

**FUUSN BOI**  
**POLICIES AND PROCEDURES**

**April 30, 2008 (original)**

**updated and revised June 2019**

**I. Investment Policy:**

*The Board of Investment of the First Unitarian Universalist Society in Newton has been charged with the prudent investment of the Society's permanent endowment and with safeguarding its reserves. These Policies and Procedures have been written to aid the Board of Investment in fulfilling its mission.*

The purpose of FUUSN's endowment is to provide ongoing support for the Society's operations on a permanent basis. To this end the objective of the Board of Investment in managing the endowment shall be to preserve its value in real terms (adjusted for inflation) net of annual withdrawals and before growth from new gifts. The endowment is to be invested in a manner that is consistent with this objective.

**II. Investment Guidelines:**

**Performance Target:** The Board of Investment aims to match the following blended benchmark while keeping volatility as low as practical:

45% Wilshire 5000 (US equities)

25% MSCI ACWI Ex-US Index (foreign equities)

30% Barclays US Aggregate Bond Index (US government and corporate bonds)

The return of FUUSN's endowment will also be compared to that of the UUA's Common Endowment Fund, net of fees.

**Asset Allocation:** Recognizing the long time horizon of FUSN's permanent endowment, a growth-oriented "efficient frontier" asset allocation method will be employed to generate attractive returns with moderate volatility.

***Target asset allocation ranges are as follows:***

- 25-35% US Large-cap Equities
- 10-20% US Small and Mid-cap Equities
- 10-20% International Developed Equities
- 5-15% Emerging Market Equities
- 0-5% REITs
- 25-35% Domestic Bonds (can include up to 5% in lower quality – higher yielding bonds)
- 0-5% International Bonds
- 0-5% Commodities/Energy
- 0-5% Cash Equivalents (not including funds set aside for the current fiscal year's disbursement to operations)

The Board of Investment will review its holdings against these allocation target ranges at its regular meetings and at least semi-annually. The portfolio will be rebalanced if market movements have led the allocation to any of the asset classes to fall outside the target ranges. The portfolio may also be rebalanced if relative performance by any particular asset class has diverged significantly from that of the portfolio as a whole or if the BOI's assessment of the relative outlook for the various market asset classes has changed.

**Investment Vehicles:** *The Board of Investment shall invest the endowment in liquid, publicly-traded securities.* Pooled vehicles such as mutual funds and ETF or index funds are the preferred investments. Investment in individual stocks and bonds is permitted but should be exceptional. In the case of the non-endowment reserve funds ownership of

individual US government bonds may be appropriate as they permit the timing of the investment to match that of the eventual need for the funds. Investments in illiquid instruments must be approved by the Board of Trustees and can account for no more than 5% of the Unrestricted Endowment.

As a small institutional investor, the BOI will generally emphasize low costs and indexing approaches rather than active investing.

**Diversification:** Concentration of investment in passively-managed index funds is allowed. No holding of an actively-managed fund should exceed 25% of total assets. Holdings of any individual security should not exceed 2% of assets (excluding individual government bonds held for non-endowment reserve funds).

**Evaluation of Investments:** The Board of Investment will review the performance of its portfolio and the continued attractiveness of individual investment positions at its regular meetings and at least semi-annually.

**UU Values:** The BOI will manage its investments in a manner that is consistent with Unitarian Universalist values. Maximum use of socially responsible and sustainable investments will be employed provided they are consistent with overall asset allocation targets and long-term performance objectives, as well as the preference for lower cost investment vehicles. See separate policy on sustainable investing for further details.

### **III. Operations**

**Composition of the Board of Investment:** As provided in the Society's by-laws, the three members of the BOI are elected directly by the Congregation at the annual meeting and serve staggered three year terms, renewable once. Former BOI members are eligible to rejoin after a minimum of one year's hiatus following their second three-year term.

