

Greater KC LINC, Inc.



Statement of Financial Management Policy

*Approved by the LINC Commission
September 16, 2013*

Financial Management Policy

1. Investments shall be made for the exclusive purpose of meeting LINC's investment objectives and defraying the reasonable expenses of administration.
2. Investment of the assets shall be diversified across asset classes, market sectors, and geography so as to minimize the risk of large losses and gain the benefits of diversification.
3. Cash is expected to be employed productively through investment in short term cash equivalents to provide safety, liquidity, and return.
4. The Commission may, in its discretion, utilize LINC staff and expertise of the Finance Committee, and/or employ one or more Managers of varying investment roles, styles, and philosophies to attain the Commission's investment objectives.
5. Adherences to Investment Discipline – All investment products and/or investment management teams are expected to adhere to the investment management styles for which they have been selected.
6. Fee Aversion – All other things being equal, minimization of product and investment-related manager fees will be a consideration in the selection process.

Financial Management Objectives

Specifically, the primary objectives in the investment management of Reserve assets shall be:

1. Safety - Risk control through diversification and minimization of volatility is an important element in the investment of the Reserves. Risk will be measured by the standard deviation of quarterly returns, other standard risk metrics or other risk assessment tool designated by the Finance Committee, and will be benchmarked against risk levels of an appropriate broad market index or portfolio of market indexes

Short-term volatility will be tolerated in as much as it is consistent with the volatility of the bench-marked broad market index or portfolio of market indexes. In general, assets invested under this policy are targeted not to exceed a maximum loss of 10% over any one year period, or a maximum loss of 25% over the three year period. There is, of course, no guarantee that losses greater than those stated herein won't be sustained.

2. Liquidity - In an effort to enhance the ability to meet all expected or unexpected cash flow needs investments will be placed in securities which can be sold readily and funds efficiently transferred.

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, LINC management will periodically estimate expected net cash flows and, to the extent funds are expected to be required beyond those referenced in the following paragraph, will notify the appropriate investment personnel and Committee chairperson in a timely manner to allow sufficient time to build up necessary liquid reserves.

To maintain the ability to deal with unplanned cash requirements that might arise, the Commission requires a portion of Reserve assets be maintained at the financial institution holding LINC's operating account. The amount of Reserves set aside for this

purpose shall be periodically reviewed by the Finance Committee. These assets shall be maintained in cash or cash equivalents, including money market funds, short-term corporate bonds or repurchase agreements, or short-term U.S. Treasury bills.

The Committee may also approve the establishment of a line of credit (LOC) up to \$1,500,000 to be used in conjunction with assets in LINC's operating bank account. The purpose of the LOC would be to smooth short term cash flows and to avoid drawing upon Reserve assets at a time when market losses might result. The Reserves may be pledged as collateral against the LOC. If established, actual use of the LOC requires approval of the Finance Committee Chairperson and review by the Committee at the next scheduled Committee meeting.

3. Yield – The Reserves portfolio will be designed to target moderate growth of principal over a three year time horizon while avoiding excessive risk as identified in the Safety paragraph above.

Responsibilities of LINC Operations/Finance Management and Staff

1. Projecting the impact of operational decisions and daily activity on LINC's financial needs, and communicating such needs to the Finance Committee on a timely basis.
2. Investment management including the purchase and sale of securities as instructed by the Commission and/or the Finance Committee.
3. Rebalancing asset allocations in accordance with guidelines established in this statement, and in accordance with additional parameters that may be set by the Commission and/or the Finance Committee.
4. Serving as staff for the Commissioners and/or the Finance Committee members and engaging in study, research, and the provision of recommendations as called upon, staff will engage in due diligence to support the Commission and/or the Finance Committee within the boundaries of their time, available analytical tools, and knowledge.
5. Reporting to the Commission and/or the Finance Committee on a regular basis actual verses budgeted expenditures.
6. Reporting to the Commission and/or the Finance Committee on a regular basis quarterly investment performance results.
7. Communicating to the Commission and/or the Finance Committee their understanding of causes of major changes in investment and budget performance.

Investing Activities

While the Commission retains the authority to respond as needed to changing market conditions at any time, the two drivers of most investment activity will be semi-annual portfolio rebalancing and responding to LINC cash flow needs.

Unless instructed otherwise by the Finance Committee, LINC staff shall rebalance invested assets on a semi-annual basis each January and July. Barring receipt of new instructions from the Committee, rebalancing shall bring the portfolio back in line with the targets/ranges used in the previous rebalancing.

Allocation Limits for Specific Asset Classes

The Committee shall provide investment staff with allocation targets or target ranges (percentages) to be used during portfolio rebalancing or other investment activity. Rebalancing targets selected by the Committee shall fall within the broader percentages established below:

1) Fixed Income

Fixed income obligations **shall not exceed eighty percent of the market value of total Reserves** as of the Valuation Date. The term “fixed income obligations” indicates contractual payments which have a specific maturity date (i.e. “90 day T-bills” or certain bonds), or bond mutual funds or bond exchange traded funds (ETF). Investments in this class are limited to investment grade bonds or commercial paper, or better; bond funds and bond ETF’s are to have an average investment grade of BBB or better. Fixed income securities will be selected with the goal of an active secondary market being available for liquidity of the investment should access to the funds be needed.

