



# INVESTMENT POLICY

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## Statement of Purpose

The purpose of the Investment Policy Statement sets forth in writing the operational plan of the Zanesville Museum of Art (the Museum) and its Board of Trustees (the Board) for the management, investment and spending of the Edward M. and Clara K. Ayers Founders Trust (the Fund). While strategic in approach and long-term (perpetual) in scope, the investment policy statement also sets forth ranges within which tactical asset allocation actions may be taken by the Trustees of the Trust (the Trustees).

## General Principles

- The investments of the Fund shall be diversified unless the Board reasonably determines that because of special circumstances the purposes of the Fund are better served without diversification.
- The Fund shall be managed in accordance with high standards of fiduciary duty and in compliance with applicable laws and regulations.
- Standards for return, asset allocation and diversification shall be determined from a strategic perspective and measured over successive market cycles.

## Roles and Responsibilities

The Trustees shall implement the management process and monitor the Fund in accordance with this Statement.

The Trustees, acting pursuant to this Statement and to the instructions from the Board, shall have direct responsibility for the oversight and management of the Fund and for the establishment of investment policies and procedures.

As more fully described below, the Trustees shall oversee the Fund via a set of asset allocation targets and ranges for the portfolio.

In fulfilling its responsibilities under this Statement, the Trustees shall recommend to the Board the hiring and dismissal of investment managers, fiscal agents and other advisors.

## Policy Review

This Statement shall be reviewed annually by the Trustees and any recommendations for changes shall be presented to the Board for consideration at the annual meeting.

## Goals and Objectives

### Objectives of the Fund

The Fund has a long-term investment horizon. The primary investment objectives of the Fund are to:

- Maintain the real purchasing power of the Fund after inflation, costs and spending (i.e., achieve “intergenerational equity”); and
- Provide a stable source of liquidity and financial support for the mission of the Zanesville Museum of Art.

### Investment Philosophy

While acknowledging the importance of preserving capital, the Board of Trustees also recognizes the necessity of accepting risk if the Fund is to be able to meet its long-term investment goals. It is the view of the Board of Trustees that choices made with respect to asset allocation will be the major determinants of investment performance. The Trustees shall seek to ensure that the risks taken are appropriate and commensurate with the Fund’s goals.

## Investment Policies and Procedures

### Operating Guidelines

The Fund shall be managed in accordance with the Operating Guidelines described in this section, a template for which is set forth in Appendix A. Once the Operating Guidelines have been approved by the Board, the Trustees shall have the authority to manage the Fund within the Operating Guidelines without further authorization from the Board.

### Investment Policy

#### Targets and ranges

Asset allocation shall be implemented using a portfolio as set forth in Appendix A, with target allocations and ranges for each investment strategy. Due to the need for diversification and the longer funding periods for certain investment strategies, the Trustees recognize that an extended period of time may be required to fully implement the asset allocation plan. It is expected that market value fluctuations will cause deviations from the target allocations to occur.

#### Rebalancing

The purpose of rebalancing is to maintain the Fund’s policy asset allocation within the targeted ranges, thereby ensuring that the Fund does not incur additional risks as a result of having deviated from the policy portfolio. Rebalancing will take place on a portfolio basis to reduce risk as far as practicable. More frequent tactical rebalancing of asset classes within their ranges will also be permitted in order to take advantage of shorter term market conditions, as long as, in the opinion of the Trustees, such changes or reallocations do not cause undue risk or expense to the Fund.

### **Illiquid investments**

Because of their long-term nature, investments in and commitments to illiquid investment strategies, including but not limited to private capital, private equity real estate, natural resources, distressed debt and other similar private investments, shall be utilized infrequently and analyzed and discussed by the Trustees separately.

### **Standard of conduct**

In managing and investing the Fund, the Trustees shall:

- act in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances;
- incur only costs that are appropriate and reasonable in relation to the assets and the purposes of the Museum;
- make a reasonable effort to verify facts relevant to the management and investment of the Fund; and
- consider the following factors, if relevant:
  - General economic conditions
  - The possible effect of inflation or deflation
  - The expected tax consequences, if any, of investment decisions or strategies
  - The role that each investment or course of action plays within the overall investment portfolio of the Fund
  - The expected total return from income and the appreciation of investments
  - Other resources of the Museum
  - The needs of the Museum and the Fund to make distributions and to preserve capital.
  - An asset's special relationship or special value, if any, to the charitable purposes of the Museum.
- make management and investment decisions about an individual asset not in isolation, but rather in the context of the Fund's portfolio of investments as a whole and as a part of the Museum's overall investment strategy, including the risk and return parameters set forth in this Statement.

