


ENDOWMENT for  
 **EQUAL**  
**JUSTICE**

*Endowment for Equal Justice Investment Policy Statement*

November, 2022

# Endowment for Equal Justice

## *Investment Policy Statement*

### **I. Overview**

This investment policy (the “Investment Policy”) of the Endowment for Equal Justice (the “Endowment”) is created to ensure a clear understanding of the Endowment’s investment goals and objectives as determined by the Endowment’s Board of Directors (the “Board”) in consultation with Canterbury Consulting (the “Investment Advisor”). Included are guidelines and restrictions agreed upon by the Endowment and the Investment Advisor.

### **II. Purpose and Scope**

The purpose of this Investment Policy is to outline the goals and objectives for management of the Endowment’s investment assets that have been identified by the Board. The intent of the policy is to (1) clearly identify the investment objectives for management of the assets, (2) establish a clear understanding of the division of responsibilities among the various parties involved in the management of the assets, (3) specify the criteria for the ongoing performance evaluation of the investment managers (the “Investment Managers”) selected by the Investment Advisor, and (4) provide the policy parameters within which assets are to be managed. These guidelines are intended to be sufficiently specific to be meaningful, while also sufficiently flexible to be practical.

### **III. Vision and Values**

In making investment decisions, the Endowment, acting through the Operations and Investment Committee of the Board (the “Investment Committee”), will consider:

- (1) The Endowment’s mission of pursuing equal justice through long-term financial support for the provision of civil legal services to persons in need in Washington State;
- (2) The fiduciary obligations of the Endowment’s Board as stewards of the Endowment’s resources in support of its mission;
- (3) The values underlying the Endowment’s mission, including social, ethical and environmental values consistent with principles of sustainable and responsible investment and with particular attention to advancing racial equity; and
- (4) Time horizons and other factors relevant to the ability of the Endowment to achieve its mission.

### **IV. Definition of Duties**

#### **A. Board**

The Board is responsible for broad fiduciary oversight of the investments, and has adopted this investment policy as the statement of intent for achieving the investment objectives. The Board’s responsibilities include (1) approving the Investment Policy and any future revisions to it, (2) appointing the members of the Investment Committee and delegating to the Investment Committee the responsibility to oversee implementation of the Investment Policy, (3) approving Investment Committee recommendations regarding engagement of an investment advisor, and (4) receiving

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reports from the Investment Committee at least annually regarding investment results, portfolio composition, and other information the Board requests.

### **B. Chief Financial Officer**

The Contract CFO of the Legal Foundation of Washington (the “CFO”) or such comparable position as may be established in the future, in collaboration with the Investment Advisor, is responsible for the assurance of financial management related to investment decisions within the context of the implementation of this Investment Policy Statement.

### **C. Investment Committee**

The Investment Committee assists the Board in fulfilling its fiduciary responsibility for oversight of the investment assets of the Endowment and performs such other duties as are delegated to it by the Board. More specifically, responsibilities of the Investment Committee include the following:

- Selecting an Investment Advisor, and establishing the scope and terms of the delegation of investment responsibility consistent with the purposes of the Endowment;
- Implementing the hiring and termination of Investment Advisor;
- Monitoring and evaluating investment performance on at least a quarterly and ongoing basis;
- Developing criteria for and reviewing the Investment Advisor’s performance and compliance with the scope and terms of the delegation;
- Reviewing this Investment Policy at least annually and recommending any modifications to the Board for approval;
- Reviewing and, if appropriate, approving time-limited Investment Policy exceptions, if any, that the Investment Advisor may recommend to address severe exigent market conditions;
- Reviewing and advising the Board on the Endowment’s Spending Policy in accordance with its terms; and
- Reporting to the Board regarding investment results, asset allocation, composition, and other information the Board may request.

### **D. Investment Advisor**

The Investment Advisor has the responsibility to manage the investment funds given a set of asset allocation targets within asset allocation ranges for the overall portfolio (the “Portfolio” or the “Fund”). The Investment Advisor exercises its responsibilities in accordance with and subject to this Investment Policy.

In addition to taking general economic and inflation conditions into consideration, the Investment Advisor is directed to make management and investment decisions about an individual asset not in isolation, but rather in the context of the Endowment’s Portfolio of investments and overall investment strategy, including the risk and return parameters set forth in this Investment Policy.

