

TRUSTEES OF THE SOUTH KINGSTOWN SCHOOL FUNDS

**South Kingstown Town Hall
180 High Street, Wakefield, RI 02879**

Approved: November 20, 2019

Statement of Investment Objectives, Goals, and Policy Guidelines

I. Purpose – Define roles: Trustees, Investment Services Advisor, Investment Manager, individual investment management firms or products

This document has been created to provide a clear understanding of the investment objectives and policies of the South Kingstown School Funds (the “Funds”) and to articulate guidelines and expectations relative to the management of the Funds. This document serves to assist both the School Fund Trustees (the “Trustees”) and the Fund’s professional investment manager (the “Investment Manager”) in the collective effort of implementing, managing and supervising an effective investment program. This policy represents the Trustees philosophy regarding the investment of the School Funds and serves as guidance rather than strict technical requirements to be met in every instance. This document may be changed from time to time to reflect changing conditions.

II. Background

There are nine school funds (Exhibit A) which support educational and recreational activities that are invested in a pooled account under the stewardship of the five member Trustees of The South Kingstown School Funds who are appointed by the South Kingstown Town Council.

Income for the individual funds is distributed in keeping with the provisions of the appropriate deed of gift establishing each fund. It is not anticipated that there will be further capital additions to the several funds.

The Trustees are responsible for developing and maintaining the Statement of Investment Objectives, Goals and Policy Guidelines that will determine the overall investment program with reference to the long-term financial objectives for the investment of the Funds; selecting appropriate asset classes and determining the long-term allocation to each asset class; and determining the types of managers to be hired. The Trustees are responsible for safe guarding the assets, investing the assets, and distributing funds. These functions shall include:

- a) The selection and termination of the Fund’s Investment Manager;
- b) Ensure the Funds’ investments are within the asset allocation guidelines as stated in the Statement of Investment Objectives, Goals and Policy Guidelines;
- c) Monitor the performance of the total fund and its underlying managers;
- d) Periodically review the Statement of Investment Objectives, Goals and Policy Guidelines and make any necessary revisions

III. Investment Objectives

The investment objectives of the Funds are (i) to provide for a spending rate of up to 5% of the portfolio using a trailing twenty (20) quarter average of the market value and (ii) to preserve and enhance the future purchasing power of the assets after considering the spending policy and the effects of inflation. To accomplish these objectives, the investment manager must balance the desire for higher total return of the assets with the desire to maintain prudent and acceptable levels of risk to provide dependable support for the current operations and programs.

IV. Asset Allocation Policy

The portfolio shall be well diversified within each asset class (Equities, Fixed Income, Alternative Investments and Cash Equivalents.) The Investment Manager may consider using individual securities, mutual funds, index and/or exchange-traded funds. Historical performance results and future expectations suggest that equities will provide higher total investment returns than fixed income securities over a long-term investment horizon. However, one can expect an increase in portfolio volatility as the stock percentage is increased, particularly over the short-term. The Asset Allocation between equities, fixed income, alternative investments and cash equivalents is likely to be the most important factor in determining investment performance over time. The purpose of investing in fixed income is primarily to produce current income and to reduce overall volatility of the portfolio. The purpose of investing in equities is to provide future growth in both principal and income while also preserving the purchasing power of the assets. The purpose of investing in alternative investments is to provide long term investment returns with a lower correlation to equities and bonds and should help to decrease the volatility of the overall portfolio. Cash and cash equivalents are meant to be used as temporary holding vehicles due to market dynamics or liquidity needs.

Based on an evaluation of the return and risk characteristics and historical interaction among major asset classes, the asset class target allocations shall be:

<i>Asset Class/Subclass</i>	<i>Target Allocation</i>	<i>Range</i>	<i>Benchmark</i>
<u>Equities</u>	56.5%	45% – 67.5%	
- Domestic	42.5%	32.5% – 52.5%	
Large Cap	34.0%	24.0% – 44.0%	Russell 1000
Mid Cap	5.0%	1.5% - 7.0%	Russell MidCap
Small Cap	3.5%	1.0% - 5.5%	Russell 2000

- International	14.0%	8.0% – 20.0%	
Developed	10.0%	6.5% – 18.5%	MSCI - EAFE
Emerging	4.0%	1.5% – 6.0%	MSCI – Emerging Markets
<u>Fixed Income</u>	36.5%	26.5% – 46.5%	
US Investment Grade	32.5%	20.0% – 44.5%	Barclay's Interm Gov/Credit
Int'l Investment Grade	0%	0% - 7.0%	
High Yield	4.0%	2.0% to 7.0%	Merrill Lynch HY Master
<u>Alternative Investments</u>	7.0%	0% – 7.0%	
Real Estate	2.3%	0% – 7.0%	NAREIT Equity
Commodities	2.3%	0% – 7.0%	Dow UBS Commodity
Liquid Alternatives	2.3%	0 – 7.0%	HFRI Global Hedge Fund Index
Cash	0%	0.0% – 10.0%	

