

**Chesapeake Bay Trust**  
**INVESTMENT POLICY STATEMENT**  
**June 14, 2016**  
**Revised February 17, 2021**

**MISSION**

The Chesapeake Bay Trust engages and empowers diverse groups to take actions that enrich natural resources and local communities of the Chesapeake Bay region.

**SCOPE**

This Investment Policy Statement (“Statement”) details the investment policy, objectives, and constraints for the investable assets of the Trust.

**PURPOSE**

The purpose of this Statement is to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all parties of the investment goals and objectives for the portfolio.
3. Provide guidance and limitations to investment managers regarding the investment of the portfolio.
4. Establish a basis for evaluating investment results.
5. Ensure that the portfolio is managed in accordance with applicable statutes.

In general, the purpose of this Statement is to outline the philosophy and understandings, which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific as to be meaningful, yet flexible enough to be practical.

**ASSIGNMENT OF RESPONSIBILITY**

- *Board of Trustees*: The board has the ultimate fiduciary responsibility for the Trust’s investment portfolio. The board is responsible for ensuring that appropriate policies governing the management of the portfolio are in place and implemented. The board is responsible for setting and approving the Statement and delegates responsibilities to the Finance and Administration Committee and Management for implementation and ongoing monitoring. The board is responsible for reviewing and revising the Statement periodically to ensure it adequately defines an appropriate risk-profile for the Trust’s investments, defines appropriate requirements with respect to portfolio composition in broad areas of the markets, defines the capital markets in which the Trust will participate and the Trust’s desired asset mix.
- *Finance and Administration Committee*: The Finance and Administration Committee is responsible for implementing the investment policy. The committee is responsible for approving the investment

Allocation and Spending Policy, prudently and diligently selecting qualified Investment Advisors to implement the strategy consistent with the policies set by the Board of Trustees, selecting a custodian, and monitoring portfolio performance on a quarterly basis to ensure compliance with investment policy. The Committee is also responsible for annually recommending the portfolio's risk tolerance and investment horizon for board approval as well as establishing reasonable and consistent investment objectives, policies and guidelines that will direct the investment of the portfolio's assets.

- *Management*: Management (Executive Director and/or Director of Accounting and Finance) is responsible for projecting the portfolio's financial needs and in collaboration with the Finance and Administration Committee reviewing the policies defining the portfolio's risk tolerance, investment horizon, investment objectives, and the policies and guidelines that direct the investment of the portfolio's assets. Management is also responsible for communicating the portfolio's needs, risk tolerance, and investment horizon as established by the Finance and Administration Committee and Board of Trustees to the Investment Advisors.
- *Investment Advisor*: The Advisor has full discretion to make all investment decisions for the assets placed under its jurisdiction, while operating within the policies, guidelines, constraints, and philosophies as outlined in this Statement as well as the Allocation and Spending Policy, Specific responsibilities of the Advisor include:
  1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
  2. Reporting, on a timely basis, investment performance results.
  3. Communicating any significant changes to economic outlook, investment strategy, or any other factors, which affect implementation of its investment process or the investment objective progress of the portfolio.
  4. Informing the Trust of any qualitative change in its investment management organization (examples include significant changes in portfolio management personnel, ownership, structure etc.).
  5. Developing and enacting proper control procedures.
- *Custodian*: The Custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the portfolio, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the portfolio accounts.
- *Others*: Additional specialists such as attorneys, auditors, and others may be employed by the Trust to assist in meeting its responsibilities and obligations to administer the portfolio assets prudently.