In accordance with the Investment Management Agreement between the Investment Advisor and the Endowment, the Investment Advisor has the following responsibilities:

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- Assist in the development of, and recommend revisions to, the Investment Policy, which will include investment policies, guidelines and objectives for the Endowment's assets, asset allocation targets, and ranges and potential exceptions to such investment policies, guidelines and objectives due to severe exigent market conditions;
- Review, hire and terminate Investment Managers;
- Review, monitor, and adjust allocations among Investment Managers within the asset allocation constraints of the Investment Policy;
- Work with the custodian and respective Investment Managers to implement cash flow requirements, rebalances, and other investment decisions;
- Provide performance measurement and evaluation reports for each Investment Manager and for the overall Endowment Portfolio, which shall include:
  - The overall performance results in relation to stated objectives and policy guidelines and specifically in relation to the relevant custom policy index designed for the Portfolio as defined under "Investment Objectives" below.
  - For individual Investment Managers,
    - Performance results in relation to stated objectives and policy guidelines, including both rates of return and an examination of the risk an Investment Manager assumed in order to achieve that return.
    - Comparison of each Investment Manager's performance against its respective benchmarks and peers.
  - Current liquidity position for each investment in the Portfolio.
- Review with the Investment Committee general economic and market conditions and situations and their possible effects on the current and future status and/or performance of the Portfolio;
- Assist in the selection of a trustee, custodian, actuary or administrator if necessary;
- As appropriate or upon the request of the Investment Committee, provide asset allocation studies to discuss and make recommendations on the broad policy framework, including the Endowment's Spending Policy;
- Provide appropriate support to the Endowment's internal and contract staff in their work with the Endowment's auditors.

### **E. Investment Managers**

Each Investment Manager shall have full discretion and authority to implement its own investment strategy for the assets it is managing, including selection of securities and timing of purchases and sales of assets, subject to the Investment Policy guidelines that are specific to its asset allocation.

### **F. Custodian**

The custodian has possession of securities for safekeeping, for settlement of trades, and for collection of income. In addition, the custodian (1) processes contributions and withdrawals, (2) provides comprehensive monthly statements for each investment in the portfolio, (3) provides means and procedures to the respective Investment Managers for the voting of proxies, and (4) meets with the CFO, as required, to address custodial issues that may be of concern.

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### V. Investment Objectives

#### A. Financial Objective

The objective of the Endowment is for its Portfolio to provide a sustainable source of funding for civil legal aid services for individuals and families living in poverty or otherwise in need. The investment objectives for the Portfolio are long term in nature with an investment horizon in perpetuity. The long-term objective is to earn a total rate of return (income plus capital gains) that will exceed the demands placed on the Portfolio to support the Endowment's goals over any seven- to ten-year period in addition to exceeding the rate of inflation, as measured by the US Consumer Price Index – All items (CPI –U). The specific objectives of the Fund are expressed as follows:

**Return:** The overall rate of return objective for the Fund is a reasonable “real” rate consistent with the assumed level of risk. The return objective of the Fund is to exceed the return of a baseline policy, net of fees. The baseline policy is defined as 60% MSCI All Country World Index / 40% Barclays Capital Global Aggregate Index. The objective is to achieve a rate of return that equals or exceeds the CPI by 5% over a market cycle.

**Risk:** It is expected that the level of risk as measured by the annualized standard deviation of returns will be no greater than that of a passive portfolio reflecting the diversification of the investment Portfolio.

The Portfolio will also be tracked against an attribution index made up of a blend of passive proxies that reflects the proportional allocation to different asset classes within the Portfolio. A detailed description of the attribution index will be provided in the Portfolio's performance and attribution reports.

#### B. Spending

The Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) allows the Endowment to appropriate for expenditure an amount of the Fund as the Board determines is prudent for the purposes for which the Fund was established. To implement this, the Board has adopted a spending policy (the “Spending Policy”), attached hereto as Appendix A.

The Endowment considers:

- The duration and preservation of the Fund;
- The fulfillment of the Endowment's mission and its objectives for the Fund;
- General economic conditions;
- The effects of inflation and deflation;
- The expected total return from income and appreciation;
- The Endowment's other resources;
- The Endowment's operating expenses; and
- The Endowment's Investment Policy.

