

---

# KENNEBUNK FREE LIBRARY ENDOWMENT INVESTMENT POLICY

## I. Definition of Endowment

This endowment exists to fund the operating and/or capital expenses as voted by the Board of Trustees of the Kennebunk Free Library ("Library"). Since this endowment supports liabilities that are both long and short term in nature, the fund will be managed with a total return orientation that focuses on the production of income as well as maintaining and growing the real value of the endowment and its subsequent distributions. The income portion of the total return will come from dividends on equity securities and interest earned on fixed-income securities, cash, and cash equivalents. Capital appreciation will come primarily from the equity portion of the portfolio.

## II. Investment Oversight

The Finance Committee ("Committee") shall be charged with the oversight of the endowment and shall be reportable to the Board of Trustees. It shall have the power to retain investment counsel, evaluate the work of said counsel, and make the appropriate changes in investment counsel when warranted. In performing its duties, the Committee, as well as the investment counsel retained to manage the endowment, will adhere to the "Prudent Person" rule in that the management of the endowment will be conducted with the care, skill, prudence, and diligence that a prudent person familiar with such matters would exercise.

## III. Asset Allocation

An examination of historical asset class returns reveals that equities have provided not only the largest investment returns over other commonly used financial assets such as government, municipal, and corporate bonds, and cash equivalents, but inflation-adjusted returns as well. While the returns on fixed-income securities have not provided the growth in nominal or real terms that the equities have, fixed-income securities have historically provided greater income generation and lower variability in returns than equities. Since the endowment supports liabilities of varying durations, a blended asset allocation among stocks, bond, and cash will be employed to provide for the growth and income required from these monies. Consequently, the endowment's strategic (long-term) asset allocation will be 60% equities, 35% fixed-income securities and 5% cash and equivalents. In the formulation of the strategic asset allocation, the following asset class return assumptions are made (Ibbotson 1926-2007):

Equities	10.4%
Fixed Income	5.3%
Cash	3.7%
Inflation	3.1%

Based on the above asset allocation and asset class return assumptions, the expected average annual return over a three to five year period for this portfolio is 8.28% in nominal terms and 5.18% in inflation-adjusted terms.

### III. a. Tactical Asset Allocation

Due to the nature of the capital markets, it is sometimes prudent to deviate from a portfolio's strategic asset allocation. Therefore, the exposure of the endowment to the asset classes delineated above may vary within a range of +10% and -10% from the strategic asset allocation, depending upon the investment manager's interpretation of circumstances in the capital markets. It is, however, incumbent upon the investment manager to notify the Committee during the normal course of review of a tactical asset allocation deviation from the strategic asset allocation.

## IV. Asset Class Definitions

### *A. Equities*

Equity investments will consist of common stock or securities convertible into the common stock of companies that are deemed to be financially sound and, ideally, pay dividends. Foreign equity investments are permissible but are not to exceed 25% of the total equity portfolio. While there are no specific capitalization guidelines for the equity portfolio, it is expected that the equity portion of the endowment will be diversified among large, medium, and small capitalization stocks. To ensure that the equity portion of the portfolio is well diversified, no single stock, at original cost, may comprise more than 5% of the total endowment's value. No single stock, at current market cost, may compromise more than 10% of the total endowment's value.

### *B. Fixed Income*

Fixed-income investment will consist of obligations guaranteed by or backed by the U.S. Government or any of its Agencies and corporate bonds or preferred securities rated BBB or better by one of the major rating agencies (change approved 5/26/99). The maturities of fixed-income investments will be selected according to the income requirements of the endowment as well as current and prospective interest rate conditions prevailing in the capital markets. However, the following limitations will apply:

- \*The term to maturity of any fixed income security will not exceed ten years.
- \*No single issue will exceed 5% of the endowment's total value.

### *C. Cash and Equivalents*

This asset class will be viewed as a holding area for cash while it awaits investment or distribution. Cash investments will be kept in U.S. Government money market funds or U.S. Treasury Bills to ensure availability of the funds. The primary focus of these investments is to maintain a stable dollar value and earn interest.

### *D. Alternative Assets*

Alternative asset exposures (precious metals, commodities etc) may be held in reasonable amounts (+/- 5% of total portfolio value) as long as they are held via well-diversified pooled vehicles (ETFs, mutual funds etc.).

## **V. Prohibited Investments**

The endowment shall not invest in the following securities: derivatives, private placements, options contracts, and futures contracts. Transactions such as short selling are prohibited.

## **VI. Spending**

See: The Kennebunk Free Library Endowment Spending Policy Approved by the Board of Trustees on October 28, 2008.

## **VII. Reporting**

The investment manager will report to the Committee at least semi-annually to review the actions taken on behalf of the Library. The reporting format will consist of at least the following items: purchase and sale report; gains and losses report; portfolio summary; portfolio appraisal showing individual securities holdings with date-of-purchase; and, finally, a performance report which examines performance by asset class vs. benchmarks as well as performance of the total account vs. a custom benchmark reflecting our current asset allocation.

## **VIII. Amendment**

The Board of Trustees shall review this Policy annually at the May Board meeting and reserves the right to amend this Endowment Spending Policy at any time.