The BOI members should choose a chair and a secretary between themselves. The third member should take on the responsibility of maintaining the spreadsheet that keeps track of all of the endowment and non-endowment funds managed by the BOI.

The full BOI should meet in person at least once a quarter and preferably every four to six weeks. No major decisions are to be made in the absence of any of the three members.

**Brokerage Accounts:** The Board of Investment shall open two accounts at a broker that is in good standing with both federal and state regulatory authorities where all of the investments entrusted to the BOI shall be held. This broker should offer a user friendly website with access to a wide range of investment vehicles. The BOI has its accounts at Fidelity as of long standing.

One of the two brokerage accounts (the “Endowment Account”) shall hold the funds belonging to FUUSN’s Unrestricted and Restricted Endowments and Board Designated Endowment Funds. The other (the “Operating Account”) shall hold the non-endowment Reserve Funds that have been entrusted to the BOI by the Board of Trustees or by the Finance Committee. At the beginning of the fiscal year the value of the annual withdrawal from the Unrestricted Endowment and from those Restricted Endowments directed to “General Purposes” should be transferred from the Endowment Account to the Operating Account and invested in US government securities that mature at the approximate date on which the Society’s Treasurer expects to need the funds to support FUUSN’s operations.

Two of the three BOI members shall be signatories on the brokerage accounts. Beginning with the 2019-20 fiscal year the Society’s Treasurer shall also be a signatory. Monthly statements for both accounts shall be sent in printed form to the Society’s Administrator so that they can be verified by the Treasurer.

The Board of Investment may, at its discretion, move these accounts to another platform, provided all signers on the Fidelity account agree and that the statements from the new account continue to be sent to the Society’s administrator.

**Reporting and Record Keeping:** The Board of Investment has set up a shared Google drive in which copies of all documents it produces are to be kept([fusn.boi@gmail.com](mailto:fusn.boi@gmail.com), password: inherent\_worth). All e-mail correspondence between members of the BOI should be copied to this address. The Board of Investment has the discretion to change the shared drive to another platform if it deems appropriate, as long as it continues to adhere to the Society's record keeping policies.

All statements from the accounts managed by the BOI are to be mailed directly to the administrator of the Society, who will retain them for seven years, as mandated by FUUSN's Financial and Business Records Retention Policy.

*Annual Report:* The BOI will prepare an annual report to the Society as soon as practical after the May 31<sup>st</sup> end of its fiscal year. This report should include a review of the performance of the endowment during the fiscal year, discussion of changes made to the portfolio or to policies and procedures and details all of the funds managed by the BOI as of the fiscal year end.

The report is to be included in the packet given to members at the Annual General Meeting. A copy will be archived by the FUUSN administrator and an electronic copy will be saved in the BOI's Google Drive.

*Board of Trustees:* At least once a year the BOI should brief the Trustees of the Society on its performance and success in meeting its objectives and on any other relevant topics. The frequency of this reporting is at the discretion of the BOT.

*Minutes:* The BOI's Secretary will take minutes of each meeting to be shared with the other members and archived in both printed and electronic form (on the BOI's Google drive or other location that can readily be made available to the congregation).

*Spreadsheet:* Over the years the BOI has built up a spreadsheet for tracking the funds that it is responsible for. This spreadsheet shows both the portfolio's holdings and the value of each of the individual Endowment and Non-Endowment funds that the BOI is

responsible for. It should be updated monthly by one of the BOI members with electronic copies saved to the Google drive and distributed to the other members.

*Other Documents:* Brokerage statements are retained by the Society's administrator. Documentation on gifts of securities to the Society should be retained by the BOI for three years while trade confirmations can be discarded at the end of each year.