2) Stock-Based Equities

Equities in common or preferred stock, or equity mutual funds and equity ETF’s **may not exceed eighty percent** of the market value of total LINC Reserve assets as of the Valuation Date. Additional limitations apply to two subsets of this class:

- U.S. equities may **not exceed seventy percent** of the market value of total LINC Reserve assets as of the Valuation Date.
- Foreign equity securities and American Depository Receipts (A.D.R.’s) **may not exceed a combined total of thirty-five percent** of the market value of total LINC Reserve assets as of the Valuation Date.

3) Cash & Cash Equivalents

Cash & cash equivalents shall constitute **at least five percent, and shall not exceed one hundred percent**, of the market value of Reserves as of the Valuation Date. The term “cash equivalents” indicates contractual payments which have a specific maturity date of 90 days or less. Money markets used for this purpose shall contain securities with a minimum credit rating of “investment grade” by Standard & Poors, or Moody’s.

4) Real Estate

Real estate funds and real estate investment trusts are considered a separate asset class from other equities described herein and **may not exceed a combined total of fifteen percent** of the market value of Reserves as of the Valuation Date.

5) “Balanced” Investment Products

Products designed for the primary purpose of holding multiple asset classes, such as balanced mutual funds or balanced exchange traded funds, are permissible and shall be allotted among the above asset classifications in proportion to their holdings in each asset classification as identified in the product’s most recent quarterly report.

6) Alternative Asset Classes

Alternative asset classes not identified above, but not prohibited by this Policy’s *Investing Restrictions* section, may also be employed to further reduce portfolio risk.

Investments into alternative assets may not exceed five percent of the market value of the Reserves as of the Valuation Date.

It is understood investment gains may cause any given asset class to fall outside these target ranges or differ from targets in-between the scheduled semi-annual portfolio rebalancing. In order to avoid costs associated with frequent portfolio adjustments, and to not undermine the theory behind a disciplined rebalancing strategy, asset classes will be allowed to temporarily fall outside these target ranges or differ from targets if due strictly to market forces. However, asset classes must be brought back in line with these targets and target ranges during each rebalancing.

Investing Restrictions

1. Prohibited transactions include but are not limited to the following:
 - Short Selling
 - Margin Transactions

2. Prohibited Products. The products listed below are not presently considered appropriate for direct investment. However, at the Committee's discretion, investments in in such products may be allowable if they reflect only a fractionally insignificant portion of a broader investment fund or product, and are not expected to materially impact the products overall return.
 - Venture capital
 - Commodities
 - Options
 - Limited partnerships
 - Real estate property
 - Art
 - Direct investments in derivative products.
 - Investments involving material leverage

Sweep Account Transfer Guidelines

The checking/sweep operating account shall not exceed two million dollars, after considering obligations expected to mature over a 30-day period. LINC management may transfer between invested assets and the interest-bearing sweep account to maintain this targeted benchmark.

Additionally, LINC management will weigh factors impacting the target balance in the sweep account and its rate of return vs. the rate of return on invested assets to maximize overall earnings from prudent money management (passive earnings less fees & charges).

Definitions

1. "LINC Commission" or "Commissioners" shall refer to the governing board of Greater KC LINC, Inc. (LINC).

2. "Committee" or "Finance Committee" shall refer to the LINC Commission's Finance Committee which, pursuant to the *Finance & Audit Committee Charter*, has been given certain authority to act on the LINC Commission's behalf.

3. "Securities" shall refer to the marketable investment securities which are defined as acceptable in this statement.
4. "Reserves" shall refer to investible assets of LINC. These are funds which have been set aside from daily operating assets in order to:
 - a. Take on and perform new or existing community initiatives where supporting funding streams might be deferred or otherwise delayed.
 - b. Provide an adequate indication of stability enabling the recruitment and retention of competent, professional staff in order to accomplish LINC's objectives and fulfill contracted obligations.
 - c. Serve as a shield against occasional but not uncommon cash flow delays inherent in on-going non-profit income streams;
 - d. Provide LINC with the capacity to confidently take on new community initiatives whose funding employs an expense reimbursement methodology;
 - e. To provide a temporary cushion against financial shocks due to the loss of, or reduction by, a significant funder, unexpected expenses, or significant community challenge; or
 - f. Other strategic planning purpose designated by the Commission.
5. "Valuation Date" refers to the date market values were obtained to calculate rebalancing requirements.
6. "Market Cycle" shall be a three year period over which the investment objectives, as set forth in this statement, are targeted to be met.

No Enlargement of Obligations or Responsibilities

The purpose of this Statement of Financial Management Policy is to provide guidance on and facilitate the financial management of the Reserves. Notwithstanding anything herein that might suggest otherwise, nothing in this Statement of Financial Management Policy shall enlarge the legal obligations or responsibilities of the Commissioners or members of the Finance Committee beyond that already existing as a matter of law in the absence of this Statement of Financial Management Policy.

Agreement Acknowledgement

This Revised Statement of Financial Management Policy has been adopted on September 6, 2013 by the Commissioners of Greater KC LINC, Inc. This statement replaces the previous Statement originally approved October 17, 2005 and later amended January 18, 2007.



David Ross, Treasurer
Greater KC LINC, Inc.