

Original Document approved by the Board of Directors, September 23, 2014

Updated and approved by the Investment Committee: May 18, 2018

FRIENDS OF THE PUBLIC GARDEN

Investment Policy Guidelines

In accordance with the Investment Committee (Committee) charter (Charter), the Investment Policy Guidelines (Guidelines) set forth guidelines for how the invested funds (Funds) of the Friends of the Public Garden (Friends) are to be managed. In the Charter, the Board has made an explicit delegation of its authority to manage the Funds to the Committee, under the overall direction of the Treasurer and the Finance Committee.

The Guidelines are intended to be flexible and may be supplemented or changed by the Board of Directors upon the recommendation of the Investment Committee and with the approval of the Finance Committee. The Investment Committee will review this statement at least every three years and recommend any changes to the Finance Committee.

1. Investment Objectives

- a. The objective of the Funds is to provide a consistent and sustainable level of spending support for the operations of the Friends, while preserving the Funds' purchasing power over time. More specifically, the objective is to generate a total long-term, real investment return, net of fees, that exceeds the spending withdrawal plus inflation. The spending withdrawal is a percentage, established each year by the Board in the annual budget, of the trailing 12 quarter average market value of the Funds. In recent years, the spending rate has been 4.0%.
- b. Protection of principal will be given significant consideration when making investment decisions, although the account is expected to fluctuate with the markets.
- c. The endowment portions of the Funds are expected to function in perpetuity.
- d. The Investment Committee seeks to outperform a blended, unmanaged market index benchmark weighted in accordance with the Funds' allocations across asset classes. This index will be designed and updated as appropriate by the Investment Committee using a blend of the S&P 500, MSCI ACWI ex U.S., and the Bloomberg Barclays U.S. Intermediate Government/Credit Bond index, and other appropriate indexes. The Investment Committee also seeks to outperform unmanaged market index benchmarks for each asset class.

2. Investment Strategy and Execution

- a. The Funds will be actively managed by the Committee in accordance with the Guidelines.
- b. The Committee will seek to achieve the above investment objectives by constructing and managing a diversified portfolio allocated across multiple asset classes.

- c. Exposure to various asset classes will be through the following vehicle types:
 - i. equity and fixed income mutual funds, both active and passive
 - ii. equity and fixed income exchange traded funds, both active and passive
- d. Funds shall be selected with an emphasis on quality and shall generally have:
 - i. a minimum of three years of historical returns, except for exchange traded funds
 - ii. complied with all financial and regulatory reporting requirements
 - iii. reported pertinent management or structural changes in a timely fashion
 - iv. adequate portfolio transparency
 - v. a reasonable investment concept executed by proven professionals
 - vi. returns generally equal or superior to relevant benchmarks across market cycles
 - vii. immediate cash convertibility under normal market conditions
 - viii. maturity dates of less than 60 days for cash and cash equivalents
 - ix. fees and expenses generally less than 100 basis points per year
- e. The Fund will not: purchase direct investments in commodities, derivatives, or private placements; engage in short sales or purchases on margin; use leverage; or invest in transactions that could generate unrelated business taxable income (UBTI).
- f. The Committee shall adhere to the following asset allocations:

Asset Classes	Targets	Ranges	Benchmarks
U.S. Equities	40%	20%-45%	S&P 500 and other equity indexes
Non-U.S. Equities	31%	20%-45%	MSCI ACWI ex U.S, MSCI EAFE, MSCI Emerging Markets
Inflation Hedging Assets	7%	5%-20%	Various indexes
Total Equities	78%	60%-85%	MSCI All Country World IMI
U.S. and Non-U.S. Fixed Income	22%	10%-40%	Bloomberg Barclays U.S. Intermediate Gov't/Credit Bond
Cash and Cash Equivalents	0%	0%-15%	Citi 1 Month Treasury Bill

- g. Excluding cash and cash equivalents, no single fund or holding shall represent more than 10% of the total, although with a unanimous vote of the committee, a passively managed broad index fund can equal 15% of the total. In addition, the target size of each fund holding shall generally be 3%-8% of the total of the Funds.
- h. The Commonwealth of Massachusetts adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective June 30, 2009. The Act states that managers of endowment funds such as the endowment of the Friends of the Public Garden must act in good faith and with the care that an ordinary prudent person in a like position would

exercise under similar circumstances. In managing and investing funds, managers are directed to consider general economic conditions, make decisions on a total portfolio basis, allocate risk and return across the portfolio, and consider the needs of the charity to make distributions and preserve capital. Charities can spend the amount deemed prudent after consideration of the following seven standards of prudence: 1) the duration and preservation of the endowment fund; 2) the purposes of the institution and the endowment fund; 3) general economic conditions; 4) the possible effects of inflation and deflation; 5) the expected total return from the income and appreciation; 6) other resources of the institution; and 7) the investment policy of the institution.