

Gunflint Trail Historical Society

Endowment Fund Investment, Distribution and Use Policy

Purpose

The Gunflint Trail Historical Society Endowment Fund (the “Endowment”) was created to provide perpetual financial support of Chik-Wauk Museum and Nature Center. This policy establishes guidelines and authorizations and responsibilities for the administration of the Endowment.

General Goals

This policy reflects the anticipated financial needs of the Gunflint Trail Historical Society (GTHS) and its tolerance for assuming investment and financial risk. It is intended to provide sufficient flexibility to respond to changes in capital market conditions or GTHS financial circumstances.

Authority and Responsibilities

The GTHS Finance Committee is authorized to implement this policy.

The GTHS Finance Committee shall report quarterly to the Board of Trustees on Endowment investment Performance, and annually after completing its Annual Review.

Investment Objectives

The Endowment is to be invested to preserve the long-term, inflation-adjusted purchasing power of its assets while providing a relatively predictable and growing stream of annual distributions.

The investment objective of the Fund is to achieve a total annual average return (income and appreciation) of 5% above inflation over a full market cycle (3-5 years). It is recognized that performance will vary, sometimes significantly, across shorter periods of time.

Endowment assets will be managed as a balanced portfolio composed of equities, fixed income, and cash. Equity investments are expected to maximize the long-term real growth of Portfolio assets. Fixed income investments are expected to generate current income (dividends and interest), provide more stable periodic returns, and provide some protection against a prolonged decline in the value of equity investments. Cash equivalents generally are expected to be used temporarily prior to investment of dividends, interest, and gifts.

It is expected that the allocation of investments in the portfolio shall be 50% equities and 50% fixed income. At any given time the allocation may fall within the following ranges: equity at 45-55%, fixed income at 45-55%, and cash equivalents from 0-5%. The portfolio will be rebalanced whenever the allocation falls outside these ranges, and annually in January to return to 50% equities and 50% fixed income.

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Generally, Endowment assets will be invested in mutual funds, ETFs, and government-secured certificates of deposit.

The Finance Committee is not expected to engage in active management of the portfolio and will not, without Board approval, invest in individual securities, hedge funds, master limited partnerships, real estate, commodities, derivatives, leveraged transactions, precious metals, private equity, options, futures, or private placements. This prohibition does not extend to mutual funds that may use these strategies to mitigate risk and enhance return.

The Finance Committee may but is not expected to use the services of an investment advisor in administering the Endowment portfolio or conducting the Annual Review.

Distribution (Spending) Policy

Unless necessary to maintain the viability of Chik-Wauk Museum and Nature Center, no distributions of Endowment assets shall occur until the first fiscal year after the Endowment achieves a value of \$500,000.00. Thereafter distributions from the fund may be made to fund Board-authorized activities of GTHS and Chik-Wauk Museum and Nature Center.

Unless a larger distribution is necessary to maintain the viability of Chik-Wauk Museum and Nature Center, distributions shall be subject to a “smoothing” policy and a “collar.” “Smoothing” provides consistency in funding and allows for an investment strategy with a higher expected return than might be the case if spending were determined by annual investment performance. A “collar” mitigates the impact of extreme market conditions on the Endowment principal.

The annual withdrawal may be up to 5% of the average of the prior twelve quarter- ending Endowment values, provided that the aggregate annual withdrawal shall not be more than 6% of the most recent calendar year-end Endowment value.

The amount of the annual draw and the periodicity of the draw (annually, monthly, quarterly) will be recommended by the Finance Committee in the proposed annual budget and approved by the Board.

Donor Restrictions

In all instances, express donor restrictions shall be respected. The specifics of this policy may be amended as necessary to accommodate the restriction.

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Annual Review

To ensure that portfolio continues to meet the General Goals and Investment Objectives, at least annually the GTHS Finance Committee shall:

- Review the financial needs of GTHS and its financial and investment risk tolerance to determine if the asset allocation and distribution aspects of this policy remain appropriate.
- Review the performance of the Endowment portfolio against key benchmarks for purposes of determining if any adjustments in investments are warranted. Commonly used benchmarks include those listed in the prospectus for each investment in the portfolio.
- Rebalance the portfolio to re-establish in the recommended asset allocation.
- Recommend, as advisable, amendments to this policy to GTHS Board of Trustees.

The results of this Review shall be presented to the Board.

Amendments as recorded in Trustee minutes:
July 11, 2022: Original document approved