

# **The Lewes Public Library**

## **Investment & Spending Policy**

**October 2, 2007; revised May 10, 2011; revised August 9, 2016**

The Lewes Public Library (“LPL”) is an independent, non-profit, tax-exempt organization incorporated under the laws of Delaware with management authority vested in its Board of Commissioners (“Board”). The Board is charged with the responsibility to manage LPL’s funds, to maintain a sound spending policy while preserving the purchasing power of its assets, and to promote the purposes of maintaining perpetually a free public library for the benefit of its patrons.

This Policy encompasses the investment management of

I: Short Term (cash, money market and bond) Funds and

II: Long Term and Endowment Funds

### **I. A. Purpose of the Short Term Funds**

The purposes of the Short Term Funds are:

- To provide operating funds for daily operations of LPL
- To provide short term operating reserves, expected to be needed for LPL operations within one year
- To provide funding for special projects, such as, capital projects, for which funds have been specifically raised.

### **B. General Investment Guidelines**

- All such funds are expected to be expended within a short period of time, usually less than one year.
- All funds are to be held in “cash” (i.e., not invested in equities or fixed income securities) and be invested in interest bearing instruments that shall achieve the highest return which does not impair the principal of the fund, while maintaining liquidity at all times. All such assets should represent maturities of one year or less at the time of purchase.

### **C. Investment Objectives**

- The investment objective for the management of the Short Term funds is preservation of capital

## **II. A. Purpose of the Long Term and Endowment Funds**

The purposes of the Long Term and Endowment Funds are:

- to provide a financial reserve against a serious financial shortfall due to unforeseen events,
- to provide seed money for capital projects approved by the Board,
- to maintain capital reserves for future capital repairs, maintenance and replacement, and
- to provide a contribution to the annual operating budget of LPL as deemed appropriate by the Board.

### **B. Contributions to the Endowment**

- Individual donors may dictate the specific purpose/use for donations, which must be acceptable to LPL. When not so dictated by the donor, the Board will determine whether funds received from donors are to be used as contributions to the endowment or to the annual operating budget.
- Contributions in kind to the Endowment Funds will be sold immediately and reinvested in conformity with this Policy.

### **C. Investment Objectives**

The investment objective for the management of the Long Term and Endowment Funds is to achieve growth of both principal value and income over time that is sufficient to preserve or increase the purchasing power of the assets against inflation.

### **D. General Provisions**

- All transactions shall be for the sole benefit of LPL.
- The Board shall consider updating LPL's investment policy on an as-needed basis.
- The Board shall conduct an annual review of LPL's investment assets to verify the existence and marketability of the underlying assets or satisfy themselves that such

a review has been conducted in connection with an independent audit (if any) of LPL's financial statements.

- Any investment that is not expressly permitted under this Policy must be formally reviewed and approved by the Board.
- The Board will endeavor to operate LPL's investment program in compliance with all applicable state, federal and local laws and regulations concerning management of investment assets
- Investments shall be diversified with a view to minimizing risk.

#### **E. Delegation of Responsibility; Reliance on Experts and Advisors**

- The Board has ultimate responsibility for the investment and management of LPL's investment assets.
- The Board may delegate authority over LPL's investments to a properly formed and constituted Investment Committee, being a Board Committee comprised only of Directors.
- The Board or Board Committee may hire outside experts as investment consultants or investment managers.
- The Board may also establish an advisory committee (which may include non-directors) to provide investment advice to the Board or to the Board Committee. Advisory committees have no authority to act for the Board, but may monitor compliance with the investment policy, recommend changes, and assist the Board or Board Committee in selecting and retaining Investment Managers to execute this Policy.

#### **F. Responsibilities of the Board**

- The Board is responsible for the oversight of all funds entrusted to its care, including the adoption of policy regarding the Long Term and Endowment Funds' investment management.
- The Board, or if authority is delegated, the Investment Committee, is charged with the responsibility of managing the investment assets of LPL. The specific responsibilities of the Board or the Investment Committee, as applicable, include:
  1. Communicating LPL's financial needs to the investment managers on a timely basis.
  2. Determining LPL's risk tolerance and investment horizon and communicating these to the appropriate parties.

3. Establishing reasonable and consistent investment objectives, policy guidelines and allocations which will direct the investment of the assets, to be reviewed by the Board on an annual basis.
4. Prudently and diligently selecting one or more qualified investment professionals, including investment managers(s), investment consultant(s), and custodian(s).
5. Regularly evaluating the performance of investment manager(s) to assure adherence to policy guidelines and to monitor investment objective progress.
6. Developing and enacting proper control procedures; e.g., replacing investment manager(s) due to a fundamental change in the investment management process, or for failure to comply with established guidelines.

## **G. Responsibilities of Investment Managers**

- The management of the funds and the responsibilities for investment decisions are delegated to the appointed investment manager(s). Any investment manager(s) shall exercise complete discretion within the limits established by this Policy. Accordingly, the investment manager shall use its best efforts to comply with all Federal, State, and Local regulations.
- Applicable terms, conditions, limitations and restrictions notwithstanding, any investment manager(s) shall discharge any duties relating to the Funds solely in the interest of LPL, shall demonstrate appropriate knowledge of the Fund's purpose and contemporary operations, and shall diversify the investments of any Funds portfolio(s) so as to minimize the risk of substantial loss.
- Each investment manager will invest assets placed in his, her or its care in accordance with this investment policy.
- Each investment manager will have full discretion in making all investment decisions for the assets placed under his, her or its care and management, while operating within all policies, guidelines, constraints, and philosophies outlined in this Investment Policy. Specific responsibilities of investment manager(s) include:
  1. Discretionary investment management, including decisions to buy, sell, or hold individual securities, and to alter allocation within the guidelines established in this statement.
  2. Reporting, on a timely basis, quarterly investment performance results.
  3. Communicating any major changes in the economic outlook, investment strategy, or any other factors that affect implementation of investment process.
  4. Informing the Board, or if authority is delegated, the Investment Committee, regarding any changes in portfolio management personnel, ownership structure, investment philosophy, etc.

