

# **SUN PRAIRIE PUBLIC LIBRARY**

## ***TRUST FUND INVESTMENT POLICY***

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### **I. Purpose**

A. This policy statement outlines the goals and investment objectives of the Sun Prairie Public Library Trust Fund (the “Fund”). Since this document is intended to provide guidelines for the Finance Committee of the Library Board and their advisor(s) for managing the Fund’s assets, it outlines certain specific investment policies which will govern how those goals are to be achieved. The policy statement:

- Describes an appropriate risk posture for the investment of the Fund’s assets;
- Specifies the target asset allocation policy;
- Establishes investment guidelines regarding the selection of investment advisor(s), permissible securities and diversification of assets;
- Specifies the criteria for evaluating the performance of the Fund’s investment advisor(s) and of the Fund as a whole;
- Defines the responsibilities of the Finance Committee and their investment advisor(s).

B. The Finance Committee believes that the investment policies described in this statement should be dynamic. These policies should reflect the Fund’s current status and the Finance Committee’s philosophy regarding the investment of assets. These policies will be reviewed and revised periodically to ensure they adequately reflect any changes related to expectations of the Fund and to market changes.

### **II. Account Information**

The Sun Prairie Public Library was established in 1901 to meet the life-long learning needs of people of all ages in the Sun Prairie area. The Trust Fund is designed to help in this endeavor by providing support beyond the moderate level of library service supported by city funding. It was established through a gift from the estate of Elsbeth Kind in 1959. The original balance of the trust was \$73,800. The bequest states that half of the income from the Fund is to be used for library materials, and half is to be used for building and equipment expenses.

### **III. Responsibilities of the Finance Committee**

A. The Finance Committee is appointed each year by the Library Board President and is responsible for the oversight of the Fund’s assets. The committee will define the policies and objectives of the Fund. They have the responsibility to make changes in investment policy and to permit temporary deviations from investment policy and guidelines. They will also provide an annual report to the Library Board which shows the status of the Fund at that point in time. They also have the ability to decide, with their advisor’s help, on new investments and to authorize the advisor to make the investment within policy guidelines. Approved transactions should be carried out in writing under the signature of the Chair of the Finance Committee and the Library Director.

B. Every three to five years, the Library Director and Finance Chair will send out requests for proposal for management services. The Library Director and Finance Chair will screen applicants and recommend candidates to be reviewed by the Finance Committee. Execution, capability, price, commission rate and overall effectiveness shall be considered. The Finance Committee will make every effort to present a minimum of two candidates to the Library Board for interviews. The Library Board shall make the final selection.

### **IV. Investment Objectives and Management**

A. The investment objective of the Fund is a balance of growth in principal and current income, emphasizing preservation of capital. This goal is consistent with the guidelines set forth in the Kind Bequest and Trust Fund Investment Policy Statement. The Fund seeks to equal or exceed the target benchmark selected for each part of the portfolio over a market cycle of three to five years, while emphasizing safety of principal.

B. The Committee examined their risk tolerance by considering several relevant factors. Positive factors that contribute to a higher risk tolerance are (1) the low-to-moderate percentage of total income to the library that is represented by the income expected from the Fund, (2) the potential for future funding through the Library Foundation and (3) the fact that it is very unlikely that new funds will be added to the principal of the portfolio, requiring growth of principal. Offsetting these factors are (1) the essential nature of all components contributing to the library's funding and (2) the fact that it is very unlikely that new funds will be added to the principal of the portfolio, requiring preservation of capital. The Committee concludes that it should adopt a moderate risk strategy. Risk should be adequate to obtain income without damaging the growth of the Fund.

## V. Asset Allocation

A. In line with the Fund's return objectives and risk parameters, the mix of assets should generally be maintained as follows:

| <u>ASSET CLASS</u>      | <u>MINIMUM</u> | <u>MAXIMUM</u> | <u>PREFERRED</u> |
|-------------------------|----------------|----------------|------------------|
| Equities                | 40%            | 60%            | 50%              |
| Fixed Income            | 40%            | 60%            | 50%              |
| Alternative Investments | 0%             | 5%             | 0%               |
| Cash                    | 0%             | 10%            | 0%               |

B. The Fund should maintain an adequate degree of liquidity with a balance of investments in high quality equity and fixed income securities. Equities may include stocks and mutual funds.

Fixed income may include individual corporate or government bonds, bond funds and certificates of deposit. Bond types may include securitized mortgages, collateralized mortgage obligations (CMO's), asset-backed securities and preferred stock. Fixed income securities should have on average a credit rating of "BBB" or better and CMO's should be "AAA" or better. "BBB" rated bonds may not exceed 5% of the fixed income portion of the portfolio or a maximum of 2.5% of the total portfolio.

Alternative Investments may include commodity exposure through a mutual fund, a managed futures product or others to be approved by the Finance Committee. Alternative Investments are included so as to allow exposure to assets not directly correlated to equities, yet provide adequate risk-adjusted returns.

Cash may include money market investments in which the underlying securities are rated investment grade only.

C. A single security should be limited to no more than 10% of the total portfolio, except for certificates of deposit, which would be limited by FDIC requirements. No more than 15% of the portfolio may be invested in a single issue, except for securities issued by the U.S. government.

D. Deviations from this asset mix guideline may be authorized in writing by the Committee when they determine that the aggregate deviation does not constitute a material departure from the spirit of the target allocation.

E. Since capital appreciation or depreciation may result in a deviation from these percentages, the Finance Committee will rebalance the Fund on a periodic basis to the target allocation.

## **VI. Performance Evaluation**

A. The investment advisor's primary responsibility shall be to seek to obtain the best net price and execution for the Fund. Written performance reports to the Committee will be provided not less than quarterly. On an annual basis the advisor will review with the Committee the realized and unrealized gains and losses incurred by the portfolio over the year.

B. The Committee and the advisor will monitor the Fund's performance on a quarterly basis, evaluating its success in achieving the investment objectives outlined in this document over a three-to-five-year time horizon and a full market cycle. The Fund's performance will be reported in terms of rate of return and changes in dollar value. The returns should be compared to two or more appropriate market indices for each segment of the portfolio, citing the most recent quarter and annual and cumulative prior time periods. The Fund's asset allocation should also be reported on a quarterly basis.

## **VII. Approval**

This investment policy is to be reviewed periodically by the Finance Committee to determine if any revisions are warranted by changing circumstances including, but not limited to, changes in financial status, risk tolerance, or changes involving the investment managers. The investment policy must be approved by the Sun Prairie Public Library Board.

*Adopted February 11, 1999*

*Amended July 9, 2002*

*Amended June 15, 2006*

*Amended October 8, 2009*

*Amended October 15, 2015*

*Reviewed: October 12, 2017*

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