



# Hardee County School Board Agenda Analysis

## 1.05

**Author:**

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**Date:**

April 7, 2019

**Subject:**

Hardee County Education Foundation Investment Policy Statement

**Background Information:**

The Hardee County Education Foundation is considered a "direct support organization" of Hardee School Board because the Foundation (1) is approved by the School Board, (2) is a Florida corporation not for profit and (3) is organized and operated exclusively to receive, hold, invest and administer property and to make expenditures for the benefit of public kindergarten through 12<sup>th</sup> grade education and adult career and community education.

Pursuant to the Mosaic Land Development Agreement, \$8 million of economic mitigation payments will be dedicated to a permanent endowment trust to provide educational opportunities to Hardee County residents. The funds to establish and grow the endowment must be held in trust administered by the Hardee County Education Foundation, under the direction of a Chartered Financial Analyst. The principal amount for this endowment trust shall be maintained at \$8 million. On February 21, 2019 the Education Foundation received the first \$5 million of the endowment.

Once the endowment trust is fully funded at \$8 million, earnings from the endowment such as interest and dividends can be used to fund scholarships to people who achieve certification in a skilled trade or earn an undergraduate degree. To earn the full scholarship, recipients must live in Hardee County for five years. The Foundation desires to earn at least 5% or 6% annually from the endowment.

On November 5, 2018, the Education Foundation Board approved CliftonLarsonAllen (CLA) Wealth Advisors as the investment manager for the endowment scholarship funds. From then through March 2019, the Education Foundation's investment committee worked with CLA Wealth Advisors to develop an Investment Policy Statement and a Spending Policy. On March 25<sup>th</sup>, the Education Foundation Board approved the Investment Policy Statement and the Spending Policy. Board attorney McKinley recommended that the School Board review and approve the Education Foundation's Investment Policy Statement.

**Administrative Consideration:**

Section 1001.453, Florida Statutes- Direct-support organization; use of property; board of directors; audit.

**Fiscal Impact:**

When fully funded, the Education Foundation's endowment will include \$8 million of investments.

**Proposed Recommendation to School Board:**

Recommend approval of Hardee County Education Foundation Investment Policy Statement.

**Action Required:**

Action Agenda

BOARD ACTION  
4/11/19  
1 of 1  
Approved

# **Investment Policy Statement**

## **Hardee County Educational Foundation**

Adopted: March 25, 2019

Affirmed: N/A

Amended: N/A

Developed in collaboration with:



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## Purpose of the IPS

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The purpose of this Investment Policy Statement (IPS) is to formalize the decision making process for investment-related issues. Towards this end, the IPS should assist in:

- Defining who has the authority to make investment decisions.
- Effective communications between all involved parties.
- The selection, supervision, monitoring and evaluation of the investment program.
- Establishing an investment structure that offers sufficient diversification and meets the risk/return objectives of each account.
- Establishing the criteria for selecting, monitoring and evaluating the investment managers for each asset class.

This IPS shall supersede any previously executed IPS for the Foundation and remain in effect until revised or amended by the Board.

The policy shall not apply to the employees' retirement fund or any other monies subject to separate investment policy, requirements or restrictions.

## History & Purpose of the Fund

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As established on July 10 2018, pursuant to the Local Development Agreement for Ona Mine between Mosaic and Hardee County, \$8 million of economic mitigation payments will be dedicated to a permanent endowment trust to provide education opportunities to Hardee County residents.

The funds sources are from the Mosaic Land Development Agreement to be used to fund a forgivable student loan program. The significant source of revenue for funding will be earnings from interest, dividends, and capital appreciation of the \$8 million. Funds will be withdrawn yearly and/or as agreed by the board of directors.

### Local Development Agreement for Ona Mine:

*The Parties' intent of allocating a portion of the economic mitigation payments to this category is to establish a workforce development endowment to provide County residents with an affordable path to advanced educations in fields that drive economic growth.*