### **Delegation**

Subject to any specific limitation set forth in a gift instrument, the Trustees may delegate to an external agent the management and investment of all or part of the Fund to the extent that the Board could prudently delegate under the circumstances. In this regard, the Trustees may engage qualified external professional investment managers that have demonstrated competence in their respective investment strategies. These managers shall have such discretion and authority for determining investment strategy, security selection and timing of purchases and sales of assets as granted by the Trustees and subject to these guidelines.

### **Investment manager reporting and evaluation**

The investment manager(s) shall report quarterly on their performance. The investment manager shall be responsible to the Trustees for maintaining detailed records of all invested funds and for carrying out the investment policies and procedures established by the Board and the Trustees.

Reports shall include, at a minimum, the following information:

- Comparative returns for the Fund assets under management against their respective benchmarks.
- A complete accounting of all internal fees involving the Fund during the quarter as well as external fees associated with individual managers.

Each investment manager shall review the portfolio with the Trustees at least annually; these review meetings may be supplemented by such other meetings as the Trustees may think necessary.

The Trustees periodically shall review the manager's actions in order to monitor the manager's performance and compliance with the scope and terms of the delegation.

When possible, the Trustees shall monitor and may compare the Fund's performance relative to:

- Absolute return objectives for the Fund
- The respective benchmarks for each asset class or strategy in which the Fund is invested, as set forth in the asset allocation table in Appendix A.
- A representative group of peer institutions identified by the Trustees.
- A representative group of peer investment managers

## Spending

### **Policy spending rate**

The policy spending rate for the Fund shall be 5 percent.

### **Spending formula**

The amount available for appropriation during each fiscal year shall be calculated by applying the policy spending rate to the average of the previous three fiscal years' beginning period endowment values.

### **Special appropriations and decisions not to spend**

Any special appropriation or decision not to spend the amount indicated by the spending formula must be approved in advance by the Board.

### **Standard of conduct**

Subject to the intent of a donor expressed in a gift instrument, the Board may appropriate for expenditure or accumulate so much of the Fund as the Board determines to be prudent for the uses, benefits, purposes and duration for which each of the separate endowments in the Fund is

established. In making a determination to appropriate or accumulate, the Board shall consider, if relevant, the following factors:

- the duration and preservation of the Fund;
- the purposes of the Museum and the Fund;
- general economic conditions;
- the possible effect of inflation or deflation;
- the expected total return from income and the appreciation of investments;
- other resources of the Museum; and
- the investment policy.

**Appendix A: Operating Guidelines**  
**Tactical Target Asset Allocation**

	Min.	Target	Max.	Benchmark
<b>Equity-Like Securities</b>				
Domestic Equity	15%	31%	40%	Russell 3000 Index
International Equity Developed	5%	15%	20%	MSCI/EAFE Index (net)
International-Emerging	2%	5%	10%	MSCI Emerging Mkts Index
High Yield	5%	8%	15%	Merrill Lynch High Yield Index
<b>Fixed Income Securities</b>				
Investment Grade Fixed Income	10%	20%	30%	Barclays Intermediate Gov/Corp Index
<b>Real Assets (Inflation Hedging)</b>				
TIPS	3%	7%	10%	Barclays US TIPS Index
Commodities	3%	7%	10%	Goldman Sachs Commodities Index
Real Estate Investment Trusts	3%	7%	10%	Dow Jones US Select REIT Index

**Investment Strategies, Guidelines and Restrictions**

**Equity Like Securities**

The purpose of equity investments, both domestic and international, is to provide capital appreciation, growth of income, and current income. This asset class carries the assumption of greater market volatility and increased risk of loss, but also provides a traditional approach to meeting portfolio total return goals. This component includes domestic and international common stocks, American Depository Receipts (ADRs), preferred stocks, and convertible stocks traded on the world's stock exchanges or over-the counter markets. Public equity securities shall be restricted to high quality, readily marketable securities of corporations that are traded on the major stock exchanges, including NASDAQ, and have the potential for meeting return targets. Equity holdings must generally represent companies meeting a minimum market capitalization requirement of respective asset class profiles with reasonable market liquidity where customary. Decisions as to individual security selection, number of industries and holdings, current income levels and turnover are left to manager discretion, subject to the standards of fiduciary prudence. However, investments in securities of issuers representing a single major industry (as determined by the Trustees) shall not at time of investment exceed 10 percent of the Fund's total market value, and investments in securities of any one issuer shall not at time of investment exceed 5 percent of the Fund's total market value, unless

approved by the Trustees. Within the above guidelines and restrictions, the Fund's investment managers shall have complete discretion over the selection, purchase and sale of equity securities.

