



DONOR-ADVISED FUND

# Investment Policy Statement

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AMERICAN ENDOWMENT FOUNDATION

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Effective Date: August 20, 2021



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# Table of Contents

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1.0 Overview	3
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2.0 Governance	3
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3.0 Investment Objectives and Philosophy	4
---------------------------------------------	---

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4.0 Professionally Managed Accounts	5
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5.0 Investment Guidelines for Discretionary Investment Advisors and Institutional Investment Managers	6
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6.0 AEF Oversight of DAFs Investments Managed by Discretionary Investment Advisors and Institutional Investment Managers	9
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7.0 Management of DAFs	10
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8.0 Exceptions	10
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## 1.0 Overview

1.1	<b>OBJECTIVE</b>	American Endowment Foundation (“AEF”) is a 501(c)(3) non-profit corporation which seeks to expand philanthropy in the United States. The purpose of this Investment Policy Statement is to establish an understanding of the investment philosophy of AEF and to provide guidelines for the management and oversight of AEF’s investment assets.
1.2	<b>SCOPE</b>	This policy applies to all investment assets owned by AEF in donor-advised funds (“DAFs”).
1.3	<b>EFFECTIVE DATE</b>	This policy was approved and effective on August 20, 2021 (the “Effective Date”). The provisions of this policy shall apply to all DAFs created on or after the Effective Date. Any DAFs created prior to the Effective Date shall be governed by the existing agreement between AEF and the financial advisor or donor, as applicable. Any amendments or modifications to any existing agreement shall comply with the terms of this policy.

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## 2.0 Governance

2.1	<b>ROLE OF THE INVESTMENT COMMITTEE OF THE BOARD OF DIRECTORS (THE “INVESTMENT COMMITTEE”)</b>	The Board of Directors delegates oversight of all investments to the Investment Committee. The Investment Committee reviews the performance of the investment assets owned by AEF. In executing on its responsibility to provide oversight of the investment assets, the Investment Committee generally reviews and monitors this policy, AEF’s internal policies and procedures related to this policy, the investment performance of individual DAFs and all of the investment assets owned by AEF (the “Total Portfolio”).
2.2	<b>ROLE OF THE INVESTMENT OVERSIGHT TEAM</b>	The Investment Committee will appoint an investment oversight team (the “Investment Oversight Team”) which will be responsible for (i) the maintenance and oversight of this policy and (ii) the implementation and modification of internal procedures that will support the policy. The Chief Investment Oversight Officer leads the Investment Oversight Team and reports to the executive officers of AEF as needed.

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### **2.3 STANDARD OF OVERSIGHT**

AEF is not a registered investment advisor; AEF is a donor-advised fund sponsor that exercises prudent institutional oversight of gifted funds. The Investment Committee shall exercise prudent and appropriate care in accordance with all applicable rules and regulations, including but not limited to the Uniform Prudent Management of Institutional Funds Act. In overseeing the assets of AEF, each member of the Investment Committee shall act in good faith, in a manner such member believes to be in the best interests of AEF and with such care, including reasonable inquiry, as an ordinary prudent person in a like position would use under similar circumstances.

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### **2.4 ROLE OF THE DONOR**

Each DAF is composed of contributions made by individual donors. Once the donor makes the contribution, AEF has legal control over the contributed assets. However, the donor or the donor's representative retains advisory privileges with respect to the distribution of the funds and the investments in the DAF. While the Investment Committee exercises ultimate control over all of AEF's investments, the donor's objectives and advice are key considerations in each DAF's investment allocation.

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## **3.0 Investment Objectives and Philosophy**

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### **3.1 INVESTMENT OBJECTIVES AND PHILOSOPHY**

The investment objectives of AEF are to provide for long-term growth of principal and income without undue exposure to risk to ensure that donors are able to recommend grants on a continuing and reasonably consistent basis. The Total Portfolio will be invested in a manner as to avoid being overly speculative as determined in accordance with internal standards of AEF, looking instead to the eventual disposition of the assets, and considering the probable income as well as the safety of the Total Portfolio. In pursuing these objectives, AEF endeavors to achieve risk-adjusted total returns that, over time, are commensurate with broad-based market averages.





### 3.2 TARGET ALLOCATION FOR TOTAL PORTFOLIO



The Investment Committee monitors the composition and performance of the Total Portfolio compared with the following referenced allocation.