Total Portfolio Blended Benchmark:

34% Russell 1000; 5% Russell Mid Cap; 3.5% Russell 2000; 10% MSCI EAFE; 4% MSCI EM; 32.5% Barclays Intermediate Gov/Credit; 4% Merrill Lynch High Yield; 7.0% HFRX Global hedge Fund Index

The Trustees and the Fund's Investment Manager shall review the current asset allocation as well as the long-term allocations at each quarterly investment portfolio review meeting. The Target Allocation identified in the chart above serves as the long-term, "strategic" target. It is anticipated that the Investment Manager will deviate from the asset allocation targets in the short term in an attempt to add to portfolio returns or to avoid risk. However, the Investment Manager will maintain portfolio positioning within the ranges identified for each asset class over the longer term. Limited short-term deviations outside of the ranges may be acceptable, subject to quarterly review and agreement by the Trustees. It is the Investment Manager's responsibility to identify any short-term deviations beyond the stated asset class ranges at the subsequent quarterly review meeting. This policy is designed to provide flexibility in the management of the Funds. Additionally, the Trustees or their professional investment manager will use payments and contributions to help move asset class allocations to within the approved target ranges.

V. Investment Manager Policy and Guidelines

Assets will be allocated to professional investment managers, who will have full discretion with respect to the assets under their control, subject to investment guidelines provided below. Investments may be made through an individual security, a separate account, no-load mutual fund, ETF or commingled fund.

The following principles have been developed to guide the management of the Funds. Where mutual, ETF or commingled funds are used, it is expected that the portfolio generally conform to these guidelines, though the Trustees recognize that the prospectus or guidelines of the fund supersede those of the long term funds. Any mutual fund should have the following characteristics:

- a) A portfolio manager with at least three years' experience in a similar capacity.
- b) Assets under management exceeding \$100 Million Dollars.
- c) Be part of an Investment organization managing assets in excess of \$1 Billion Dollars.
- d) Generate a total rate of return which is equal to or above the median rate of return in a universe of peers with comparable styles and objectives over a three year time period.

If there is any question regarding these guidelines and the authorization granted to purchase and/or hold a security because of its issuer, type, effective duration, or effective credit quality, the investment manager must consult with the Trustees. In addition, no investment shall be made in any newly developed instrument without the explicit consent of the Trustees.

U. S. Equity Portfolios

1) Equity holdings shall be confined to those issues actively traded on major exchanges including the NASDAQ. In the US, equity holdings may include ADR's (American Depository Receipts) traded on US exchanges. Convertible preferred stocks may be held but shall be classified as equities for performance purposes.

2) There is no minimum market capitalization for holdings of individual issues. However, each holding shall be of a sufficiently low percentage of average daily trading volume to ensure sale on favorable terms at the appropriate time. No individual issue shall comprise more than 5% of the equity portfolio.

Non U.S. Equity Security Holdings

1) At least 70% of all non-US equity holdings shall be highly liquid securities issued by corporations headquartered in countries included in the Morgan Stanley Capital International Europe Australia Far East Index (MSCI-EAFE) and Canada. Issues may be purchased and sold on exchanges in other countries that offer a ready market for individual issues and have no restrictions on the transfer of funds to and from the U.S.

2) Managers holding non-US dollar denominated securities are permitted to employ currency hedging strategies.

Fixed Income Security Holdings

1) Fixed income investments shall be marketable securities which may include, but not necessarily be limited to U.S. Treasury, Federal Agencies and U.S. Government guaranteed obligations, corporate bond issues including convertibles, and non-convertible preferred stocks.

2) The fixed income portfolio must have an average rating of A or better in the aggregate as measured by at least one credit rating service. In cases where the yield spread adequately compensates for additional risk, up to 15% of the value of the fixed income portfolio may be invested in high yield securities with quality ratings below investment grade provided that they are easily tradable and overall fixed income quality is maintained.

3) Investment grade quality is defined as BBB- rated or higher at time of purchase. In cases where credit rating agencies assign different quality ratings to a security, the lower rating will be used. Should the rating of a fixed income security fall below minimum investment grade in the future, the manager may continue to hold the security if they believe the security will be upgraded in the future, there is low risk of default, and buyers will continue to be available throughout the anticipated holding period. The market value of such securities will be included with other below investment grade issues for calculating compliance with the 15% maximum.

4) Up to 15% of a manager's fixed income holdings at times of purchase may be held in non U.S. dollar debt securities issued by sovereign governments, their agencies and instrumentalities, by both domestic and non-domestic corporations, and by super nationals such as the European Union. Non-U.S. dollar fixed income holdings are restricted to issuers in countries represented in the MSCI-EAFE and Canada. Non U.S. dollar securities must be highly liquid, actively traded, and rated single A or higher at time of purchase.

