

Bellingham Symphony Orchestra (“BSO”)

Endowment Policy and Board Directed Endowment

A. Purpose

The BSO Board of Directors (“Board”) created the Board Directed Endowment (“Endowment”) in 2021 to provide a long-term source of funds for the operations and capital expenditures. By doing so, BSO will diversify its income and reduce reliance on contributions from individuals and sponsors to cover annual operating expenses. The Board retains full authority over the use of funds held in the Endowment, as an unrestricted “Quasi-Endowment”.

The Endowment is funded with:

- Cash and/or securities transferred by the Board directly from operating funds.
- Cash and/or securities received by the Endowment directly from donors. In order to qualify, the contribution cannot be restricted in any manner, including time as well as purpose.

This policy is reviewed and revised as needed to ensure it continues to reflect the Board’s expectations and objectives. It is intended to be specific enough to give a meaningful basis for evaluation of portfolio management and flexible enough to be practical.

B. Investment Objectives

- The primary performance objective for the Endowment is to generate a return *in excess* of the annual United States inflation rate, as measured by the Consumer Price Index (“CPI”), plus 300 basis points over a rolling three-year period.
- The portfolio shall be structured to meet the cash requirements that may reasonably be anticipated.
- The portfolio shall be managed to avoid unreasonable market risks through appropriate asset diversification strategies and risk management.

C. Roles and Responsibilities

1) Board of Directors/Finance Committee

The Board has the authority to delegate responsibility for the management of the Endowment to a third-party investment firm or to retain the management of the assets in-house. The Finance Committee is charged with developing investment allocation target recommendations for Board approval as well as providing performance and regulatory reporting. The Board can delegate this authority to the Executive Committee in cases where timing of a decision is critical.

2) Investment Management Firm

Any external firm engaged to manage the investments held by the Endowment must be a registered investment advisor under the Investment Advisors Act of 1940, and the firm is given full discretion to make all investment decisions for the assets placed under its jurisdiction while observing and operating within all applicable policies, guidelines and constraints outlined in this Policy.

The investment management firm has the discretion to execute securities transactions with brokerage firms of their choosing. The choice of a brokerage firm must be based on the quality of the execution, the value of research information provided, transaction costs, the financial health and integrity of the firm and the overall efficiency in transacting business.

The firm will provide BSO with a report detailing commission dollars paid to brokerage firms as well as any cross-trades.

3) Custodian

BSO, in consultation with the investment management firm, will select a custodian who is responsible for physically (or through an agreement with a sub-custodian) maintaining possession of securities owned by the Endowment, collecting dividends and interest payments, redeeming matured securities and effecting receipt and delivery of securities following a purchase or sale transaction. The custodian is required to provide statements detailing holdings and activity directly to BSO on a monthly basis.

4) Treasurer Review and External Reporting

On a monthly basis, the Treasurer reviews the performance of the Endowment, all trading activity and the current asset allocation (including unrealized gains/losses). Any compliance violations will be reported to the President of the Board within 5 business days and to the full Board of Directors at the next scheduled meeting.

The Treasurer will report to both the Finance Committee and the Board on a quarterly basis the performance of the endowment, current allocation and any contributions and withdrawals.

BSO's financial statements and Schedule 990 shall reflect the applicable transaction activity and investment and cash balances for the Endowment.

D. Regulatory Guidance

The Endowment adheres to the Washington Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), Ch. 24.55 RCW. Under that law, the Board can delegate the management of Endowment investments and not be liable for the investment management firm's actions if it acts in good faith and with ordinary prudent care in:

- Selecting the investment management firm
- Establishing scope and terms of delegation

- Periodically reviewing the actions of the firm

The investment management firm must:

- Diversify the funds unless special circumstances exist.
- Make decisions in context of the portfolio as a whole and as part of the overall investment strategy.
- Only incur costs that are appropriate and reasonable in relation to assets, purposes of the institution and skills available to the institution.
- Make a reasonable effort to verify facts relevant to management and investment of the fund.

E. Cash Contributions to the Endowment

1) Operating Funds

Cash can be transferred from the BSO's operating account to the Endowment at the discretion of the Board at any time. All cash transfers are deemed unrestricted.

2) Bequests

An unrestricted contribution received as a bequest shall be directly transferred to the Endowment unless otherwise directed by the Board.

F. Other Contributions to the Endowment

1) Unrestricted stock

Unrestricted stock will only be accepted if it is traded on a public exchange in the United States. All shares of unrestricted stock shall be sold within ten (10) business days of receipt unless the Board or the investment manager, at their sole discretion, elects to hold the asset. The security cannot be held in the Endowment if it violates any of the investment limitations or restrictions.

2) Restricted Stock

No restricted stock will be accepted.