*(a) Payments by Developer to the County shall be dedicated to a permanent endowment trust fund to provide educational opportunities to Hardee County residents for generations to come. The funds to establish and grow the endowment must be held in trust under the direction of a Chartered Financial Analyst procured by the Hardee County Education Foundation. The principal amount for this endowment trust shall be maintained at Eight Million Dollars (\$8,000,000.00) initially, and adjusted for inflation as determined by a Chartered Financial Analyst (CFA), (hereafter the "Minimum Principal Amount"). The Minimum Principal Amount may be created from existing economic development sources of revenue including the education allotment created through the 2012 South Pasture Extension Agreement, funds provided pursuant to this Agreement, and transfers from the Hardee County Industrial Development Authority. Once the principal amount placed in trust reaches the Minimum Principal Amount of \$8,000,000.00, supplemental funding from this Agreement or other sources shall be utilized to replace any reduction in the principal amount,. Additionally, once the Minimum Principal Amount is established for the Workforce Development Endowment Fund, the allocation percentage may be reduced to zero percent (0%), provided the Minimum Principal Amount is maintained during the effective period of this Agreement. At the County's discretion, the percentage of economic mitigation payments that are allocated to the Workforce Development Endowment may be adjusted on a temporary basis, with permanent adjustments to the allocation percentages made pursuant to an amendment of this Agreement and Exhibit B, in accordance with the Local Government Development Agreement Act (Section 163.3220 F.S., et seq.).*

*(b) Once the endowment trust is fully funded, earnings from the endowment, i.e. interest and/or dividends paid on the principal of the trust fund, can be used to fund a forgivable student loan program for residents attending trade school to achieve certification in an eligible skilled trade or residents attending and then completing an undergraduate degree at any accredited public or private institution. . The program shall be administered and audited by the Hardee Education Foundation, under the direction of the Hardee County School Board (Section 1001.453 F.S.), who shall establish eligibility requirements for the loan program. The loans are to be considered forgivable at 20% per year if the student maintains residency in Hardee County for a period of five (5) years following the completion of a degree or skilled trade certification. After completion of their degree or certification, those recipients leaving the County prior to satisfying residency requirements will be required to begin repayment of the loan at the completion of their undergraduate degree or securing their skilled trade certification. Eligibility requirements, distribution of loan funds, and repayment for loan recipients who fail to maintain County residency will be established through rules published by the Hardee Education Foundation. The Education Foundation may also use surplus earnings from the endowment to fund improvements to vocational education within the K-12 education system in Hardee County and also to fund all operational expenses to manage the*

endowment.”

## Standard of Care

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**Legality:** Investments shall comply with the statutes referenced in this policy and with any other applicable federal, state and local laws, rules or regulations. The letter dated March 5, 2019 from The Wotitzky Law Firm, specifically, Michael R. McKinley, Esq. states that “it is appropriate for the Fund financial advisor to invest the funds under the “Prudent Investor” rule.”

**Florida UPMIFA:** Investments shall be made in accordance with Florida’s UPMIFA statutes, which declare that in managing and investing an institutional fund, the following factors, if relevant, must be considered:

- a. General economic conditions.
- b. The possible effect of inflation or deflation.
- c. The expected tax consequences, if any, of investment decisions or strategies.
- d. The role that each investment or course of action plays within the overall investment portfolio of the fund.
- e. The expected total return from income and the appreciation of investments.
- f. Other resources of the institution.
- g. The needs of the institution and the fund to make distributions and to preserve capital.
- h. An asset’s special relationship or special value, if any, to the charitable purposes of the institution.

Also, management and investment decisions about an individual asset must be made not in isolation but rather in the context of the institutional fund’s portfolio of investments as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the fund and to the institution. Furthermore, except as otherwise provided by law other than this section, an institution may invest in any kind of property or type of investment consistent with this section. Finally, an institution shall diversify the investments of an institutional fund unless the institution reasonably and prudently determines under this section that the purposes of the fund are better served without diversification.

**Prudent Investor Rule:** Investments shall be made in accordance with the Prudent Investor Rule, which states that relative to investments, a trustee has to (1) make decisions based on an evaluation of the total portfolio, (2) promote diversification (which is fundamental to risk management), (3) analyze and make conscious decisions concerning the levels of risk appropriate to the purposes, distribution requirements and other circumstances of a trust, and (4) exercise their duty to delegate matters in which they do not have experience, as other prudent investors would.

## Annual Review/Update Affirmation

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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.

**At least bi annually:**

- The expected time horizon will be reviewed by the Board of Directors.
- The IPS should be affirmed or updated and affirmed.
- All estimated fees/expenses should be affirmed by Board of Directors or put out to bid.



## Definition of Duties

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**The Board of Directors is responsible for establishing the overall framework for the investment program.** The Board is responsible for determining the investments, selecting appropriate mutual funds/ investment managers, and to monitor the mutual funds/investment managers. The Board is authorized to delegate certain responsibilities to professional experts in various fields, including the Finance Committee.

