

Finance 8: Investments

Policy Statement

The Bucks County Free Library (BCFL) Board and management team consider current strategic priorities and the future financial stability of the library in establishing and managing library funds. All investments and transactions are for the sole benefit of the library and are in compliance with all applicable federal, state and local laws and regulations

Those responsible for managing library funds will do so in good faith and with the care that an ordinary prudent person in a similar position would exercise under similar circumstances.

BCFL adopts a long term, index-based investment approach emphasizing:

- Diversification across global markets
- Use of passively managed index funds or ETF's
- Minimization of fees and overall costs
- Avoidance of individual security selection.

The policy assumes market efficiency and favors disciplined asset allocation over market timing.

BCFL Board members and employees may not select or purchase any individual securities on behalf of BCFL. All final investment decisions will be made by investment professionals and will be conducted within the framework of this policy.

Board Responsibilities

- Provide ongoing oversight to the management of BCFL's investments
- Review and approve policies and objectives that reflect the library's risk tolerance and goals for long-term and short-term investments
- Establish and maintain investment structures, internal and external management of investments
- spending plans that fulfill operational and strategic goals
- Appoint and oversee the work of the Treasurer and Finance Committee.

Finance Committee (Committee) Responsibilities

- Act in a fiduciary capacity with respect to the Portfolio, and is accountable to the BCFL Board for overseeing the investment of all assets owned by, or held in trust for, the Portfolio
- Ensure third-party investment is a low-cost fee provider
- Set forth the investment objectives, distribution policies, and investment guidelines that govern the activities of the Committee and any other parties to whom the Committee has delegated investment management responsibility for Portfolio assets
- Develop and propose policy recommendations to the Board for long-term and short-term investments, including determining BCFL's risk tolerance, selecting asset classes, establishing asset allocation ranges, and setting performance objectives. 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 BCFL

- The Committee will review this Policy at least once every three years. Changes to this Policy can be made by the recommendation of the Committee and approved by the BCFL Board
- Monitor and evaluate the performance of those responsible for handling investments, including making recommendations for retention or dismissal of investment consultants or other outside professionals
- Receive and review financial reports from management and investment consultants or other outside professionals
- Periodically meet with BCFL management and investment consultants or outside professionals
- Convene regularly to evaluate whether investment activities continue to be consistent with meeting library goals and objectives.

Chief Financial Officer Responsibilities

- Oversee the day-to-day operational investment activities
- Contract with any necessary outside service providers, such as investment consultants, investment managers, banks, trust companies, or other outside professionals
- Monitor financial activities to ensure that service providers are adhering to library policy and the terms and conditions of their contracts
- Comply with all accounting and auditing guidelines regarding due diligence and ongoing monitoring of investments
- Meet at least annually and as needed with the investment management team
- Prepare and issue status reports to the Treasurer, Finance Committee, and Board.

Investment Manager Responsibilities

- Invest Library assets in accordance with the library's investment policy
- Acknowledge in writing acceptance of responsibility as a fiduciary
- Report, on a timely basis, monthly investment statements
- Meet at least annually with designated BCFL representatives and as needed upon request
- Communicate major changes in economic outlook, investment strategy, or any other factors that impact investments
- Inform the Board and management regarding any changes in portfolio management personnel, ownership structure, investment philosophy, or other substantive changes
- Minimization of fees and overall costs.

Investment Guidelines

Long-Term Investments

Long-term investments are funds that are not earmarked for expenditures within 3-5 years. These funds assume more risk than short-term investments in anticipation of receiving a higher rate of return.

Short-Term Investments

Short-term investments are funds that are earmarked for operations or capital projects that will take place within 1-3 years. The investment goal or main objective for short-term investments is to preserve the investment balance. Maturity for each investment should be no more than three years.

General

In making any decision regarding the investment or expenditure of BCFL funds, including asset allocation, the following factors are considered and documented in library records:

- The Committee will review the annual operating and capital budget needs annually for the purpose of deciding whether any changes therein necessitate moving assets from the Long-Term investments to the Short-Term investments to meet the spending needs
- For the purpose of making distributions, the Fund shall make use of total return from the income and appreciation from investments, meaning that it will fund distributions from net investment income, net realized capital gains, and proceeds from the sale of investments
- General economic conditions and the possible effect of inflation or deflation
- The role that each investment or decision plays within the overall Portfolio
- Historical performance of the market
- Returns among the differing asset classes held by BCFL
- The strategic need to make distributions to preserve capital
- Liquidity requirements for anticipated expenditures
- Alternatives to spending from investments, such as operational or grant funds
- 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.

Portfolio investment policies

A. Asset allocation policy

1. 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.
2. 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 the annual capital or operating budget, and/or to the capital markets and asset classes in which the Portfolio invests.
3. 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 maximize the long-term real growth of Portfolio assets, while the role of fixed income investments will be to provide more stable periodic returns and some protection against a prolonged decline in the market value of Portfolio equity investments.

4. 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 classes in accordance with the following guidelines:

Asset Class	Lower Limit	Target	Upper Limit
Equity	55%	60%	65%
Fixed Income	35%	40%	45%

B. Diversification policy

1. Diversification across global markets and within asset classes is the primary means by which the Committee expects the Portfolio to avoid undue risk of large losses over long time periods. 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 and limit the investments to only broadly diversified market indexes and funds.

C. Rebalancing

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 guidelines:

1. The investment manager will use incoming cash flow (contributions) or outgoing money movements (disbursements) of the Portfolio to realign the current weightings closer to the target weightings for the Portfolio.
2. The investment manager will review the Portfolio at least quarterly to determine the deviation from target weightings. If any asset class within the Portfolio is ± 5 percentage points from its target weighting, the Portfolio will be rebalanced within a reasonable amount of time.
3. The investment manager may provide a rebalancing recommendation at any time.

D. Other investment policies

Unless expressly authorized by the Committee, the Portfolio and its investment managers are prohibited from:

1. Purchasing securities on margin or executing short sales.
2. Pledging or hypothecating securities.
3. Purchasing or selling derivative securities for speculation or leverage.

4. 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.

Monitoring portfolio investments and performance

The Committee will monitor the Portfolio's investment performance against the Portfolio's stated investment objectives. At a frequency to be decided by the Committee, it will formally assess the Portfolio and the performance of its underlying investments as follows:

- A. The Portfolio's composite investment performance (net of fees) will be judged against the following standards:
 1. The Portfolio's absolute long-term real return objective.
 2. A composite benchmark consisting of the following unmanaged market indexes weighted according to the expected target asset allocations stipulated by the Portfolio's investment guidelines.
 - a) U.S. Equity: CRSP US Total Market Index or Russell 3000 Total Market Index
 - b) Non-US: FTSE Global All Cap (ex US) or MSCI All Country World Index (ex US)
 - c) US Investment Grade Fixed: Bloomberg Barclays U.S. Aggregate Bond Index
 - d) Non-US Invested Grade Fixed: Bloomberg Barclays Global Aggregate ex-USD
 - e) Cash: Citigroup 3-Month T-Bill Index
- B. The performance of professional investment managers hired on behalf of the Portfolio will be judged against the following standards:
 1. A market-based index appropriately selected or tailored to the manager's agreed upon investment objective and the normal investment characteristics of the manager's portfolio.
 2. The performance of other investment managers having similar investment objectives.
- C. 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.
- D. Investment reports shall be provided by the investment manager(s) on a quarterly basis or as more frequently requested by the Committee. Each investment manager is expected to be available to review portfolio structure, strategy, and investment performance annually with Finance Committee.

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