



# Accounts Managed by Third Party Investment Managers

## Documents Required to Establish the Account

At the Greater Houston Community Foundation (GHCF) donors may recommend an external investment manager to manage the assets of their fund. In order to open an account managed by a third party, GHCF requires the following forms and agreements from the account's donor and the donor's investment manager.

### For Donors

**New Fund Agreement**

The donor will complete a new fund agreement to open a fund with GHCF. This is not required for existing fund holders.

**Donor Recommendation Letter**

A letter recommending an outside investment manager for the account should be provided to GHCF. A template is enclosed.

### For Investment Managers

**Letter of Agreement**

The investment manager must attest that he/she has read GHCF's Investment Policy Statement and agrees to adhere to it, and signs the Letter of Agreement.

**Investment Management Firm New Account Application**

The investment manager will forward their documents to open an investment account in the name of Greater Houston Community Foundation in order for GHCF to become the new account owner.

**Contact Information**

The investment manager will provide contact information to GHCF for ongoing support of the account.

**Reporting Requirements**

The investment manager will provide GHCF ongoing reporting as is described within this document.

## Donor Recommendation Letter for Outside Investment Manager

It is my request that the \_\_\_\_\_ ("Fund")  
at the Greater Houston Community Foundation ("GHCF") be managed by:

Investment Firm: \_\_\_\_\_

Investment Manager: \_\_\_\_\_

Investment Manager Phone: \_\_\_\_\_ Email: \_\_\_\_\_

My initial investment objective for this account is \_\_\_\_\_

I affirm that neither this investment manager nor any member of his or her family is a member of my family or is a family member of any person that I have designated or appointed to have donor advisory privileges with respect to the Fund. I also affirm that this investment firm is not an entity owned more than 35% by me, a donor advisor, or my family members.

I understand that this investment manager will take instruction only from authorized employees of GHCF in the management of this account. I acknowledge that the Fund is owned and controlled by GHCF and that GHCF reserves the right to replace this investment manager at any time.

I also understand that the Fund at GHCF will be charged \_\_\_\_\_ percent by the above investment manager's firm, in addition to administration fees charged by GHCF.

### GREATER HOUSTON COMMUNITY FOUNDATION RESERVE:

Creation of a reserve equivalent to the higher of 2% of the value of the fund's assets, or an amount equivalent to a total of the donor's annual fee and grant-making budget, will remain or be transferred to GHCF pooled investments as part of the donor's GHCF Donor Advised Fund. **As such, these funds will be placed in GHCF's Money Market pool as these assets are for short term use.**

## Letter of Agreement for Outside Investment Manager

The Greater Houston Community Foundation (“GHCF”) permits outside management of Donor Advised Funds with balances of at least \$500,000. GHCF intends to retain the recommended investment manager to manage the assets for such an account on the condition that the investment manager follows GHCF’s Investment Policy Statement (“IPS”) with regard to such accounts. The investment manager is accountable solely to GHCF. Therefore, the investment manager must consider the interests of GHCF and may not make management decisions that favor the interests of the donor to the detriment of GHCF. GHCF retains the right to terminate the relationship at any time and at its sole discretion.

This document outlines GHCF’s guidelines and procedures with regard to outside investment managers and the accounts under their management.

### ACCOUNT SET UP AND REPORTING REQUIREMENTS

1. The fund will have an initial minimum balance of \$500,000 and a minimum annual fee of \$6,500.
2. Each separately managed account shall be owned and titled in the name of “Greater Houston Community Foundation,” with a reference to the account name.
3. GHCF and the investment manager will agree upon a benchmark against which account performance will be measured.
4. Reserves of approximately 2% shall be maintained at GHCF to satisfy administrative fees, as well as any grants recommended. These shall be maintained and managed by GHCF in its short-term investment account, or donor recommended investment pool. Liquidity requirements and the appropriateness of the investment pool will be evaluated at least annually with the assigned Philanthropic Services Representative, and funds transferred accordingly to the donor’s GHCF fund.
5. The investment manager will provide full disclosure to the donor and GHCF of all fees and any areas where conflicts of interest may exist.
6. The investment manager will provide online access for GHCF to view any investment activity in the account.
7. GHCF has contracted with Advent Black Diamond to establish consistent reporting across accounts. GHCF requests the investment manager to assist as needed in establishing any Black Diamond data feeds.
8. The investment manager will provide a single monthly consolidated electronic statement that reflects all activity, including detail and summary totals of realized and unrealized gains and losses, detail list of investment purchases (including dividend reinvestments), detail of investments sold and a detail list of investments held at month end. This should be provided preferably within 5 business days following the end of each month and should be available online. A PDF of the monthly consolidated statements should be emailed to [statements@ghcf.org](mailto:statements@ghcf.org). GHCF must receive an explanation of differences for all variances, reclassifications, and prior period adjustments in order to complete the Donor’s statement reconciliation and to satisfy GHCF auditors.
9. The investment manager will provide GHCF with accurate and timely information so that accounting entries for investment balances, income, and expenses may be recorded in accordance with Generally Accepted Accounting Principles (GAAP). The investment manager will provide GHCF with sufficient evidentiary documents to allow GHCF’s auditor to efficiently audit GHCF financial statements in accordance with GAAP. The investment manager will also provide GHCF with their methodology for accounting, preferable First In First Out (FIFO).