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Spending is based on a total return strategy which includes both income and appreciation (both realized and unrealized gains).

Once a year, in accordance with the Spending Policy, the Endowment distributes the spending to the Legal Foundation of Washington to be allocated within Washington State's civil legal aid network. The annual amount distributed fluctuates based on application of the Spending Policy.

The Spending Policy provides for review by the Board not less than every three years, and the Investment Advisor will facilitate a review of the spending policy by the Investment Committee and Board prior to July 2025 and at least every third year thereafter. If such review results in a Board-adopted change in the Spending Policy, the revised Spending Policy will be substituted for the one attached as Appendix A without further action other than the Investment Committee notifying the Investment Advisor of such change in writing.

### **C. Mission-related Objectives**

The Board intends that the Endowment's investment program reflect the Endowment's vision and values set forth in Part II above. At present, the Board has identified the following three areas of focus.

- (1) Environmental, Social and Governance ("ESG"). Consistent with the Endowment's mission to provide a sustainable source of funding for civil legal aid services, the Endowment's investments should be based on factors that support sustainability of the Fund, in particular ESG factors. In selecting and monitoring Investment Managers, the Investment Advisor will consider ESG factors and the Investment Managers' own programs to implement ESG, and the Investment Advisor will report on this periodically to the Investment Committee. The Investment Advisor and the Investment Committee will continue to develop policies and practices regarding the ESG factors that are most relevant to the Endowment.
- (2) Screens. The Endowment may decide to forgo investing in assets that the Board determines are inconsistent with the Endowment's values. The list of currently screened investments ("Screens") is set forth in Appendix B attached hereto. The Endowment will implement these Screens through separate accounts with Investment Managers in the US and Non-US Equity Composites. The Investment Committee will periodically re-evaluate the Screens and update its recommendations to the Board. If the Board determines to change the Screens, the revised list of Screens will be substituted for the list attached as Appendix B without further action other than the Investment Committee notifying the Investment Advisor of such change in writing.
- (3) Diverse Investment Managers. The Endowment values diversity and seeks to ensure that the investment process for sourcing, evaluating and recommending talented Investment Managers is inclusive across race, ethnicity and gender. When selecting an Investment Advisor, the Endowment will consider the candidate's internal diversity policies and practices, as well as its practices for ensuring an inclusive manager selection process. The Investment Advisor will be required to report annually to the Endowment the number of diverse managers evaluated, recommended and hired across the consultant's client base.

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The Investment Advisor and Investment Managers will be surveyed on an annual basis to provide transparency on their respective workforces by race, gender and other groups such as disabled, veterans or LBGTQI across various categories with the intent to encourage diversity, equity and inclusion in the investment industry and promote actionable initiatives on the data collected. The survey data collected will be reported and reviewed by the Investment Committee annually.

For reporting purposes, a diverse manager is defined as a minority- or women-owned business enterprise (“MWBE”) with 51% or more ownership by diverse members. This policy does not preclude inclusion of other groups such as disabled, veterans or LBGTQI.

Consideration of how best to incorporate the Endowment’s mission, values and vision into its investment program will be ongoing. Even if the Board’s fiduciary duties limit the Endowment’s ability to select investments solely for their impacts, the Investment Committee, working with the Investment Advisor, will seek to learn about the impacts of the Endowment’s investments on matters of equal justice.

## **VI. Asset Allocation**

### **A. Applicable Policies**

The asset allocation policies applicable to the Fund are designed to be consistent with the objectives of return and risk. These policies, which consider the historic relationships of return and risk among asset classes, are designed to provide the highest probability of meeting or exceeding the Fund’s return objectives at the lowest possible risk.

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The table below indicates the target percentage and allowable ranges for each of the major asset categories. Changes in policy ranges may occur as a result of changing market conditions or anticipated changes in the Fund's needs. While the asset allocation policies will be reviewed on a regular basis, the Board believes that the need to deviate from the policy targets would be rare.