ASSET CLASS	PORTFOLIO WEIGHT
U.S. Equities	45%
International Equities	15%
U.S. Long-Term Fixed Income	25%
Cash and Cash Equivalents	5%
Alternative Private Investments	10%

The investment strategy for each DAF is set forth in Section 6.1.

## 4.0 Professionally Managed Accounts

### 4.1 INVESTMENT OBJECTIVES AND PHILOSOPHY

The investment objectives of a professional managed account portfolio shall be consistent with AEF's investment objectives as established and overseen by the Investment Committee.

The primary investment advisor ("IA") or primary institutional investment manager ("IM") will work with the donor to establish the recommended investment objectives and strategy for the donor's DAF, considering the donor's plans for recommending grants, target returns, risk tolerance and other unique considerations, consistent with this policy.

### 4.2 CRITERIA FOR PROFESSIONALLY MANAGED ACCOUNTS

All IAs and IMs must be approved in advance by AEF. The relationship between an IA or IM and AEF will be evidenced by an investment advisory agreement (the "Investment Advisory Agreement"). In approving IAs and IMs, AEF will consider, among other factors, the length of time the firm has been in existence, its track record, fees and assets under management.

The IA or IM may be appointed to manage the assets on a discretionary or non-discretionary basis, however, AEF's strong preference is that assets be managed on a discretionary basis. If AEF and the IA or IM elects a non-discretionary role, the IA or IM will make arrangements to execute all trades approved by AEF.

All IAs and IMs, whether managing assets on a discretionary or non-discretionary basis, must adhere to the investment guidelines provided for in Section 5 in addition to any specific guidelines provided for in the Investment Advisory Agreement.

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**4.3 PROXY VOTING AND OTHER LEGAL AND CORPORATE ACTIONS**

If provided for in the Investment Advisory Agreement, the IA or IM shall vote proxies and respond to legal and corporate actions (such as tender offers, rights offerings, notices of bankruptcies and class action lawsuits) consistent with its policies, including any policies it has adopted under Rule 206(4)-6 of the Investment Advisers Act of 1940, as amended, and in a manner that is in the best interest of AEF and AEF's investment objectives. An IA or IM may disclaim this responsibility in writing to AEF. If disclaimed, AEF will not undertake to notify the IA or IM as to whether or how the proxies were voted.

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## 5.0 Investment Guidelines for Discretionary Investment Advisors and Institutional Investment Managers

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**5.1 MANAGEMENT OF DAF INVESTMENTS**

The IA or IM shall manage the DAF's investments in compliance with Section 4.1 and this Section 5 and in a manner which provides sufficient liquidity to support the donor's recommended grants and to cover DAF costs and expense.

**5.2 DIVERSIFICATION OF DAF INVESTMENTS**

The DAF's investments will be managed prudently and diversified among asset classes, sectors and securities, taking into account the donor's time horizon and planned granting strategy.

**5.3 ALTERNATIVE PRIVATE INVESTMENTS**

AEF recognizes the importance of alternative private investments, including but not limited to, hedge funds and private equity, as part of an overall asset allocation. In order for AEF to approve an alternative private investment, AEF generally requires:

- a. A DAF must have an asset balance of at least \$500,000.
- b. The IA or IM and the donor have signed and submitted the Special Assets Letter of Understanding and the corresponding Alternative Investment Questionnaire.
- c. The IA or IM must provide a detailed explanation of the role of the alternative private investment in the portfolio's



**investment strategy and confirm that the donor's planned giving strategy will not be impeded by the type and extent of alternative private investments.**

Depending on the nature, size and complexity of the alternative private investment, AEF may require additional information and documents from the IA or IM and donor prior to acceptance of the investment.

AEF in its sole discretion reserves the right to establish a maximum allocation of alternative private investments in each DAF relative to the size and nature of any other assets in such DAF.

#### **5.4 PERMITTED INVESTMENTS AND TRANSACTIONS**



- a. The following investments and transactions are permitted:
  - i. Cash and cash equivalents.
  - ii. Publicly traded stocks, bonds and CDs, exclusive of flow-through entities.
  - iii. Publicly traded mutual funds, publicly traded REITs, ETF and ETNs, exclusive of flow-through entities.
- b. In addition, the following investments and transactions may be permitted with additional review and approval by AEF in its sole discretion:
  - i. Investments owned or managed by an IA, IM, subadvisor or their affiliates.
  - ii. Individual derivative securities to increase the actual or potential risk exposure of the account, including but not limited to:
    1. Structured notes.
    2. Futures contracts.
    3. Short sales, margin trading and such other specialized investment activities.
  - iii. Publicly-traded flow-through or pass-through entities which may expose AEF to Unrelated Business Income Tax under Section 511 of the Internal Revenue Code of 1986, as amended.
  - iv. Private REITS.

