
Investment Policy Statement

1. Introduction

The Kutztown Public Library ("Library") wishes to maintain a pool of investments ("Fund") designed to provide continued support for the Library and its mission. The purpose of this Investment Policy Statement ("Policy") is to establish a process of management, assigned responsibility and accountability standards for oversight of that process, and outline objectives the Library's Board of Directors ("Board") wish to achieve over time.

2. Role of the Finance Committee

The Board is ultimately responsible for administering investment accounts and assigning that responsibility to any other parties whom the board wishes to delegate investment responsibility for assets, such as a Finance Committee and/or a financial advisor. These parties are to act in a fiduciary capacity with respect to the investments of the Library and is accountable to the Board for overseeing the Fund.

- a. This investment policy statement sets forth the investment objectives, distribution policies and investment guidelines that govern the activities of the Finance Committee and/or financial advisor.
- b. The Board President and Treasurer are the access persons and those able to sign and transact on behalf of the Board to investment accounts.
- c. Policies contained in this statement are intended to provide guidelines, where necessary, for ensuring that the Portfolio's investments are managed consistent with the short-term and long-term financial goals of the Fund. At the same time, they are intended to provide for sufficient investment flexibility in the face of changes in capital market conditions and in the financial circumstances of the Library.
- d. The Committee will review this Investment Policy Statement at least once per year. Changes to this Investment Policy Statement can be made only by affirmation of a majority of the Board and written confirmation of the changes will be provided to all Board members and to any other parties hired on behalf of the Portfolio as soon thereafter as is practical. **The Library's Board of Directors must approve all changes to the investment policy statement.**

3. Investment Objective

- a. The Fund is a pool of permanently endowed funds intended to be "generation neutral" - both a resource to benefit present users of the library and a permanent fund that will be available to benefit future library users. Hence, the distribution of Fund assets will be permitted to the extent that such

distributions do not exceed a level that would erode the Fund's real assets over time, unless direction is given by the Board to do so.

- b. Gifts to the endowment fund shall be accepted according to the conditions in the library donation policy.
- c. For the purposes of making distributions to support the Library's budget, the Fund shall make use of a total-return based spending policy, funding distributions from net investment income first, capital gains second, and proceeds from the sale of investments last. Periodic cash flow, either into or out of the Portfolio, will be used to better align the investment portfolio to the target asset allocation outlined in the asset allocation policy at Section IV. A. herein

4. Portfolio investment policies

a. Asset Allocation Policy –

- i. The Committee recognizes that the strategic allocation of Portfolio assets across broadly defined financial asset and sub-asset categories with varying degrees of risk, return, and return correlation will be the most significant determinant of long-term investment returns and Portfolio asset value stability.
- ii. The Committee expects that actual returns and return volatility may vary from expectations and return objectives across short periods of time. While the Committee wishes to retain flexibility with respect to making periodic changes to the Portfolio's asset allocation, it expects to do so only in the event of material changes to the Fund, to the assumptions underlying Fund spending policies, and/or to the capital markets and asset classes in which the Portfolio invests.
- iii. Fund assets will be managed as a balanced portfolio composed of two major components: an equity portion and a fixed income portion. The expected role of Fund equity investments will be to primarily maximize the long-term real growth of Portfolio assets, while the role of fixed income investments will be to primarily generate current income, provide for more stable periodic returns, and provide some protection against a prolonged decline in the market value of Portfolio equity investments.
- iv. Cash investments will, under normal circumstances, will be used for Fund liquidity needs or to facilitate a planned program of dollar-cost averaging into investments in either or both of the equity and fixed income asset classes.

- b. Asset Allocation Targets – outlined below are the long-term strategic asset allocation guidelines, determined by the Committee to be the most appropriate, given the Fund's long-term objectives and short-term constraints. Portfolio assets will, under normal circumstances, be allocated across broad asset and sub-asset classes in accordance with the following guidelines:

Asset class Sub-asset class Target allocation

- Equities 50%

- o U.S. 40%
 - o Non-U.S. 10%
- Fixed income 45%
 - o Investment grade 35%
 - o Below-investment grade 10%
- Cash 5%

5. Diversification Policy

To protect the Portfolio against unfavorable outcomes within an asset class due to the assumption of large risks, the Committee will take reasonable precautions to avoid excessive investment concentrations. Specifically, the following guidelines will be in place:

- a. With the exception of fixed income investments explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of total Portfolio assets.
- b. With the exception of passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single investment pool or mutual fund shall comprise more than 20% of total Portfolio assets.
- c. With respect to fixed income investments, for individual bonds, the minimum average credit quality of these investments shall be investment grade (Standard & Poor's BBB or Moody's Baa or higher).

6. Rebalancing and Monitoring

It is expected that the Portfolio's actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset and sub-asset classes. The Portfolio will be rebalanced to its target normal asset allocation under the following procedures:

- a. Investment reports shall be provided by the investment manager(s) on a (calendar) quarterly basis or as more frequently requested by the Committee.
- b. The Committee will review the Portfolio semiannually to determine the deviation from target weightings and against the Portfolio's stated investment objectives
- c. During each semiannual review, the following parameters will be applied:
 - i. If any asset class (equity or fixed income) within the Portfolio is +/-5 percentage points from its target weighting, the Portfolio will be rebalanced.
 - ii. If any fund within the Portfolio has increased or decreased by greater than 20% of its target weighting, the fund will be rebalanced.
- d. In keeping with the Portfolio's overall long-term financial objective, the Committee will evaluate Portfolio and manager performance over a suitably long-term investment horizon, generally across full market cycles or, at a minimum, on a rolling five-year basis.

7. Other investment policies

The Committee and/or Treasurer are prohibited from:

- a. Purchasing securities on margin or executing short sales.

- b. Pledging or hypothecating securities, except for loans of securities that are fully collateralized.
- c. Purchasing or selling derivative securities for speculation or leverage.
- d. Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected, given the objectives of their portfolio.

Adopted: August 12, 2021