Asset Allocation Guidelines	
	Range (%)
<b>Growth Assets</b>	
Equities	40 - 80
US Equities	25 - 50
Non-US Equities	15 - 40
Private Equity	0 - 20
<b>Capital Preservation Assets</b>	
Fixed Income / Alternatives	15 - 60
Fixed Income	15 - 50
Cash	0 - 10
Hedge Funds/Liquid Alts	0 - 20
<b>Inflation Hedging Assets</b>	
Real Assets	0 - 10
Liquid Real Assets	0 - 10

### B. Rebalancing

In order to maintain the risk and return characteristics of the asset allocation policies and plan, the Portfolio will be rebalanced towards target allocations when (1) contributions to or distributions from the Portfolio are made, (2) the asset class allocations have fallen outside the allowable ranges, or (3) allocations have deviated from target by more than 20% within an asset class or by more than 5% points on an absolute basis.

### C. Liquidity

The Fund will maintain adequate cash reserves to accommodate regular operational needs. While the Fund will include investments that have less than daily liquidity, the Fund will maintain sufficient liquidity to (a) meet the aggregate of the Portfolio's unfunded commitments, and (b) meet distribution requirements in normal and stressed market conditions. The Fund will be managed to have enough liquidity that can allow the reallocation of assets to areas of opportunities that may present themselves as a result of market dislocations. The Fund's total illiquid assets shall not exceed 15% of total assets.

The Fund's liquidity profile should also be such that the ratio of assets that can be liquidated within one quarter is at least four times the combined amount of three years of spending needs plus the aggregate of all unfunded commitments across all private funds.



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Investments made through a mutual fund governed by the Securities Act of 1940 will be considered liquid investments even if the underlying strategy does not fit into a traditional equity or fixed income strategy. Mutual funds and commingled funds will be held to the specific guidelines of their respective prospectus.

### D. Transaction Costs

All transactions should be entered into on the basis of best execution (best realized net price). Reasonable commissions or fees may be designated for payment of services rendered in connection with the day to day management of the assets. Underlying Investment Manager fees and costs will be included in the Investment Advisor’s periodic performance measurement and evaluation reports regarding each Investment Manager.

### E. Benchmarking

The Endowment recognizes that the value added by an Investment Manager through active management is best measured over a full market cycle. In general terms, the performance of active Investment Managers is expected to deviate from their benchmark during any quarter or annual period, but they are expected to outperform their respective benchmarks over rolling three- to five-year periods. The performance benchmarks for the broad segments of the Portfolio are listed below:

Benchmarks	
Asset Class	Benchmark
<b>Equities</b>	
U.S. Equities	Russell 3000 Index
Non-U.S. Equities	MSCI All Country World Index ex U.S.
<b>Non-Traditional</b>	
Liquid Alternatives	60% MSCI ACWI / 40% BBgBC Global Agg
Private Equity	Russell 3000 Index (one quarter lagged)
<b>Real Assets</b>	
Liquid Real Assets	Custom*
<b>Fixed Income &amp; Cash</b>	
Fixed Income	Barclays Capital Aggregate Bond Index
Cash	90 Day T-bills

\* The custom index will reflect the composition and nature of strategies included in that segment of the portfolio.

Individual Investment Managers will be measured against a peer universe of managed funds and an identified benchmark that best represents the Investment Manager’s investment style.

The overall Fund will be tracked against an attribution index that reflects the diversified asset allocation in the Fund. The attribution index will be made up of a blend of the above benchmarks reflecting the allocation to each asset class within the Fund.

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### **VII. Investment Strategies**

The following is a list of general categories of investment strategies (some of which may overlap with others). The list does not, and should not be interpreted to, give rise to any requirement under this Investment Policy that the Portfolio consist of investments falling within any specific category or all of the categories at any given time. Furthermore, the Investment Committee, in consultation with the Investment Advisor, may limit or prohibit investments within a specific category or categories without necessitating an amendment of the overall Investment Policy.

#### **A. Fixed Income**

The purpose of the fixed income segment is to provide a hedge against deflation, provide a stable component of return, and minimize the overall volatility of the Fund.