**Donations of Securities:** Since the BOI manages FUUSN's endowment and other reserves it makes sense for it to process donations of securities to FUUSN as an extra service to the Society. This policy applies to all stock and mutual fund donations received by FUUSN. These donations should be received in the Operating Account, not the Endowment Account, in order to avoid affecting the performance of the endowment. Barring unexpected circumstances securities donated to FUUSN should be sold immediately, in order to reduce stock specific risk to a minimum. This should be done even if the donor remains unknown at time of receipt (a common occurrence). Donations will be valued as of the day the securities appear in the BOI Fidelity (or other) account, at the average of the high and low prices for that day for individual securities and at the day's closing prices for mutual fund shares.

Once the sale of a donation has cleared, the value of the donation should be transferred to FUUSN's bank account by EFT or by check to FUUSN's Administrator. If the transfer is made by EFT an e-mail should be sent simultaneously to the Treasurer and the Administrator giving the value of the donation and the identity of the donor. Any difference between the value of the donation and the proceeds of selling it should be credited or charged to the Operating Account.

Donations should be acknowledged promptly by the BOI. Per IRS Pub. 1771, the written acknowledgements will include FUUSN's name, a description of the donated securities, and a statement that no goods or services were provided by FUSN in return for the donation (assuming that is true). As a courtesy to the donor, we will also provide the valuation we recognized on receipt, but make no explicit recommendation as to the appropriate valuation for the donor's tax purposes.

*The Board of Investment does not handle transactions in any assets other than liquid securities (stocks, bonds, mutual funds) as it is not equipped to do so. Likewise, donations in the form of cash or checks are to be handled directly by the Society's Treasurer or Assistant Treasurer, never by the Board of Investment.*

#### **IV. Spending Policies**

**Unrestricted Endowment Spending Policy (Revised 2018):** The bulk of the funds managed by the Board of Investment are in the Society's Unrestricted Endowment, with the principal to be preserved and the income to be used to support the Society's operations.

The spending policy described below is designed both to allow the endowment to hold its value in real terms (after inflation) and to keep the dollar value of the annual draw from the endowment as stable as possible:

The amount available to be budgeted for expenditure from each of the Society's endowment funds in a fiscal year shall be a weighted average of:

- The prior year's budgeted withdrawal, adjusted for annual inflation\* (weighted at 70%), and
- 5% of the trailing four-quarter average market value of the unrestricted endowment fund and available restricted endowment funds as of the previous December 31<sup>st</sup>. (weighted at 30%).

However, the budgeted amount must be at least 3% and not more than 6% of the trailing four-quarter average market value of the endowment fund as of the previous December 31<sup>st</sup>. Going forward, for any endowment fund, any available amount that was not budgeted, or was budgeted but not spent, shall remain in that endowment fund. This policy will take effect as of the 2019 fiscal year and supersedes any previously adopted policy concerning the spending of endowment funds.

The Board of Trustees – in consultation with the Board of Investment and the Financial Oversight Committee – should review this policy after five years.

*\*The inflation rate used should be the 12 month US Consumer Price Index as of December 31<sup>st</sup> of the previous calendar year, as published by the US Bureau of Labor Statistics.*

**Restricted Endowment Funds:** Like the Unrestricted Endowment, these funds are to be held permanently. Unlike the Unrestricted Endowment they may only be spent on the purpose established by the original donors. These funds are to be managed and invested together with the Unrestricted Endowment in the same Fidelity account but are to be tracked separately. Guidelines for each of the Restricted Endowments are laid out in a document compiled by the Society in 1982. It should be noted that the Board of Investment no longer tracks the book values of these Endowments as this is no longer required.

In the case of most of the Restricted Endowment Funds the income can be spent but not the principal. For a minority of Restricted Endowment Funds both principal and income can be spent, provided it is on the designated purpose of the fund.

