

**INVESTMENT GUIDELINES OF THE PENDULUM FUND**  
**VILLAGE OF ARDEN**

**INTRODUCTION:**

The Pendulum Fund was bequeathed to the Village of Arden in accordance of the will of Johanne Schroeder for the specific purpose of the long term preservation and care of the natural spaces within the Village of Arden. The Investment guidelines purpose is to provide guidance to the investment managers and other fiduciaries in the course of investing the assets. This Statement is intended to set forth an appropriate set of goals and objectives for the Fund's assets to define guidelines within which the investment managers may formulate and execute their investment decisions. The Treasurer and/or Investment committee may amend this statement upon their own initiative. It is the policy of the Treasurer and/or Investment Committee to review these goals and objectives at least once per year and to communicate any material changes to the investment managers

**OBJECTIVE:**

To maintain or increase the Funds principal over the long term while providing sufficient annual yield to fund specific granted projects.

1. Because of annual funding provided by the Pendulum Fund, emphasis must be placed with (1) management of risk for protection of principle, (2) reasonable and increasing income and (3) continuity of income through the ownership of securities of high investment quality.
2. The Treasurer and/or Investment Committee expect the assets to be managed for the long-term results. They neither expect nor encourage high turnover, nor place emphasis on the short term. The average annual net total return over an extended period, after adjusting for inflation, should be sufficient to support spending as determined annually. The annual total return of the Pendulum Fund, net of investment management fees, inflation factor (As determined by the consumer price index) shall determine the amount available for project funding as determined annually by the Treasurer and/or Investment Committee. The target is 3% annually leaving the majority of the principle for continued growth. In the event of a negative return, draw downs of the principle will not exceed 2% of the Pendulum Fund. If determined to be an exceptional circumstance to support an approved project some or all of the principle may be used above the stated guidelines.

3. Investment manager should regularly review the asset mix and individual holdings, keeping in mind the tax-free nature of the funds. Performance of funds should be compared to target returns (S&P 500 for the equities and Lehman Brothers Bond Index for bonds, 3 month T-bill for cash) and holdings adjusted as required to meet performance goals, maximize income or reduce risk.
4. The portfolio should be balanced among cash (to provide liquidity), fixed dollar assets (to deliver stable income and reduce overall volatility) and equities (to help offset the declining purchasing power caused by inflation).
5. The asset allocation of the Pendulum Fund will be determined by the Investment Committee within the following parameters.

<u>ASSETT CLASS</u>	<u>TARGET %</u>	<u>RANGE%</u>
Cash	2%	2% to 5%
Fixed Income/Bonds		40% to 60%
Short Investment Grade	14%	
Med Investment Grade	26%	
Long Inv. Grade	8.0%	
Equities/Mutual Funds		40% to 60%
Large Cap Value	13%	
Large Cap Growth	13%	
Mid Cap Blend	8%	
Small Cap Blend	4%	
International	9%	
Reits	3%	

Accumulated cash will be invested into cash and/or fixed income securities

6. No stock or debt investment in an individual company shall exceed 5% of the total value of the portfolio. Investment in any individual mutual fund shall not exceed 15% of the total value of the portfolio. Holdings in an individual security shall not exceed 3% of the amount of that issue currently outstanding.
7. Derivative securities, privately placed or other non-marketable debt, Commodities, direct investments in real estate, oil and gas and venture capital, or funds are not permitted.

## **RISK GUIDELINES**

Definition of Risk- the probability of losing money over the Fund's investment time horizon; the probability of not maintaining purchasing power over the Fund's investment time horizon; the probability of not meeting the Fund's absolute return objective; high volatility (fluctuation) of investment returns.

Volatility of Returns- It is understood that in order to achieve stated long-term investment objectives, the Pendulum Fund will experience volatility of returns and fluctuations in market value. The Village of Arden supports and investment strategy that reduces the probability of losses greater than 10% below the relative index in any one-year period however it realizes that the return objective is its primary concern. There is, of course, no guarantee that the Pendulum Fund will not sustain losses greater than those stated.

## **ROLES & RESPONSIBILITIES**

1. The Investment Consultant shall assist the Treasurer/Investment Committee in developing and modifying policy objectives and guidelines, including the development of asset allocation strategies, recommendations on long term asset allocation and appropriate mix of investment fund types and strategies within the parameters stated above.
2. The Treasurer/Investment Committee shall review the total investment program and shall recommend changes in policy, asset allocation and other aspects of fund management. They shall also determine based on the annual return, the amount of funds to budget for annual distribution from the Pendulum Fund for projects with the intention of using only income/returns above the inflation rate. (As determined by the Consumer Price Index.)
3. The Investment Committee shall establish and change the Investment Guidelines and approve changes to the Fund. A majority vote of the committee will be necessary to approve any recommendation.

## **REPORTING**

### Quarterly

1. Summarize Portfolio Holdings
  - A. Discuss adherence to guidelines.
  - B. List individual securities by sector, asset class, or country, as appropriate.

### Annually

1. Performance Review
  - A. Present total fund and asset class returns for last calendar quarter, year-to-date, last year, last three years, last five years and/or since inception versus designated benchmarks. Show both pre- and post-fee returns.
  - B. Discuss performance relative to benchmarks(S&P 500, Lehman Brothers Bond Index, 3 month T-bill)

- C. Provide portfolio characteristics relative to benchmark.
- 2. Review of Investment Process and Evaluation of Portfolio Management Process
  - A. Brief review of investment process
  - B. Investment strategy used over the past year and underlying rationale.
  - C. Evaluation (in hindsight) of strategy's appropriateness.
  - D. Evaluation of strategy's success/disappointments
  - E. Current investment strategy and underlying rationale