The fixed income asset class includes the fixed income markets of the US and the world's other economies. It includes, but is not limited to, US Treasury and government agency bonds, US and non-US dollar denominated securities, public and private corporate debt, mortgage and asset-backed securities, non-investment grade debt, currencies, and money market instruments such as commercial paper, certificates of deposit, time deposits, bankers' acceptances, repurchase agreements, and US Treasury and agency obligations. The Investment Managers will take into consideration credit quality, sector, duration, and issuer concentrations in selecting an appropriate mix of fixed income securities. Investments in fixed income securities should be managed actively to pursue opportunities presented by changes in interest rates, credit ratings and maturity premiums.

The allocation to investment strategies will be managed to maintain an average intermediate duration at the level of the overall fixed income segment.

The investment objective for the total fixed income segment is to outperform the Barclays Aggregate Bond index over a normal investment cycle.

#### **B. Public Equities**

The purpose of the public equities segment, both domestic and international, is to provide capital appreciation, growth of income and current income. This asset class carries the assumption of greater market volatility and increased risk of loss, but also provides a traditional approach to meeting total return goals for the Portfolio. This segment includes domestic and international common stocks, American Depository Receipts ("ADRs"), and other equity securities traded on the world's stock exchanges or over-the-counter markets.

The investment objective for the domestic equity composite is to outperform the Russell 3000 Index over a normal investment cycle.

The investment objective for the international (developed and emerging) markets equities is to outperform the MSCI ACWI ex U.S. Index over a normal investment cycle.

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### **C. Private Equity**

The private equity portfolio may include investments in a variety of commingled/partnership and direct investment vehicles including, but not limited to, venture capital, buyout, turnaround, mezzanine, distressed security and special situation funds. The private equity portfolio is recognized to be long-term in nature and highly illiquid.

The investment objective for this asset class will be measured by internal rate of return (“IRR”), with an annualized return of 300 bps or more over a public equity market index. The benchmark for this segment, when mature, will be the Russell 3000 Index, measured on a time-weighted basis and reported on a one-quarter lag.

### **D. Hedge Strategies**

The purpose of using hedged strategies is to reduce the volatility of the overall portfolio by further diversifying the Portfolio and to provide an alternative source of return from that of the traditional domestic and international capital markets. Investment Managers exploit market inefficiencies while minimizing exposure and correlation to traditional stock and bond markets.

The investment objective for the hedge fund composite is to outperform a peer group of funds as represented by the HFRI Funds Weighted Index.

### **E. Marketable Alternatives**

These investments represent a dynamic allocation across a variety of strategies using marketable securities which seek to generate absolute positive returns regardless of the direction of the capital markets. Investment Managers allocate tactically across these strategies in order to exploit market inefficiencies while reducing the correlation to traditional stock and bond markets. For the most part exposure to these strategies is through publicly traded funds.

The investment objective for the dynamic asset allocation strategies composite is to outperform a blended benchmark of 60% MSCI ACWI/40% BbgBC Global Aggregate Index. The benchmark for an individual Investment Manager will be determined at the time that the Investment Manager is hired.

### **F. Inflation Hedging**

The purpose of the inflation hedging segment is to represent claims on future streams of inflation sensitive income, protect against unanticipated inflation, and capitalize on rising commodity prices. This segment plays an important diversifying role in the Portfolio as assets in this segment have a tendency to outperform during periods of rising inflation.

This segment includes investments in oil and gas, real estate, infrastructure, agriculture, commodities, timber, and inflation protection bonds, as well as financial instruments whose value is derived from a contractual claim on an underlying real asset such as commodity futures, REITs and MLPs. It may also include equity securities of companies engaged in energy, natural resources and basic materials businesses. The investments can be made via public and private funds, partnerships and co-investments.

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The investment objective for the liquid real asset segment is to outperform the custom inflation hedge benchmark as listed in the benchmarking segment of these policies. An individual Investment Manager's benchmark will be determined at the time that the Investment Manager is hired.

The investment objective for individual real estate funds will be measured by IRR. The benchmark for the overall real estate segment, when mature, will be the NCREIF Property Index, measured on a time-weighted basis.

The investments objective for individual private funds investing in timber, oil and gas, infrastructure, and other areas of real assets will be measured by IRR. The benchmark for individual funds will be determined at the time that the Investment Manager is hired.

