

# Investment Policy Statement for The J.R.S. Biodiversity Foundation

May 23, 2016

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## I. Introduction

### Purpose of this Policy Statement

This policy statement outlines the goals and investment objectives for the portfolio of The J.R.S. Biodiversity Foundation (henceforth, the “Foundation”). This is a policy based on the following assumptions:

1. The organization will continue to exist in the future as a private foundation.
2. No additional funding will be coming into the Foundation.
3. If the Foundation chooses to spend down, it would do so over a period of several years with sufficient time for this statement to be appropriately modified.

This document provides guidelines for managing the Foundation's assets. Accordingly, this document outlines specific investment policies that will govern how the goals for the Foundation are to be achieved. This statement:

- Defines the responsibilities of: The Board of Trustees; the Finance, Compliance and Investment Committee (the "Committee"); and other parties responsible for the management of the Foundation's assets;
- Describes an appropriate risk posture for the investment of the Foundation's assets;
- Outlines an asset allocation strategy and rebalancing guidelines;
- Establishes investment guidelines to exclude holdings of companies whose goods, services, or practices may conflict with the mission of the Foundation;
- Establishes investment guidelines regarding the selection of investment managers, permissible securities and diversification of assets; and
- Specifies the criteria for evaluating the performance of the investment managers and of the Foundation as a whole.

The Committee believes that the investment policies described in this statement should be adapted to the financial needs and circumstances of the Foundation and to the Committee's philosophy regarding the investment of assets. The Committee will review these policies annually and revise the Investment Policy Statement when necessary for Board review and approval to ensure it reflects changes related to the Foundation's investment objectives and in capital market expectations.

### **Investment Objective**

The assets of the Foundation represent its long-term financial reserves. Accordingly, the investment objective of the Foundation is long-term oriented. The Foundation's assets shall be invested in accordance with sound investment practices that emphasize prudent investment fundamentals with a focus on long-term capital appreciation over most market cycles. Specifically, the investment objectives of the Foundation's aggregate portfolio are:

- To grow the principal value of the Foundation's assets so as to provide a significant source of funding for capital budgeting needs;
- To earn long-term returns that keep pace with or exceed the long term inflation rate (as indicated by the Consumer Price Index (CPI)) and meet the Federal annual spending requirements for private foundations;
- To diversify the Foundation's assets in order to reduce the risk of wide swings in market value from year-to-year, or of incurring large losses; and
- To achieve investment results over the long-term that compare favorably with those of other balanced institutional portfolios and of appropriate market indexes.

It is expected that these objectives can be attained through a well-diversified portfolio in a manner consistent with this investment policy.

This investment policy is intended to be a summary of an investment philosophy that provides guidance for the Committee and other parties involved in the management of the Foundation. It is understood that there can be no guarantees about the attainment of the goals or investment objectives outlined here.

## Information about the Foundation

The Foundation is a private foundation whose corpus originated from the proceeds from the sale of the business assets of Biological Abstracts, Inc. Upon completion of the sale, the Board of Directors chose to become a grant-making foundation. The Foundation's mission is to increase access to and use of biodiversity information that will lead to greater biodiversity conservation and sustainable development in sub-Saharan Africa.

### The J.R.S. Biodiversity Foundation

P.O. Box 15178  
Seattle, WA 98115

**Primary Contact**..... Don S. Doering, Executive Director  
**Total Fund Assets** ..... \$41.5 million (As of January 2016)  
**Fund Year End**.....December 31st  
**Federal Tax ID #**..... 23-1352035

## Purpose and Scope of the Account

The investment portfolio represents the assets of the J.R.S. Biodiversity Foundation, a private foundation incorporated in Washington, DC.

## Cash Flows and Liquidity Needs

The Board of Trustees retains the responsibility for the déboursement of funds from the portfolio. At this time, there are no expected material future contributions to the Foundation.

Disbursements from the Foundation are made from time-to- time at the discretion of the Board of Trustees. On-going disbursements at this time are expected to pay the expenses of the organization, include grants and other forms of support to organizations in conjunction with the furthering of the mission of the Foundation.

## Regulatory Environment

The Foundation is a private grant-making foundation (also referred to as a private non-operating foundation) incorporated in Washington, D.C. The Foundation operates according to Federal and State regulations governing grant-making foundations.

## Tax Status

The income and earnings of the Foundation are tax-exempt from Federal income taxes.