1. **Staff** – no staff currently authorized to conduct fund business.
2. **Investment Consultant.** The Investment Consultant may assist the Board in: establishing investment policy, objectives, and guidelines; evaluating fund managers, reviewing such managers over time; measuring investment performance; and other tasks as deemed appropriate.
3. **Investment Manager.** The investment managers may choose the specific securities that will be used to meet the Account's investment objectives. Such services also include economic analysis, and deciding when to purchase, sell, or hold individual securities. The Board will not reserve any control over investment decisions within a particular mutual fund or ETF, which has been selected to manage a portion of the assets. A mutual fund or ETF should invest its assets in accordance with the limits imposed by its prospectus.
4. **Custodian.** The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Account, 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 movement of assets into and out of the Account.
5. **Additional Specialists.** Specialists such as attorneys, auditors and others may be employed by the Board to assist in meeting its responsibilities and obligations to administer Account assets prudently.

**Ethics and conflicts of interest:** Investments shall be conducted in a manner that constitutes no conflict of interest, improper influence or other restricted activity to realize personal financial gain or private pecuniary benefit, pursuant to state and any applicable other ethics laws. In the event a conflict should arise, the conflicted party is expected to notify the Board of Directors as soon as practical.



# Investment Objectives

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## **Spending Policy:**

The Spending Policy attempts to balance the long-term objectives of maintaining the purchase power of the Foundation's assets with the goal of providing a sustainable level of spending and determines the methodology of spending the income from the Endowment.

## **Account Target Objectives:**

- 7-10 Year Target Return – 4% Spending + 2% Growth Target = 6% annually
- Time Horizon – in perpetuity
- Liquidity Constraints – Targeting two distributions per year
- Risk Budget – Target Risk, as measured by the projected Standard Deviation of Returns, should be maintained within a range of 9-10%.
- Regulatory Considerations – This policy must be approved by the HCEF and Hardee County School Board
- Taxes – N/A
- Unique Circumstances – TBD

The investment program shall be managed in order of priority to, first, observe established risk tolerance levels and maintain appropriate liquidity of capital, and second, produce total return that is consistent with the level of risk assumed. The Board seeks to achieve or outperform the long-term investment goal, as defined in the Investment Policy Statement, over a full market cycle. The Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, investment managers may produce significant over or under performance relative to the broad markets. For this reason, long-term investment returns will be measured over a 5-year moving period and monitored quarterly.

# Asset Allocation

## Account Asset Allocation Targets:

<i>Assumes 2.5% Inflation</i>					
Metric	Definition				
Return Estimate	7-10 Year, Annualized	5.7%			
Risk Estimate	Standard Deviation	9.4%			
Sharpe Ratio	Risk/Return Efficiency	0.37			
Value at Risk (Moderate Volatility)	1-Year	-13.1%			
Value at Risk (High Volatility)	1-Year	-22.5%			
		Target	Minimum	Maximum	Benchmark
<b>Growth Investments</b>		<b>33%</b>	<b>30%</b>	<b>40%</b>	<b>32% Russell 3000 + 4% MSCI ACW Index Ex-US</b>
<i>Growth Assets generate returns based on growth of the world's economy.</i>					
<b>Global Equities</b>					
<b>US Stocks - Total Stock Market</b>			20%	40%	
<b>International Stocks</b>			0%	10%	
<b>Risk Reduction Assets</b>		<b>51%</b>	<b>45%</b>	<b>55%</b>	<b>51% Barclays Aggregate</b>
<i>Risk Reduction Assets dampen overall portfolio volatility through their own low volatility and by having a low correlation to Growth Assets.</i>					
<b>Investment Grade Credit</b>					
Cash			0%	5%	
Short			0%	35%	
Intermediate			0%	25%	
Long			0%	15%	
<b>Opportunistic</b>					
High Yield (Taxable)			0%	20%	
Emerging Market Debt			0%	10%	
<b>Alternative Risk</b>					
Aleatory			0%	10%	
Direct Lending			0%	10%	
<b>Private Debt</b>			0%	10%	
<b>Inflation Protection</b>		<b>16%</b>	<b>5%</b>	<b>15%</b>	
<i>Inflation Protection Assets help protect a portfolio from unanticipated inflation.</i>					
<b>Liquid Real Assets</b>					
US TIPS			0%	10%	<b>3% Barclays US TIPS</b>
REITs, Natural Resource Equities			0%	8%	<b>3% S&amp;P Global Natural Resources Index</b>
Commodities					<b>2% MSCI US REIT Index</b>
<b>Private Real Assets</b>			0%	15%	
<b>Total</b>		<b>100%</b>			

## Rebalancing

The Investment Consultant is responsible for approving and executing all rebalancing trades.