### **G. Partnership Investments**

Guidelines will be established during the selection of partnership vehicles for hedge funds, real estate funds, private equity funds, and other funds. When an Investment Manager or a fund has been selected, an appropriate benchmark for measuring performance will be determined at that time.

While no one set of guidelines will apply to all non-traditional investment opportunities, the following key items should be considered and documented before an allocation to a particular vehicle is made:

- An understanding of the specific strategy, and an understanding of the tenure and track record of the management as a team.
- The type of investment vehicle used so as to minimize any adverse consequences for the Fund.
- The terms of the agreement to clearly specify the termination date of the fund, the ability and process to withdraw funds, the management fee structure, the process for the allocation of profits and losses, the incentive allocation, the distribution rules, and the key person clause.
- An understanding of the quantitative and qualitative goals that are used to compensate fund personnel.
- The amount of leverage allowed. Although leverage may be employed with an alternative investment vehicle, no alternative investment vehicle may be used that will obligate or encumber the Fund beyond its original investment commitment.
- The potential impact of unrelated business income taxes on the fund's projected results.
- An inquiry about the fund's internal controls and a request of the auditor's assessment of internal controls.
- Each alternative investment will be monitored against an appropriate benchmark for the strategy.
- The fund will be monitored for changes in valuation methodologies, personnel, liquidity terms, and investment style.

### **H. Cash Equivalents**

The percentage of total assets allocated to cash equivalents should provide enough liquidity to support general operational expenses.

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Cash equivalents may include a selection of high-quality money market instruments such as U.S. Treasury bills, commercial paper, and certificates of deposit, as well as bank Short Term Investment Funds (“STIFs”).

### **I. Derivatives**

Derivatives are financial instruments that derive their value from the value of some underlying security or asset. Derivative instruments may be used in lieu of physical securities when the derivatives offer greater liquidity, lower transaction costs, or greater precision for the purpose of managing a portfolio’s market or security exposure, duration, yield curve exposure, credit risk or prepayment risk. Derivatives will be used primarily to hedge or reduce risk, but they may also be used to increase exposure to a market factor or portfolio attribute if that desired exposure is not easily obtainable via physical securities.

In all cases, the use of derivatives is subject to appropriate limitations including, but not limited to, duration, counterparty, credit quality, and asset concentration. Any derivatives used must be highly liquid and have an active secondary market. Derivatives may be used when they offer a more efficient means to manage the Portfolio, but they are not to be used for the sole purpose of yield enhancement.

Certain guidelines for acceptable derivatives instruments and limitations on their use are directly applicable for separate accounts. If commingled funds or mutual funds are utilized, it is recognized that the fund’s prospectus will govern the management of the fund. These guidelines then become relevant in fund selection.

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### Acknowledged & Agreed

This Investment Policy has been reviewed and approved by the Board of Directors of the Endowment for Equal Justice. Should the Board believe at any time that changes, additions, or deletions to this Investment Policy are advisable, it shall recommend them to the Investment Advisor.

#### Endowment for Equal Justice

By: \_\_\_\_\_ Date: \_\_\_\_\_

Name: Michelle Moersfelder, President

By: \_\_\_\_\_ Date: \_\_\_\_\_

Name: Margaret Niles, Treasurer

By acknowledging in writing the receipt of this Investment Policy, Canterbury Consulting agrees to its terms and conditions. Should the Investment Advisor believe at any time that changes, additions, or deletions to this Investment Policy are advisable, it shall recommend them to the Endowment for Equal Justice.

#### Canterbury Consulting (Investment Advisor)

By: \_\_\_\_\_ Date: \_\_\_\_\_

Name:

By: \_\_\_\_\_ Date: \_\_\_\_\_

Name:

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### **Appendix A**

Spending Policy

(To Be Attached)

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### Appendix B

#### Screens

The following investments shall be excluded from the Endowment's Portfolio:

1. Investments in companies that have direct links to or derive revenue from predatory lending practices.
2. Investments in companies that manufacture or sell civilian firearms.
3. Investments in companies that lack gender diversity, as determined on the basis of gender diversity on their boards. (This screen is an initial step toward the Endowment's goal to establish implementable screens that address board composition and workforce diversity practices, with particular attention to advancing racial equity.)
4. Investments in companies that operate private prisons.