## Mission-related Considerations

The mission of the Foundation is to increase access to and use of information that will lead to greater biodiversity conservation and sustainable development in sub-Saharan Africa. The Foundation's Board of Trustees adopted a policy in 2015 to exclude securities from its assets issued by companies whose

goods, services, or business practices are commonly deemed to negatively impact the earth's climate or biodiversity, particularly tropical biodiversity. This policy notes, for illustrative purposes that such exclusions may include, but are not limited to, securities of companies primarily engaged in fossil fuels, mining, and destructive logging. The Committee is responsible to:

- Direct and oversee the mission-related considerations in the portfolio in a manner and over a time period that does not introduce undue costs and risks;
- Ensure that the Investment Consultant and account managers understand and conform to the mission-related considerations and exclusions;
- Direct the Investment Consultant to monitor the performance of the Foundation's investment policy relative to general benchmarks and 'socially responsible investing' benchmarks;
- Report regularly to the Board regarding the implementation and status of the mission-related considerations;
- Consult with the Board from time-to-time to ensure the mission-related considerations reflect the values of the Board and the Foundation's mission and strategy; and
- Stay informed, including the use of specialized consultants, of the best practices and standards in the field of environment-related, socially responsible, investing for private foundations and endowment managers.

## **II. Responsibilities of the Foundation Representatives**

### **Board of Trustees**

The Board of Trustees (the "Board") is responsible for the oversight of the Foundation. The Board is responsible for reviewing the capital and operating budget needs of the Foundation and thereby allocating distributions from the Foundation. Additionally, the Board is responsible for appointing and overseeing the Committee that is responsible for safeguarding the financial well-being of the Foundation, including the oversight of the investment portfolio's returns and holdings as is consistent with this Investment Policy Statement.

### **The Committee**

The Committee is responsible for recommending to the Board an Investment Policy for the Foundation and implementing approved policies and guidelines. It is expected that the objectives and policies described herein will be used as the criteria for selecting and evaluating the appropriate asset classes, asset allocations and ranges, and investment managers for the management of the Foundation's assets. Specifically, the responsibilities of the Committee include:

- Evaluating the Foundation's risk tolerance and establishing a long-term asset allocation policy consistent with the long-term investment objectives, financial needs, and circumstances of the Foundation;
- Implementing tactical asset allocation shifts within the approved framework of the long-term Investment Policy;
- The selection, monitoring and termination of investment managers;
- Monitoring and evaluating the performance of the Foundation's aggregate portfolio and of the individual investment managers;

- Recommending the selection or termination of administrators, consultants, and custodian for the Foundation's assets;
- The oversight of staff members of, or consultants to, the Foundation, who have been assigned specific, day-to-day responsibilities related to the management of the Foundation's finances as summarized below; and
- Such other duties as may be described in this policy, applicable State and Federal law, or delegated by the Board.

### **Investment Consultant**

The Investment Consultant retained by the Committee shall have the following responsibilities:

- To assist the Committee in the management of the Foundation's portfolio. This includes providing assistance in developing an investment policy, strategic asset allocation strategy, and investment manager due diligence;
- To provide to the Committee monthly performance and risk summaries and quarterly performance measurement reports on each investment manager and on the Foundation's aggregate portfolio. To assist the Board in interpreting relevant analysis;
- To act as a liaison between investment managers and the Foundation, and thereby facilitate the communication of important information in the management of the Foundation; and
- Such other duties as may be mutually agreed to.

### **III. Ethics and Conflicts of Interest**

All Board and Committee members of the Foundation, and consultants retained by them, who are involved in the investment process are to refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Committee members, the Foundation staff or consultants retained by them, are to disclose to the Chairperson of the Committee any material interests in financial institutions that conduct business with the Foundation and they are to further disclose any large personal financial/investment positions that could be related to the performance of Foundation. It is expected that the Board, committee members and staff will abide by the Foundation's Conflict of Interest Policy.

### **IV. Responsibilities of the Investment Managers**

#### **Fiduciary Responsibilities**

Each investment manager is expected to manage the Foundation's assets in a manner consistent with the investment objectives, guidelines, and constraints outlined in this statement and in accordance with applicable State and Federal laws. This would include discharging their responsibilities with respect to the Foundation consistent with "Prudent Expert" standards, the Uniform Prudent Management of Institutional Fund Act ("UPMIFA") (in particular as it is implemented in the District of Columbia by D.C. Law 17-69, and all other fiduciary responsibility provisions and regulations.