### Rules for rebalancing back to Target:

- If one or more of an account's holding has drifted 20-25% away from its target percentage due to market volatility, then the Investment Consultant will sell those holdings that are the most above their targets while buying holdings that are the most below their targets. (For example, if the target percentage of a holding is 5% and the actual percentage falls below 3.75% or goes above 6.25%, then the Investment Consultant would automatically rebalance the holdings of that account.)

## Benchmarks

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### Funding Account Benchmark

32%	Russell 3000
4%	MSCI ACW Index Ex-US
51%	Barclays Aggregate
3%	Barclays US TIPS
3%	S&P Global Natural Resources Index
<u>2%</u>	MSCI US REIT Index
100%	

## Manager Guidelines and Restrictions

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**Disclaimer:** *In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the long-term investment goals of the Account. Any such list is likely to be too inflexible to be suitable for the market environment in which investment decisions must be made.*

*Therefore, it is the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner in which investment risk is managed, which determines whether an appropriate standard of reasonableness, care and prudence has been met for the Fund's investments.*

When selecting fund managers, the level of risk (as measured by standard deviation) should be commensurate with the level of historical net returns. In addition, historical returns should compare favorably to both an appropriate benchmark and peer group over rolling, trailing 3- and 5-year periods. Additional quantitative factors that may be considered include Alpha, Beta, correlation and Sharpe ratio. Alpha is a measurement of a fund manager's actual returns versus an appropriate benchmark. Beta is a measure of a fund manager's volatility relative to an appropriate benchmark. Correlation is a measure of how closely a fund manager's performance has tracked an appropriate benchmark. The Sharpe ratio is a measure of a fund manager's risk-adjusted returns.

Expenses should be reasonable, preferably below the average expense for a similar style.

The fund manager of each underlying investment option must meet the following minimum criteria:

- Either a bank or insurance company, or an investment adviser registered under the Investment Advisers Act of 1940, as amended.
- Operating in good standing with regulators, with no material pending or adversely concluded regulatory actions, as determined based on the manager's Form ADV (if available) and other information available to the Board.
- Has provided detailed additional information on the history of the firm, its investment philosophy and approach, and its principals, clients, locations, fee schedules and other relevant information.

### Investment Monitoring and Reporting

Investment managers will be monitored on an ongoing basis. When monitoring fund managers, the level of risk (as measured by standard deviation) should be commensurate with the level of historical net returns. In addition, historical returns should compare favorably to both an appropriate benchmark and peer group over rolling, trailing 3- and 5-year periods. Additional quantitative factors that may be considered include Alpha, Beta, correlation and the Sharpe ratio.

It is understood that there are likely to be short-term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on peer performance comparisons with fund managers employing similar styles.

### **Investment Manager Termination**

Frequent changes of investment managers are neither expected nor desirable but from time-to-time, changes are likely to be required. The fund managers will be monitored on an ongoing basis and it is at the Board's sole discretion to take corrective action by replacing a fund manager, if it is deemed appropriate at any time.

While there are no hard and fast rules about when a fund manager should be removed or replaced, the following factors may be considered:

- The Board has lost confidence in the fund manager's ability to achieve the fund's risk/return objectives.
- The fund manager's style has changed over time (Style Drift).
- Significant team departures have occurred or are expected to occur.
- Any violation of the fund's prospectus.
- Any material litigation against the fund manager.
- Any changes in fund manager's ownership structure.

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## **Prohibited Securities/Transactions**

**Without the express prior written permission of the Board of Directors, each investment manager shall not invest in:**

- Non-marketable securities
- Private placements
- Short-selling
- Margin trading
- Direct investments in commodities
- Penny stocks

# Client Adoption

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**Adopted By:** the Board of Directors

\_\_\_\_\_  
Chair

Date \_\_\_\_\_

\_\_\_\_\_  
Director

Date \_\_\_\_\_

\_\_\_\_\_  
Director

Date \_\_\_\_\_

\_\_\_\_\_  
Director

Date \_\_\_\_\_