3) Illiquid Assets

An illiquid asset (e.g. real estate, art), will not be accepted unless and until the Finance Committee reviews a Phase I Environmental study (if applicable), develops a plan for disposal of the asset within a reasonable period of time, calculates the cost to dispose does not exceed the value of the asset and confirms the Endowment has the ability to secure the asset during the disposal period, and recommends acceptance. The Finance Committee is charged with engaging third-party firms as needed to prepare the necessary analysis.

G. Annual Withdrawals

On an annual basis, the Board approves an operating budget for the next fiscal year. The budget indicates whether the Board will, or will not, withdraw funds from the Endowment. The withdrawals can be in a lump sum or spread out over the fiscal year. In determining the total possible amount to withdraw from the Endowment in any given year, the Board incorporates the following seven factors as outlined in UPMIFA:

1. Duration and preservation of the endowment fund
2. Purposes of the institution and the endowment fund
3. General economic conditions
4. Effect of inflation or deflation
5. Expected total return from income and the appreciation of investments
6. Other BSO resources
7. BSO's Investment Objectives and Guidelines (B and H herein)

H. Investment Guidelines

The Board will establish an overall risk profile and tolerance for loss. This shall inform the Finance Committee's asset allocation target recommendations (per Roles and Responsibilities above). On an annual basis, the risk profile is reviewed and any changes communicated to all Finance Committee members as well as the third-party manager (if applicable).

The BSO may own exchange listed individual securities, no-load open-end mutual funds or exchange traded funds. Any security purchased on behalf of the Endowment will not contradict the values and philosophy of the BSO. If at any point the investment management firm believes the limitations outlined below need to be modified in order to properly management the Endowment, a written proposal must be submitted to the Finance Committee. If the Finance Committee concurs, the recommendation is forwarded to the Board for approval.

1) Individual Securities Limitations

- No more than 5% may be invested in a single security.
- No more than 5% may be invested in securities from a single issuer other than Treasury securities issued by the U. S. Government.
- No more than 25%, or 1.5 times the Industry Sectors' weighting (whichever is less) may be invested in any specific S&P Global Industry Classification Industry Sector. There are currently eleven (11) sectors, which are defined as Energy, Materials, Industrials, Consumer Discretionary, Consumer Staples, Health Care, Financials, Information Technology, Communication Services, Utilities and Real Estate. Due care shall be exercised to avoid significant overweighting of individual Industry Groups within a Sector.
- No more than 5%, may be in fixed income securities rated below investment grade. If a security is not rated, it will be treated as if rated below investment grade. The 5% limit incorporates individual securities, mutual funds and exchange traded funds.
- No more than 5% may be invested in fixed income securities with a duration exceeding 7 years. The 5% limit incorporates individual securities, mutual funds and exchange traded funds.

- If the Endowment is managed internally and the assets are less than \$500,000, no individual securities are eligible to be purchased

2) Open-End Mutual Funds or Exchange Traded Funds Limitations

- No more than 80% of the equity portion of the Endowment may be invested in funds focused on large capitalization stocks (defined as those with a market value in excess of \$10 billion).
- No more than 25% of the equity portion of the Endowment may be invested in funds focused on medium capitalization stocks (defined as those with a market value between \$2 billion and \$10 billion).
- No more than 10% of the equity portion of the Endowment may be invested in funds focused on small capitalization stocks (defined as those with a market value under \$2 billion).
- No more than 15% of the equity portion of the Endowment may be invested in funds focused on international equities (defined as excluding U.S. firms).
- No portion of the portfolio may be invested in a fixed income fund with an average duration exceeding 7 years.
- No portion of the portfolio may be invested in a fixed income fund that has more than 5% of its assets in high yield securities. Non-rated securities will be included in the 5% limitation.
- Open-ended mutual funds must not contain an upfront or back-end fee.

3) General Limitations

- No more than 25% of the Endowment may be invested in cash or cash equivalents. Cash must be invested in FDIC insured bank accounts or approved brokerage accounts. A cash equivalent represents funds available within 1 - 90 days.
- Up to 75% of the Endowment may be invested in equity securities or equity mutual funds.
- No more than 50% of the Endowment may be invested in fixed income instruments or fixed income mutual funds.
- Any Certificate of Deposit ("CD") held in the portfolio must be FDIC insured.

4) Restrictions

The Endowment portfolio is restricted from owning any of the following investment types:

- Levered exchange traded funds
- Short position in any security
- Commodities
- Foreign currencies
- Derivatives
- Futures
- Levered loans
- Warrants
- Options, including covered calls
- Private placements

- Unregistered securities
- Private equity
- Hedge funds

AMENDMENTS TO POLICIES

These Policies and Procedures may be modified at any time by a simple majority of the Board of Directors present and voting.

This edition of the BSO Policies was approved by majority vote of the Board present at its meeting on the date set forth below.

DATED the 22nd day of Feb., 2021.

Bellingham Symphony Orchestra

By:


Barbara Ryan, President

Attest:


Patrick Roulet, Secretary