10. The investment manager will provide the portfolio's quarterly and annual performance report or statement and must show the following items:
  - The investment strategy(s) with which the account complies.
  - The consolidated return of the account's investments for the calendar year, in comparison to appropriate and applicable benchmarks.
  - All fees attributable to the investment of the account for the calendar year.
11. The investment manager shall provide the name and phone number of the person(s) to contact when questions arise relating to the statements. *Please note issuance of quarterly statements to donors showing balance in account, and details on grants, gifts, earnings, and expenses will be provided to the donor by GHCF.*

## ACCOUNT MANAGEMENT GUIDELINES

1. Each account shall be invested in accordance set forth in GHCF's Investment Policy Statement located within this document.
2. In compliance with IRS Regulations, investments gifted into the account must have a cost basis (current value) per share of the average of the high and the low on the date received into the account.
3. In compliance with IRS Regulations of nonprofit organizations, wash sales are reported and not eliminated, as would be done with a taxable account holder.
4. Portfolios shall be rebalanced to the agreed upon asset allocation on a regular schedule, no less than semi-annually.
5. The investment manager shall take instructions (both written and verbal) only from authorized representatives of GHCF. Due to requirements imposed by Federal tax law, instructions shall not be accepted from the donor.
6. Only GHCF employees can initiate cash transfers from the investment account to the GHCF fund as noted on GHCF's most current wire instructions.
7. The Investment manager will be available for an annual meeting, in person or by phone, to discuss performance for the account, including the relative performance to the chosen benchmark.

# The Greater Houston Community Foundation Investment Policy Statement for Third-Party Funds

## I. INTRODUCTION

This Investment Policy Statement for Third-Party Funds (the "Third-Party IPS") reflects the investment policy, objectives, and constraints of any third-party managed accounts which utilize Third-Party Investment Managers (the "Managers") recommended by the donor and selected by the Greater Houston Community Foundation (the "Foundation"). While the specific detail of the Foundation's main Investment Policy Statement (the "IPS") for Custodial Investment Pools does not apply, the general guidelines do apply and are summarized below.

Exceptions to the Third-Party IPS for specific accounts may be made with the formal written approval of the President of the Foundation and the Chair (or both Co-Chairs if there are two) of the Investment Committee (the "Committee"). This approval will contain an explanation for granting the exception. The Committee will review explanations for any exceptions granted during the year at the end of each calendar year.

## II. GOVERNANCE & OVERSIGHT PROCESS

The Greater Houston Community Foundation Governing Board ("Board") has the ultimate responsibility for the management of the assets of the Foundation, including any third-party managed funds. The Board has delegated the oversight of these assets to the Committee and Foundation staff, who in turn will review and approve all Managers and proposed investment policy including compliance procedures. It is expected that all Managers will comply with their own process to manage any third-party funds. All Managers will provide detailed monthly account statements and such other reports of portfolio structure, performance and investment strategy as the Committee or Foundation staff may reasonably request.

## III. INVESTMENT OBJECTIVES, RISK & ASSET ALLOCATION

The primary investment objective for each third-party fund is to exceed the performance of an appropriate benchmark over rolling five-year periods. The benchmark composition for each account will be determined at the onset of the relationship and will be reflective of the expected return and expected volatility which will be directed by the time horizon and spending level of the account.

Broad asset class exposure is expected to play the following roles in any account:

1. Equity provides exposure to long-term economic growth.
2. Fixed Income provides a mixture of first, stability to a portfolio's returns during times of financial market distress and liquidity; and second, opportunistic exposure to mispricing and structural misperceptions.
3. Real Assets provide stability to a portfolio's returns relative to inflation.
4. Alternatives/Multi-Strategy provides absolute return focused exposure and may have ability to invest across asset classes.