5. Voting proxies, if requested by the Board, or if authority is delegated, the Investment Committee, on behalf of LPL.
  6. Administering LPL's investments at reasonable cost, balanced with avoiding a compromise of quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to LPL
- The Board reserves the right to terminate a relationship with any investment manager(s) at any time, subject to the terms of any investment advisory agreement, if the Board determines that said action is warranted. In addition, the Board reserves the right to remove assets, in part, at any time, provided that contracted asset and/or minimums of any investment manager(s) are met.
  - Investment managers shall meet at least annually, if requested by the Board, to review the Fund and any respective portfolio(s), and to discuss investment results in the context of all of the goals Investment Objectives, and Investment Guidelines set forth in this Policy.

## **H. General Investment Guidelines**

- A copy of this Investment Policy shall be provided to all investment managers.
- Lewes Public Library is a tax-exempt organization as described in section 501(c)(3) of the Internal Revenue Code. This tax-exempt status should be taken into consideration when making LPL investments.
- LPL is expected to operate in perpetuity; therefore, a 5+ year investment horizon shall be employed. Interim fluctuations should be viewed with appropriate perspective.
- A cash account shall be maintained with a zero to very low risk tolerance to keep cash available for distributions to the operating fund.
- Transactions shall be executed at reasonable cost, taking into consideration prevailing market conditions and services and research provided by the executing broker.
- Permitted investments include: Cash and cash equivalents, marketable securities including equities and fixed income securities, and alternative asset classes, such as flexible capital.
- No fixed income security shall have an equivalent credit quality below investment grade at the time of purchase,
- The following transactions are prohibited: Purchase of non-negotiable securities, derivatives, high risk or junk bonds, private placements, precious metals, commodities, short sales, any margin transactions, straddles, warrants, options, life insurance contracts, leverage or letter stock.

## **I. Diversification**

- LPL will maintain a reasonable diversification of investment assets between asset classes and investment categories at all times.
- LPL expressly prefers investments in equity securities and debt instruments be in low cost, high quality mutual funds, ETFs, index funds and the like. In any case, the total securities position (debt and equity) in any one company shall not exceed 5% of the portfolio.
- Reasonable sector allocations and diversification shall be maintained.
- Investments within the investment portfolio should be readily marketable.
- The investment portfolio should not be a blind pool; each investment must be available for review.

## **J. Asset Allocation**

- Asset class allocation, resulting in so-called asset mix, is intended to afford an appropriate approach toward investment objectives while limiting investment risk by providing basic diversification. The percentages of asset classes provide a framework through which the Fund's investments may be adjusted to meet economic and/or investment market conditions while remaining centered on the allocation target deemed appropriate, as follows:

## **K. Asset Allocation Range**

| <u>Asset Class</u>     | <u>Target Range</u> | <u>Target</u> | <u>Benchmark</u>                    |
|------------------------|---------------------|---------------|-------------------------------------|
| Domestic Equities      | 45-60%              | 50%           | Russell 3000 Index                  |
| International Equities | 5-15%               | 10%           | MSCI AC world EX USA                |
| Flexible Capital       | 0-10%               | 5%            | HFRI Funds of Funds Composite Index |
| Fixed Income           | 30-45%              | 35%           | Fixed Income Composite              |

\*\*Asset class benchmarks apply to the primary asset class within which each investment manager's mandate lies. Additional benchmarks relevant to an individual manager's style may be specified by the Board.

- Rebalancing shall be done on a semi-annual basis or more frequently if deemed necessary.
- The Board may set asset allocation ranges for individual investment manager(s) different from ranges for the Fund.

## **L. Performance**

- Investment performance shall be measured against comparable indicies no less than annually on a net of fees basis. Performance shall be evaluated on a three to five year basis to allow for market fluctuations and volatility.

## M. Spending Policy

Withdrawals may be made with the following policy purposes in mind:

- to preserve the long-term purchasing power of the investments,
- to provide a reasonably stable and predictable revenue stream to support the operating budget of LPL, and
- to protect investments from regular operating spending needs.

Thus, withdrawal amounts authorized should generally insure that:

- Enough of the total return is to be reinvested so that the market value of LPL's investments will grow at least as fast as inflation.
- Dividends and interest income from LPL's investments are reinvested when appropriate.
- Because of the volatility of financial markets, a smoothing mechanism is to be used in the determination of the amount each year that will be taken from the investments to support the LPL operating budget.

In establishing the contribution to the operating budget for each fiscal year, the cash flow returns from investments will be measured against the operating needs. In the interest of determining a conservative withdrawal, two calculations will be made:

1. The 5% target withdrawal rate will be applied to the rolling five-year average of the June 30th market values of the investments as determined by the Board to provide a smoothing mechanism.
2. The second calculation will be a simple 5% of the previous quarter, which is January 1<sup>st</sup> through March 31<sup>st</sup>.

These calculations will be used as a guide but the Board will have discretion to determine the amount based on the needs in any particular year.

Adopted by the

***Board of Commissioners***

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