past three years of the portfolio's market values. Once five years of portfolio value data is available, spending rate will change from three year average to five year average.

**The Board will set spending equal to 3–6% of the portfolio value.**

The Board understands that annual spending is a goal, not a requirement. The long term intention is for this Fund to have 3-6% withdrawn annually to assist with Operating Expenses. In the short term (defined as 2019-2024), the

Board understands that a withdrawal may not make a meaningful difference to Operations. Once factors such as the establishment and results of a Capital Campaign are known, a better understanding of a prudent Spending Policy can be applied.

### **Performance Objectives**

The desired investment objective is a long-term rate of return on assets that is at least 6%, which is 4% greater than the anticipated rate of inflation as measured by the Consumer Price Index (CPI). The target rate of return for the Fund has been based upon the assumption that future real returns will approximate forward looking capital market assumptions provided by the Consultant for each asset class in the IPS. The board understands that variations to these capital market assumptions are expected and specific sectors or industries are more susceptible due to increased vulnerability to any single economic, political or regulatory development.

## **ASSET CLASS GUIDELINES**

### **Equities**

The equity asset classes should be maintained at risk levels appropriate for the risk/return expectations given herein, with the objective of exceeding a nationally recognized index measuring the performance of the designated sector over a full market cycle (generally three to five years) net of fees. Investment vehicles may include mutual funds and exchange traded funds (ETF's). The following definitions shall apply for the purposes of this policy:

U.S. Stocks: Stocks of U.S. based companies the primary shares of which are traded on a major U.S. exchange.

International Stocks: Stocks of non-U.S. based companies, the primary shares of which are traded on exchanges outside the U.S. American Depository Receipts (ADRs) are considered International Stocks.

Emerging Markets Stocks: Stocks of non-U.S. based companies that are expected to experience significant growth. Investing in these countries has potential for greater returns, but it also carries more risk than typical domestic investing.

Sector Stocks: Stocks of companies usually found in one industry.

### **Fixed Income**

Investments in fixed income securities will be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums. Investment vehicles may include mutual funds and exchange traded funds (ETF's). The following definitions shall apply for the purposes of this policy:

U.S. Government/Corporate Bonds: Fixed income securities denominated in U.S. dollars issued by the U.S. Government, U.S. Government Agencies or U.S. corporations

High Yield Corporate Bonds: Bonds issued by U.S. corporations and the majority of the bonds are rated below BBB/Baa.

International Bonds: Fixed income securities denominated in currencies other than U.S. dollars. Issuers may be both governments and corporations

Mortgage-Backed Securities: A debt security backed by an underlying pool of mortgages.

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Municipal Bonds: Bonds issued by local governmental subdivisions such as cities, towns or counties.

### **Alternative Investments**

Investment vehicles and strategies not typically included in the asset classes described above. Alternative investments may include, but are not limited to: hedge funds, managed futures products, commodities, and commodity contracts. Investment vehicles may also include mutual funds and exchange traded funds (ETF's).

### Cash and Cash Equivalents

Cash reserves shall be invested in short term (less than one year) fixed income instruments. Appropriate instruments include direct and general obligations of the U.S. Government and U.S. Government Agencies, interest-bearing demand or time deposits, certificates of deposit, money market portfolios of FDIC member agencies, commercial paper, and repurchase agreements. Investment vehicles may include mutual funds and exchange traded funds (ETF's).

### Stock Exchanges

To ensure marketability and liquidity, investment managers will purchase equities listed on the following exchanges: New York Stock Exchange; American Stock Exchange; and NASDAQ over-the-counter market. In the event that an investment manager determines that there is a benefit or a need to purchase securities listed on exchanges other than those listed in this statement, written approval is required from the Board.

### Prohibited Assets and Restricted Transactions

Prohibited investments include:

1. Private Placements
2. Options
3. Short Selling
4. Margin Transactions
5. Margin Borrowing (restricted, Board approval needed)
6. Use of the portfolio to establish a Line of Credit (restricted, Board approval needed)

## INVESTMENT GUIDELINES

The Board will ensure that investment management of the assets of the Fund shall be in accordance with the following asset allocation guidelines:

			Target Weight
Equities	55%	75%	65%
Fixed Income	25%	45%	35%
Alternatives	0%	5%	0%
Cash & Equivalents	0%	10%	0%

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### Rebalancing

The Board and Consultant are expected to monitor the portfolio mix. Neither the upper nor the lower limits of the asset allocations are intended to require portfolio activity for the sole purpose of complying with the guidelines; however, deviation from these guidelines will be treated as discussion topics at the quarterly meetings with rebalancing considered at least annually. It is recommended that the target allocation be maintained so that the Fund will be able to achieve its long-term goals.

## INVESTMENT MANAGER SELECTION

The Board' selection of investment manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. The Board requires that each investment manager provide, in writing, acknowledgment of fiduciary responsibility to the Fund, where practicable.

### **Investment Manager Performance Review and Evaluation**

Performance reports generated by the investment adviser shall be compiled at least quarterly and communicated to the Board for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Board intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate a manager for any reason.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results. An Investment Manager may be placed on Watch and a thorough review and analysis of the investment manager will be conducted.

The Board has determined it is in the best interest of the Fund that performance objectives be established for each investment manager. Investment Manager performance will be evaluated in terms of an appropriate market index (e.g. the S&P 500 stock index for large-cap domestic equity manager) and the relevant peer group (e.g. the large-cap growth mutual fund universe for a large-cap growth mutual fund).

The decision to retain or terminate an investment manager cannot be made by a formula. It is the Board's confidence in the investment manager's ability to perform in the future that ultimately determines the retention of a manager.

### **Measuring Costs**

The Board will review at least annually all costs associated with the management of the Fund's investment program.

### **INVESTMENT POLICY REVIEW**

The Board will review this IPS at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

### **Bluffview Montessori School Investment Policy Statement**

This statement of investment policy is adopted on March 20, 2019 by the Board whose signatures appear below.

### **Board Members**

**Approved:**

**Title:**

**Date**