## PORTFOLIO CHARACTERISTICS

- Authorized Investments: House Bill 207 authorizes the Trust to invest in the following debt and equity securities: “Bonds or other obligations of the United States, the State of Maryland, the political subdivisions or units of the State of Maryland, direct or indirect federal agencies; Corporate bonds with a rating [no less than] Baa3/BBB [in the event of a split-rated security, the lower rating will be used]; or mortgage backed and asset backed securities with a rating of AAA [by at least one rating agency]; marketable equity securities; marketable equity related mutual funds; or debt related mutual funds. The overall debt security portion of the portfolio must have a rating of at least AA.”
- Allowable Investments: All investments must be U.S. dollar-denominated. Borrowing for investment purposes is prohibited. Investment in securities with underlying leverage risk or esoteric structures is prohibited.
- Other Restrictions: In addition to the portfolio’s legal investment restrictions, the Investment Advisor may not:
  1. Acquire any security subject to any restrictions on its sale or subject to any investment representation.
  2. Use margin or otherwise borrow funds for the acquisition of any security.
  3. Knowingly sell any security not owned by the portfolio.
  4. Use futures or options as part of the portfolio.
  5. Allow the overall debt security investment portfolio of the Trust to fall below an AA rating.
- Liquidity and Marketability: To minimize the possibility of a loss occasioned by the sale of security forced by the need to meet a required payment, the Trust will provide the Advisor with an estimate of expected net cash flow to allow sufficient time to build up necessary reserves. The Trust requires all portfolio assets be invested in liquid securities, defined as securities that can be sold quickly and efficiently, with minimal impact on market price.
- Asset Allocation: The portfolio will consist of fixed income and equity securities. Specific targets and benchmarks are outlined in the Addendum to the Statement. Allowable ranges are as follows:
  - Fixed Income – Minimum 30%; Maximum 90% of total assets
  - Equities – Minimum 10%; Maximum 70% of total assets
- Social Responsibility: Management of the portfolio assets shall be consistent with the vision, mission, and values of the Trust. Socially responsible instruments are investments that consider environmental, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact. It is the intent of the Trust to use socially responsible investments when they meet the Trust’s primary fiduciary duties with respect to risk and return. We strive for greater than 50% of the portfolio to be invested in socially responsible investments.
- Structure: The Trust’s portfolio consists of two distinct pools available for investment. Each investment pool has its own characteristics as to time horizon and risk tolerance and, therefore, will have different investment objectives and limitations. The two investment pools consist of:

- Pool #1: Unrestricted and Temporarily Restricted Operating Cash, the amount of which is determined by average cash flow and cash needs
- Pool #2: Board Designated Reserve

Outlined in the next section is a description of the specific characteristics of each pool with the risk tolerance, liquidity needs, and investment objectives for each pool.

## **INVESTMENT OBJECTIVES**

The objective of investing each pool is to maximize the returns without exposure to undue risk. The Trust Board understands that in order to achieve its objectives for the portfolio, the portfolio will experience volatility of returns and fluctuations in market value. Specific investment guidelines and limitations are assigned to each pool to allow for a level of risk acceptable to achieve the investment objectives for that pool.

In general, the Trust maintains a conservative approach to the investment of its financial assets. A description of the investment pools follows:

- **Pool #1 – Unrestricted and Temporarily Restricted Operating Cash**

Description: Funds of the organization needed for operations. A portion of this pool is temporarily restricted for purposes specified by donor or grantor.

Risk tolerance and liquidity: Strong need to preserve principal and liquidity for operational needs and payment to grantees. Liquidity needs range from zero to 6 months.

Investment objective: Preserve principal and liquidity while maximizing current income.

- **Pool #2 –Board Designated Reserve**

Description: The long term portion of the portfolio that will seek to grow in value over a market cycle. As required by the Trust bylaws, “there shall be a Board-Designated Reserve of not less than \$5,000,000 that [will reside in this pool and] shall be reserved to provide annual income for the Trust...” Funds in this pool are set aside to:

1. Serve as an operating reserve to provide stability in the event of temporary revenue shortfalls, operating deficits or unanticipated events that might deplete the Trust’s financial resources.
2. Ensure the Trust can meet its obligations to federal, state other funding partners in the event of an interruption in recurring operating revenue streams.
3. Strengthen the Trust’s Statement of Financial Position to help attract grants and other investments from public and private funding partners.
4. Provide a source of stable, non-operating revenue dedicated to supporting the annual operating expenses of the Trust.
5. Minimize the impact of seasonal cash flow variances.

Risk tolerance and liquidity: Moderate risk of absolute growth of the portfolio that is similar to the blended benchmark and a desire to preserve principal and liquidity.

Investment objective: Moderate growth in the long-term value of the portfolio while preserving principal and liquidity.

## **REBALANCING AND CASHFLOWS**

The purpose of rebalancing the portfolio on a regular basis is to maintain the desired risk/return characteristics to meet the objectives for the portfolio. Cash flows to and from the portfolio will be used to rebalance the portfolio. On at least an annual basis, accounts should be rebalanced towards the long-term asset allocation targets.