Experienced investment management firms will manage the assets in the Foundation. Each investment manager shall at all times be registered as an investment advisor under the Investment Advisers Act of

1940 (where applicable). UPMIFA requires fiduciaries to apply the standard of prudence “about each asset in the context of the portfolio of investments, as part of an overall investment strategy.”

All investment actions and decisions must be based solely on what is in the best interest of the Foundation. Fiduciaries must provide full and fair disclosure to the Committee of all material facts regarding any potential conflicts of interests. UPMIFA states that the Board, itself or acting through the Committee, is under a duty to the Foundation to manage the Foundation’s assets as a prudent investor would, in light of the purposes, scope, objectives and other relevant circumstances. This standard requires the exercise of reasonable care, skill, and caution while being applied to investments not in isolation, but in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Foundation. In making and implementing investment decisions, the Board or the Committee has a duty to diversify the investments unless, under special circumstances, the purposes of the Foundation are better served without diversifying. In addition, the Board must conform to fundamental fiduciary duties of loyalty and impartiality. This requires the Board or the Committee to act with prudence in deciding whether and how to delegate authority, in the selection and supervision of agents, and incurring costs where reasonable and appropriate.

### **Security Selection/Asset Allocation**

Except as noted below, each investment manager shall have the discretion to determine their portfolio's individual security selections, and where determined, within agreed upon SRI mandates.

The Foundation is expected to operate within an overall asset allocation strategy defining the Foundation’s mix of asset classes. This strategy, described below, sets long-term percentage targets for the amount of the Foundation’s market value to be invested in any one-asset class. The allocation strategy also defines the allowable allocation ranges for each asset classes, above and below their target allocations.

The asset allocation strategy for each investment manager's portfolio can deviate from the overall Foundation’s asset allocation, however, the Committee is responsible for monitoring the aggregate asset allocation, and may re-balance to the target allocation on a periodic basis.

### **Proxy Voting**

The investment managers are responsible and empowered to exercise all rights, including voting rights, as are acquired through the purchase of securities, where practical. Each investment manager shall vote proxies according to their established Proxy Voting Guidelines. A copy of those guidelines, and/or summary of proxy votes shall be provided to the Committee upon request.

Where an SRI mandate exists, the manager will vote in accordance with agreed upon mandate.

## **V. Investment Objectives**

In consideration of the Foundation’s status, assumed long-term investment objectives, and the risk tolerance of the Foundation, the Committee has adopted an overall investment objective for the Foundation’s assets that is expected to earn long-term returns composed of capital appreciation and current income sufficient to outpace minimum foundation qualifying distribution requirements and the long term inflation rate as measured by the Consumer Price Index (U.S. Department of Labor, Bureau of Labor Statistics).

The Committee will monitor the Foundation's performance on a quarterly basis. The Committee will evaluate each investment manager's contribution toward meeting the investment objectives outlined below over a three-year time period and/or a full market cycle, unless otherwise noted.

The Committee will measure the Foundation's aggregate performance against a blended index based on the Primary Benchmark (defined below) over rolling three to five year periods and/or over a full market cycle. The Committee will measure the investment managers against their individual style indexes.

**Primary Benchmark:** It is desired that the Foundation earn returns higher than the "market," as represented by a style index or mix of indexes reflective of the Foundation's return objectives and risk tolerance. This benchmark or "style index" for the Foundation is to be constructed as follows:

- 35 % Standard and Poor's 500 Stock Index.
- 10 % Russell 2500 Stock Index.
- 15 % Morgan Stanley Capital International Europe, Australasia and Far East (MSCI EAFE) International Stock Index (Net)<sup>1</sup>.
- 15 % BAC/ML US Broad Market Bond.
- 15 % BAC/ML US Corp & Gov't 1-10 Years.
- 5 % 90 Day U.S. T-Bill.
- 5 % HFRI Hedge Fund of Funds Index.

The Foundation is expected to exceed the average annual return of the strategic benchmark on a risk-adjusted basis over rolling three to five-year time periods and/or a full market cycle.