The Restricted Endowments (other than those whose principal can be disbursed) are governed by the same spending policy as the Unrestricted Endowment. Since in any given year, however, the full amount available to be disbursed from a Restricted Endowment Fund may not actually be spent, it is complicated to apply the formula given above to each fund separately. For this reason, a short cut has been adopted: once the amount available to be disbursed from the Unrestricted Endowment has been calculated it is divided by the value of the Unrestricted Endowment as of the most recent December 31<sup>st</sup> to obtain a percentage. This percentage is then multiplied by the value of each Restricted Endowment as of the same date to obtain the amount that can be paid out from each fund.

Disbursements from the two Restricted Endowments that are designated for General Purposes are to be made together with disbursements from the Unrestricted Endowment. Disbursements from the other Restricted Endowments are only to be made on presentation by the Society's Treasurer of an itemized list of relevant expenditures that the Society has made. Only the amount of the relevant expenditure for each Restricted Endowment - up to the maximum

allowable disbursement – is to be paid out. This may mean that less than the available amount and sometimes nothing at all is disbursed from some or all of the Restricted Endowments in any given year. In all cases any amount that is available for spending during a particular fiscal year but is not disbursed shall remain as part of that endowment, as is the case with respect to the Unrestricted Endowment.

The Board of Investment does not encourage the creation of new restricted endowments as they complicate record keeping, administration and budgeting for both the BOI and the Society's Treasurer. Additionally, the BOI aims to reduce the number of Restricted Endowment Funds - where practical and in accordance with the donors' instructions – by spending in full those funds whose principal is allowed to be disbursed and by combining funds with identical purposes and spending restrictions.

### **Board Designated Endowment Fund (2018):**

From time to time the Society may be the beneficiary of unrestricted bequests. According to the accounting rules governing endowments, only the original donor can - by explicit instruction – set aside permanent endowment funds. However, FUUSN's by-laws have been updated to allow the Board of Trustees to set aside unrestricted bequests and any other funds as Board Designated Endowment Funds. For all intents and purposes these are the same as the General Unrestricted Endowment and are to be managed in exactly the same way and subject to the same spending policy. The Board of Trustees has the power to revoke this designation at any time but in practice is not expected to do so, barring a major emergency.

Unless instructed otherwise by the Board of Trustees, the Board of Investment will manage and track all Board Designated Endowments as a single fund, rather than as separate funds. This fund will be accounted for separately from the other Endowment funds.

Annual withdrawals from the Board Designated Endowment Fund will be calculated in the same manner as for the Restricted Endowments (see explanation above) and will be disbursed together with the annual withdrawal from the General Endowment.

## **Endowment Loan Policy (2018):**

Any loans from the endowment for operations, capital expenditure or any other purpose shall be subject to the Endowment Loan Policy approved by the Board of Trustees and incorporated into the Society's Financial Policies. Any funds borrowed from the endowment must be authorized by a formal motion of the Board of Trustees. The motion must explain the purpose of the loan.

Any funds withdrawn from the endowment to cover an operating budget deficit, or for any reason other than a withdrawal authorized by the Endowment Spending Policy, shall be considered a loan from the endowment and shall be subject to this policy.

- At least 20% of the original amount of each loan must be repaid each year. No interest is to be paid on loans.
- No loan may be authorized that would cause the total amount of loans outstanding at the time to exceed 5% of the total market value of the unrestricted endowment fund.
- The Board of Investment shall report to the Congregation at the Annual General Meeting of the amount, terms and purpose of any borrowing, whether new or pre-existing.

**Non-Endowment Reserves:** The BOI has been entrusted by the Board of Trustees and the Finance Committee with funds that are not part of the General or Restricted Endowments but are being held in reserve for future use by the Society. These Reserves are held in a separate brokerage account (the "Operating Account") and are invested separately, in investments that are matched to the expected timing of disbursements from the funds. The Reserves are not subject to the spending policy outlined above but are available at any time for full or partial disbursement at the direction of the Board of Trustees or the Treasurer.

The Non-Endowment Reserves include, but are not limited to, the Building Reserve, the Minister's Sabbatical Reserve and the Finance Committee's Operating Reserve.