5) No single fixed income issue (with the exception of securities issued by the U.S. Government or its agencies) can represent more than 5% of the fixed income portfolio, nor more than 10% of any one issuer's outstanding debt at the time of purchase.

6) The average effective duration of all fixed income holdings, reflecting all instruments, must be maintained within a 30% band of the Barclay's Intermediate Government/Credit Index.

7) Managers holding non-U.S. denominated securities are permitted to employ currency hedging strategies.

Alternative Investments

Publicly traded Real Estate Investment Trust (REIT) shares, exchange traded funds holding REIT shares, or mutual funds holding REIT shares shall be used for investments in real estate.

Commodity holdings shall be through an exchange traded fund or mutual fund, and will include future contracts. Individual futures contracts will not be permitted.

Alternative investment strategies which employ hedge fund-like strategies such as absolute return strategies, market neutral, long/short and fixed income are acceptable. These funds are limited to mutual funds as defined in the Investment Company Act of 1940.

VI. Performance Expectations

Industry accepted comparative market and peer group benchmarks as listed in the table under Section IV - Asset Allocation Policy will be used to evaluate the portfolio manager's performance. The Funds primary investment objective is the attainment of a total return net of fees and transaction costs that is greater than that of the passively invested benchmark at the target asset allocation. Individual managers will be measured against and are expected to exceed their style appropriate widely accepted benchmark. A secondary investment objective is to exceed the three year average Consumer Price Index by 4.0%.

Investment performance will be calculated quarterly on a time-weighted rate of return basis. Performance results will be reviewed over quarterly, annual, market cycle and long-term time horizons. Given that short term market volatility can create performance dispersion, the Trustees will review performance in the context of a three to five year time horizon.

If at any time the manager's investment philosophy or process is altered, the manager shall communicate the change to the Trustees. Such changes could include a significant change in the number of securities held or followed, or a change in the portfolio manager assignments.

VII. Investment Consultant

The Trustees may engage the services of an independent consultant for the purpose of assisting them in attaining their investment objectives. The consultant would assist in considering alternative models of asset allocation, identification of appropriate managers of funds, producing timely quarterly reports that monitor individual managers against similar managers as well as overall performance of the fund against other appropriate indices.

VIII. Communication and Reporting

The advisor/manager shall communicate with the Trustees through their Chairperson and the Director of Finance, Town of South Kingstown, who serves as an ex-officio member of the Trustees of the South Kingstown School Funds, in all significant matters pertaining to investment policies and management of fund assets. This would include, but not be limited to, significant changes in the investment manager's investment outlook, investment strategy and portfolio structure; any significant changes in the ownership, organizational structure, financial condition, any changes in portfolio manager or senior personnel staffing of the investment manager's organization and quarterly transactions, evaluation and performance reports.

Quarterly evaluation of assets under management shall be supplied in the form as may be requested by the Trustees. They shall include market values, industry segmentation's, transactions and similar reports. The reports should show investments at cost, purchase date, and market value. The investment manager is responsible for the prompt review of the investment report. Significant disparities should be documented to the Trustees.

At reasonable times and at the discretion of the Trustees, meetings shall be held with the advisors/managers to discuss performance results, economic outlook, organizational changes and other pertinent matters. All documents, exhibits and other written material to be used at such meetings should be submitted to the individual members of the Trustees of the South Kingstown School Funds at least five days before the meeting date.

IX. Conflict of Interest

It is the policy of the Trustees of The South Kingstown School Funds to avoid conflicts of interest in its operations and in the selection of advisors, managers or consultants. Trustees who have a financial relationship with any advisor, manager, or consultant to the fund shall disclose the same.

X. Implementation

Should any new moneys or new school funds be received they shall be managed in conformance with this statement. Fund assets not currently managed in accordance with this statement by an advisor/manager should conform within 60 days of receipt of this statement.

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EXHIBIT A

THE SOUTH KINGSTOWN SCHOOL FUNDS

1. Depreciation Fund: to offset adverse market fluctuations in the school funds.
2. Edward Mott Robinson Fund: to support education.
3. Esther B. Shannon Memorial Fund: to provide a scholarship for a South Kingstown student.
4. Miss Caroline Hazard Fund: to provide income for educational programs at the Stepping Stone School.
5. Neighborhood Guild Fund: to provide income to support the operation of the Neighborhood Guild.
6. Rowland Hazard Fund: to provide income for the support of the South Kingstown High School.
7. Raymond Default Fund: to provide a scholarship to South Kingstown Seniors and Graduates pursuing training or education in the culinary arts, arts, music, public safety or public service.
8. Samuel Sewall Fund: to provide educational support within the town of Pettaquamscot (Pettaquamscot Purchase).
9. Wakefield Grammar School Fund: to provide for the maintenance of a district schoolhouse.