**Secondary Performance Targets:** The real return goal for the Foundation is to maintain the purchasing power of its assets by growth that equals or exceeds the inflation-adjusted withdrawals that meet the IRS requirement of private foundations for adjusted qualifying distributions that are equal to or greater than 5% on the net value of non-charitable use assets. The Foundation is expected to outpace the real return goal and the style index standard, each measured on a compound average annual return basis and annualized over rolling three- to five-year time periods and/or a full market cycle.

## **VI. Risk Tolerance**

Investment theory and historical capital market return data suggests that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (i.e. volatility of return) is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Foundation is the determination of an appropriate risk tolerance. The Committee has examined two important factors that affect the Foundation's risk tolerance:

**Financial Ability** to accept risk within the investment program.

**Willingness** to accept return volatility.

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<sup>1</sup> Net of dividend withholding taxes withheld by foreign governments.

The Committee examined the Foundation’s risk tolerance by considering several relevant factors.

Positive factors that contribute to a higher risk tolerance are:

- The recognition that achieving higher potential returns over the long term, in excess of their spending policy and internal expenses, will determine the organization’s ability to continue to thrive and support its mission in the long term.
- A willingness to accept a moderate level of risk over full market cycles in order to achieve potential higher returns over the long term.

Offsetting these factors is:

- The desire by the Board to avoid large fluctuations in the market value of the Foundation’s assets from year-to-year, since such fluctuations can have an adverse impact on the financial condition of the Foundation.
- The Foundation does not anticipate raising any new funds in the event of any large losses.

The Committee has analyzed the behavior of the Foundation’s assets within different economic environments and is comfortable with a risk level of the portfolio as measured by volatility (standard deviation) that is similar to the volatility level of the benchmark index that adheres to the asset allocation limits (below).

## **VII. Asset Allocation Strategy**

In line with the Foundation’s return objectives and risk parameters, the mix of assets for the Foundation should be maintained within the minimum/maximum targets (percentages are of the market value of the Foundation):

<b>Asset Class</b>	<b>Minimum</b>	<b>Target Avg.</b>	<b>Maximum</b>
Domestic Large Capitalization Stocks	20 %	35 %	55 %
Domestic Medium Capitalization Stocks	0 %	5 %	15 %
Domestic Small Capitalization Stocks	0 %	5 %	15 %
International Large/Medium Capitalization Stocks	10 %	15 %	40 %
Investment Grade Fixed Income	20 %	30 %	45 %
Cash and Cash Equivalents	0 %	5 %	10 %
Alternative Investments	0 %	5 %	20 %

Deviations from this asset mix guideline may be authorized in writing by the Committee, which may determine if the aggregate deviation constitutes a 5 % - 10 % departure from the spirit of the target allocation.

The maximum percentage designated for the “Cash and Cash Equivalents” category is intended to apply after the initial start-up of any one portfolio within the Foundation. The target allocation for “Cash and



Cash Equivalents” reflects the dual purpose of maintaining cash to fund grant distributions, as well as cash held for strategic allocation purposes.

### **Rebalancing Procedures**

The allocation to each asset class and to investment styles within asset classes is expected to remain within the target range specified by the Committee on a quarterly basis to the Investment Consultant. At all times, each investment manager will be expected to maintain the asset allocation of their portfolio consistent with the asset allocation ranges established for their portfolio and their stated benchmark style.

Since capital appreciation (depreciation) and trading activity in each individually managed portfolio can result in a deviation from the overall Foundation’s asset allocation, the aggregate asset allocation will be monitored and the Committee may rebalance on a periodic basis, and may rebalance on an annual basis. To achieve the rebalancing of the Foundation’s portfolio the Board may re-direct contributions and disbursements from individual investment managers as appropriate, in addition to shifting assets from one investment manager to another. It is the responsibility of the Treasurer, in consultation with the Foundation’s Investment Consultant, to coordinate such rebalancing actions with the Committee and the Investment Managers.

## **VIII. Investment Strategy**

### **A. Selection Criteria for Investment Managers**

Investment managers retained by the Committee shall be chosen using the following criteria. Consideration shall be given to both consistency of performance and the level of risk taken to achieve results and managers’ attention to Process, Performance, People and Pricing:

- **Performance** - Managers past performance, considered relative to their peer group.
- The investment style and style discipline of the investment manager and/or fund. How well the manager’s investment style or approach complements other assets in the Foundation.
- An assessment of the likelihood of future investment success, relative to other opportunities.
- Where applicable, the investment manager’s expertise and effectiveness in implementing the Foundation’s mission-related considerations as defined in this Investment Policy Statement and the Committee’s practice.
- **Process** - A thorough understanding of the manager’s explicit investment process, including consistency of implementation and repeatability.
- **People** - Organizational attributes, ownership structure, level of experience, financial resources, compensation structure and staffing levels of the investment manager.
- **Pricing** - Consideration of transparency of fees, and breakpoints where applicable.