- v. Private companies. Interval funds.
- vi. Any interest in an operating business which, taken together with a donor's personal or affiliated holdings in that business, represents 20% or more of the ownership of such business.
- vii. Investments in alternative private investments for DAFs with less than \$500,000 in assets.
- viii. Investments with trading restrictions.

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## 5.5 PROHIBITED INVESTMENTS

The following investments are prohibited:

- a. Spread, straddle and uncovered option positions.
- b. Business development companies (BDC).
- c. Master limited partnerships (MLP).
- d. Investments ineligible for institutional investors.
- e. Any other investment as determined by the Investment Oversight Team in its sole discretion.

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## 5.6 PREAPPROVAL REQUIREMENTS

AEF requires preapproval for the following:

- a. Any investment representing more than 2% of the securities of a publicly-traded company.
- b. Any purchase of a single security representing greater than 2% of the Total Portfolio.

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## 5.7 EXCEPTIONS

Any exceptions to this Section 5 will be reviewed on a case-by-case basis and approved by AEF. AEF may require additional information and documents from the IA or IM and donor prior to granting an exception pursuant to this Section 5.7.





## 6.0 AEF Oversight of DAFs Investments Managed by Discretionary Investment Advisors and Institutional Investment Managers

### 6.1 BENCHMARK

Any exceptions to this Section 5 will be reviewed on a case-by-case basis and approved by AEF. AEF may require additional information and documents from the IA or IM and donor prior to granting an exception pursuant to this Section 5.7.



CLASS	PORTFOLIO WEIGHT
Russell 3000 Index	45%
Bloomberg Barclays US Aggregate Bond Index	25%
MSCI All Cap World (ex-U.S.) Index	15%
Hedge Fund Research Fund-of-Funds Index	10%
Bloomberg Barclays U.S. Short-Term Treasury Index	5%

The donor must agree with the investment strategy and benchmark proposed by the IA or IM for the DAF. AEF will review and approve any proposed custom benchmark and such benchmark must be documented in the Investment Advisory Agreement.

If the IA or IM expects performance to deviate significantly from the agreed-upon benchmark due to a change in the long-term investment strategy, the IA or IM may propose a revised benchmark which will be subject to the review and approval by AEF. AEF encourages the IA or IM to contact AEF as soon as possible to propose a significant change in the investment strategy.

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<b>6.2</b>	<b>AEF'S EXAMINATION OF DAF INVESTMENTS</b>	AEF monitors and reviews the composition and performance of DAFs in accordance with internal standards. AEF reserves the right to contact the IA or IM for additional information regarding any DAF.
<b>6.3</b>	<b>RIGHT TO TERMINATE INVESTMENT ADVISORY AGREEMENT</b>	AEF may terminate any Investment Advisory Agreement at any time upon written notice to the IA or IM. AEF reserves the right to terminate an Investment Advisory Agreement if, among other things, the IA or IM consistently under performs the benchmark for a given DAF, fails to abide by this policy or the Investment Advisory Agreement, assumes excessive risk for the return of a given DAF, or takes any action that would damage the reputation of AEF or impede the ability of AEF to fulfill its charitable mission.
<b>6.4</b>	<b>UNWINDING OF ALTERNATIVE PRIVATE INVESTMENTS</b>	AEF reserves the right in its sole discretion to unwind an alternative private investment or require a rebalancing of current investments in a DAF in order to comply with this policy in reducing AEF's overall risk.

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## 7.0 Management of DAFs

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AEF's policies and procedures provide that each DAF be managed by an IA or IM. If a donor's IA or IM retires, dies or is otherwise unavailable, AEF will work directly with the donor to engage a new IA or IM to continue the management of the DAF. In the event a new IA or IM is not selected, AEF reserves the right to suspend granting on the DAF until such IA or IM is engaged.

## 8.0 Exceptions

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Any exceptions to this policy will be reviewed on a case-by-case basis and approved by AEF.

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**FOR MORE INFORMATION**

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