## **SPENDING POLICY**

The Finance and Administration Committee is to set the rate at which funds are released for current spending and may, in response to changing economic circumstances, raise or lower the distribution percentage in any given year.

## **PERFORMANCE REVIEW AND EVALUATION**

The Investment Advisor shall compile and present performance reports quarterly to the Trust for review. The investment performance of the total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals and guidelines as set forth in this statement. The Trust intends to evaluate the portfolio over at least a five-year period, but reserves the right to terminate an Advisor for any reason including the following:

1. Investment performance, which is significantly less than anticipated given the discipline employed or risk parameters established or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the Manager's organization.

The Advisor shall be reviewed regarding performance, personnel, strategy, research capabilities, organization and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

The overall health of the portfolio will be monitored by comparing the value of the total assets against the expected spending rate plus inflation and fees, and by tracking the changes of each to determine whether the spending rate requires adjustment. This will be performed no less often than annually.

## **INVESTMENT POLICY REVIEW**

To assure continued relevance of the guidelines, objectives, financial status and capital market expectations as established in this statement of investment policy, The Trust shall review this investment policy at least annually. Any changes to the policy will be communicated in writing to all appropriate parties.

## **ACKNOWLEDGEMENT**

We recognize the importance of adhering to the mission and strategies detailed in this policy and agree to work to fulfill the objected stated herein, within the guidelines and restrictions, to the best of our ability.

**Chesapeake Bay Trust**  
**ALLOCATION AND SPENDING POLICY**  
**April 21, 2016; Revised April 29, 2021**

**PURPOSE**

The purpose of this policy, crafted by and reviewed at a minimum annually and otherwise as needed by the Finance and Administration Committee, is to further define asset classes, investment strategy, and targets within the Chesapeake Bay Trust’s (the “Trust”) Investment Policy Statement and to set forth the respective investment objectives and strategic guidelines. Any changes made to the Allocation and Spending Policy will be brought to the Board of Trustees at the following meeting after the change.

**INVESTMENT GOAL**

The investment goal of the portfolio is to achieve a total return (income and appreciation) of 5% after inflation and fees, over a full market cycle (3-5 years).

**SPENDING POLICY**

Each year, the Trust is authorized to withdraw a percentage of the total market value of the total assets (market value to be determined as the last business day of the preceding year) for operational purposes. That spending percentage is applied to the three-year average of the annual market value. Using a three-year market value average will help to even out any fluctuations that may occur in the value of the account. The dollar amount and timing of any distribution(s) from the investment account will be determined by Management. The effective spending rate is expected to be between 3% and 5%.

The Trust is only authorized to withdraw this percentage from its endowment funds (general and named unrestricted) when the three-year average total market value of the endowment assets (such market value determined as of the end of each fiscal year) exceeds \$1,000,000.

For any named endowments for special purposes, the Trust may establish a lower threshold, as determined by Trust staff, provided the change is consistent with donor intent.

**STRATEGY**

The Trust will invest in a diversified portfolio comprised of fixed income and equity securities. Market exposure will be attained using a mixture of actively and passively managed stocks and bonds.

**ALLOCATION TARGET GUIDE:**

	<b>Strategic Allocation Target (%) of the Complete Portfolio</b>	<b>Allowable Range (%)</b>	<b>Benchmark</b>
Cash (Pool #1)	5	5 - 10	N/A
Fixed Income (Pool #1)	20	25 - 80	*

Cash (Pool #2)	5	5 - 10	N/A
Fixed Income (Pool #2)	20	25 – 80	*
Equity (Pool #2)	50	10 - 70	*

- The Investment Advisors, in consultation and with approval by the F&A Committee, will choose a blended benchmark for the portfolio. The Investment Advisors and F&A Committee will review, and revise if needed, the blended benchmark annually to ensure that it continues to align with the risk and return profile of the portfolio.

**MONITORING AND CONTROL**

The returns and portfolio characteristics of the strategy will be reported quarterly to monitor progress toward meeting longer-term investment objectives. Meetings with the Investment Advisor will be held at least annually by the Finance and Administration Committee to review portfolio results and to discuss guidelines and expectations.

For the Chesapeake Bay Trust:

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Signature

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Approval Date