## **IX. Exclusions**

### **Security Types and Conflict of Interest**

For mutual, other commingled funds, and alternative investments, the prospectus, Trust documents of the fund(s), or the offering document would govern the investment policies of the investments.

Investment managers, however, shall be guided by the general principles and constraints outlined in this investment policy. The Foundation's assets in separately managed accounts may not be used for the following purposes:

- Purchases of letter stock, private placements (except for 144A securities as permitted in this policy or attachments), or direct payments;
- Purchases of securities not readily marketable;
- Investments in the securities of Merrill Lynch or of its subsidiaries or affiliates (excluding money market, short term currency-linked assets to facilitate non-domestic grant-making or other commingled funds as authorized by the Committee); and
- Investments by the investment managers in their own securities, their affiliates, or subsidiaries (excluding money market or other commingled funds as authorized by the Committee).

Any other security transaction not specifically authorized in this policy statement, unless approved, in writing, by the Committee. Requests by investment managers to execute transactions that are not currently authorized in this policy should be made prior to executing such transactions.

## **X. Investment Transactions**

Each investment manager's primary responsibility shall be to seek to obtain best net price and execution for their portfolio. Execution capability, price and overall effectiveness shall be considered, along with commission rate.

The Committee has contracted with Merrill Lynch to provide consulting services and investment management services for that portion of the Foundation's assets invested in separately managed accounts through the Merrill Lynch Investment Advisory Program. Accordingly, Merrill Lynch shall be given an opportunity to execute all transactions for those assets in the Investment Advisory Program as long as they are competitive with other sources and meet the best realized price standard explained above.

## **XI. Meetings and Communications**

### **For separately managed accounts:**

- As a matter of course, each investment manager should keep the Committee apprised of any material changes in the investment manager's outlook, their investment process and tactics, and changes in key personnel;
- If desired, each investment manager should meet with the Committee on an annual basis to review and explain their portfolio's investment results;
- Each investment manager should be available on a reasonable basis for telephone communication when needed; and
- Any material event that affects the ownership or capital structure of the investment management firm, or the management of this account must be reported promptly to the Board,

### **All accounts:**

- Merrill Lynch will provide written performance reports for those assets invested in the Merrill

Lynch Advisory Program not less than quarterly; and

- The custodian should provide monthly statements of assets and transactions.

## **XII. Performance Evaluation**

As noted above, the Committee will monitor the Foundation's portfolio investment performance on a quarterly basis.

The Committee will evaluate the Foundation's success in achieving the investment objectives outlined in this document over at least a three-year time horizon. The Committee realizes that most investments go through cycles. Therefore, there will be periods of time in which the investment objectives are not met or when some investment managers fail to meet their expected performance targets.

The Foundation's (and Investment Consultant's) performance should be reported in terms of rate of return and changes in dollar value. The returns should be compared to appropriate market indexes and peer groups, for the most recent quarter and for annual and cumulative prior time periods.

The Foundation's asset allocation in separately managed accounts should also be reported on a quarterly basis.

Risk as measured by volatility, or standard deviation, should be evaluated after twelve quarters of performance history have accumulated. An attribution analysis should also be performed for the separately managed accounts, to evaluate how much of the Foundation's investment results are due to the investment managers' investment decisions, as compared to the effect of the financial markets. It is expected that this analysis will use the "style index" as the performance benchmark for evaluating both the returns achieved and the level of risk taken.

## **XIII. Approval**

It is understood that this investment policy is to be reviewed periodically (minimum, annually) by the Committee to determine if any revisions are warranted by changing circumstances including, but not limited to, changes in financial status, risk tolerance, changes in the Foundation or changes involving the investment managers.

*As signed on following page:*

*Ellen V. Martz*

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**Chair, Finance, Compliance and Investment Committee  
of the J.R.S. Biodiversity Foundation Board of Trustees**

*5/23/2016*

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**Date**

*L. Krishtalka*

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**President, The J.R.S. Biodiversity Foundation Board of  
Trustees**

*May 23, 2016*

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**Date**