### **High Yield Debt**

Debt securities issued by governments, and corporations, both domestic and foreign, that are rated non-investment grade (BB/Ba1 or lower) as well as mutual funds and exchange traded funds that invest in these securities.

### **Fixed Income Securities**

Domestic and international fixed income investments are intended to provide diversification and a dependable source of current income. Fixed income investments should reduce the overall volatility of the Fund's assets and provide a deflation or inflation hedge, where appropriate. The fixed income asset class includes the fixed income markets of the U.S. and the world's other developed economies. It includes, but is not limited to, U.S. Treasury and government agency bonds, non-U.S. dollar denominated securities, public and private corporate debt, mortgages and asset-backed securities, and non-investment grade debt. Also included are money market instruments such as commercial paper, certificates of deposit, time deposits, bankers' acceptances, repurchase agreements, and U.S. Treasury and agency obligations. The investment managers shall take into account credit quality, sector, duration and issuer concentrations in selecting an appropriate mix of fixed income securities. Investments in fixed income securities should be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums. Within the above guidelines and restrictions, the Fund's investment managers shall have complete discretion over the selection, purchase and sale of fixed income securities.

### **Real Assets (Inflation Hedge)**

The following alternative strategies shall be permitted investments for the Fund, subject to the respective guidelines set forth in each section. Investments in alternative strategies shall not at time of investment exceed 20 percent of the Fund's total market value, unless approved by the Trustees.

### **U. S. Treasury Protected Securities (TIPS)**

Debt securities issued by the U. S. government that are linked to inflation, as well as mutual funds and ETF's that invest in these securities.

### **Commodities**

Mutual funds and ETF's that invest in broad commodity indexes and the futures of single commodities.

### **Real Estate Investment Trusts (REITS)**

Investments may include securities issued by companies, both domestic and foreign, that are organized as either equity focused real estate investment trusts or real estate operating companies. They may include professionally managed mutual funds and exchange traded funds.

### **Cash and Equivalents**

The Fund's investment managers may invest in the highest quality commercial paper, repurchase agreements, U.S. Treasury Bills, certificates of deposit, and money market funds to provide income,

liquidity for expense payments, and preservation of the Fund's principal value. Investments in the obligations of a single issuer shall not, at time of investment, exceed 5 percent of the Fund's total market value, with the exception of the U.S. Government and its agencies. Since the Trustees do not consider short-term cash equivalent securities to be appropriate investment vehicles for long-term portfolios, uninvested cash reserves shall be kept to a minimum except where needed to comply with the Fund's liquidity parameters. However, such vehicles are considered appropriate (i) as a depository for income distributions from longer-term investments, (ii) as needed for temporary placement of funds directed for future investment to longer-term investment strategies and (iii) for contributions to the current fund or for current operating cash. Within the above guidelines and restrictions, the investment managers shall have complete discretion over the selection, purchase and sale of cash equivalent securities.

### **Investment Restrictions**

The Trustees may waive or modify any of the restrictions in these guidelines in appropriate circumstances. Any such waiver or modification shall be made only after a thorough review of the investment manager and investment strategy involved. An addendum supporting such waiver or modification shall be maintained as a permanent record of the Trustees. All such waivers and modifications shall be reported to the Board at the meeting immediately following the granting of the waiver or modification. Adherence to the restrictions in these guidelines shall be measured as of the time of initial investment. It is recognized that subsequent market action may result in the investment or strategy ceasing to adhere to these restrictions, through no fault of the Trustees or the respective outside manager. In such a situation, the Trustees and the manager shall make reasonable attempts to bring the investment or strategy back within adherence to these restrictions, bearing in mind the long-term interests of The Museum and the Fund and the desirability of avoiding harmful forced sales of assets. Investments in mutual funds or commingled funds shall be reviewed and approved by the Trustees on a case-by-case basis and, if approved, may vary from this Statement. For each such mutual or commingled fund, the prospectus, offering memorandum or Declaration of Trust documents of the respective fund will govern the investment policies of the fund investments. While the Trustees understand that such funds have their own stated guidelines which cannot be changed for individual investors, those guidelines should be similar in principle and spirit to the stated guidelines. To the extent that a mutual or commingled fund departs from any or all of such guidelines, the Trustees shall make themselves aware of the possible consequences and be confident that the investment manager thoroughly understands the risks being taken, has demonstrated expertise in such investment strategies and has guidelines in place for monitoring their risk-adjusted performance.