The mix of asset class exposure for each account should be in line with its investment objectives and risk tolerance. Asset allocation for each account will comply with the following guidelines:

|                                | <b>Long-Term<br/>Growth<br/>Oriented</b> | <b>Growth<br/>&amp; Income<br/>Blend</b> | <b>Income<br/>Oriented</b> | <b>Short-Term<br/>Money<br/>Market</b> |
|--------------------------------|--|--|----------------------------|--|
| <b>Expected Time Horizon:</b>  | > 10 years                               | 5 – 10 years                             | < 5 years                  | < 1 year                               |
| <b>Broad Asset Allocation:</b> |  |  |                            |  |
| <b>Equity:</b>                 | > 60%                                    | 40 – 60%                                 | < 40%                      | 0%                                     |
| <b>Fixed Income:</b>           | < 40%                                    | 40 – 60%                                 | > 60%                      | 100%                                   |

The Foundation recognizes that, because of overall market conditions, there may be certain short-term periods that a third-party account does not achieve its risk-adjusted performance goal. Short-term volatility will be tolerated in each account as long as its aggregate volatility does not exceed the expected volatility of its benchmark over any three-year period.

#### **IV. COMPLIANCE PROCEDURES**

In seeking to attain the investment objectives set forth, Managers shall exercise loyalty, prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act as passed in the state of Texas (TEXAS PROPERTY CODE § 163 (2007)).

Managers must be registered with the U.S. Securities and Exchange Commission (SEC), willing to accept fiduciary responsibility including required disclosures and maintain compliance with their own compliance procedures. Managers will confirm such compliance as requested by the Foundation. Managers will also have the following responsibilities as they pertain to:

##### **1. Investment Strategy**

Managers will take responsibility for designing an asset allocation appropriate for the account, taking into consideration the expected time horizon of the account, risk preferences of the donor, and targeted spending levels. Investment strategy and ongoing management of the account will be consistent with all guidelines in this Third Party IPS.

- a. Managers will exercise full discretionary authority as to all buy, hold, and sell decisions for each security under management.

##### **2. Reporting**

Managers will produce a statement at the end of each month describing the portfolio asset class weightings, individual security positions showing both cost and market value, and all principal cash transactions, including all buys and sells in sufficient descriptive detail. For commingled assets, this statement should show unit position, unit value and relevant portfolio characteristics.

In addition to monthly statements, Managers must provide the Foundation with annual statements at the end of the calendar year. These consolidated annual statements should include:

- a. The investment strategy with which the account complies.
- b. The consolidated return of the account's investments for the calendar year.
- c. All fees attributable to the investment of the account for the calendar year.

##### **3. Performance Review and Evaluation**

Managers will participate in a meeting with Foundation staff as requested to review performance, asset allocation and investment strategy.

#### 4. **Brokerage**

Selection of brokers is at the sole discretion of the Managers. Managers will use best efforts to obtain brokerage services based upon consideration of the twin objectives of best execution of trades and the lowest net cost to the Foundation. The Foundation reserves the right to direct brokerage services for any or all Managers when this is deemed to be in the best interests of the Foundation.

At the request of the Foundation or at least annually, the Managers of any separately managed account will provide detailed soft dollar budgets, as well as summaries of all transactions, showing executing broker/dealer and commissions paid.

#### 5. **Voting of Proxies**

It shall be the policy of the Managers to use their best efforts to vote proxies for the exclusive benefit of the Foundation.

#### 6. **Custody**

All assets are expected to be held in custody with a "qualified custodian"<sup>1</sup> as defined by the SEC. Foundation staff will review and approve all custody relationships.

<sup>1</sup> The SEC defines a "qualified custodian" as one of the following: (i) A bank as defined in Sec 202(a)(2) of the Advisers Act [15 U.S.C. 80b-2(a)(2)] or a savings association as defined in Sec 3(b)(1) of the Federal Deposit Insurance Act [12 U.S.C. 1813(b)(1)] that has deposits insured by the Federal Deposit Insurance Corp. under the Federal Deposit Insurance Act [12 U.S.C. 1811]; (ii) A broker-dealer registered under Sec 15(b)(1) of the Securities Exchange Act of 1934 [15 U.S.C. 78o(b)(1)], holding client assets in customer accounts; (iii) A futures commission merchant registered under Sec 4f(a) of the Commodity Exchange Act [7 U.S.C. 6f(a)], holding client assets in customer accounts, but only with respect to clients' funds and security futures, or other securities incidental to transactions in contracts for purchase or sale of a commodity for future delivery and options thereon; and (iv) A foreign financial institution that customarily holds financial assets for its customers, provided that the foreign financial institution keeps the advisory clients' assets in customer accounts segregated from its proprietary assets.

**INVESTMENT MANAGER CONTACTS and PREFERENCES:**

**Primary Investment Manager:**

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Work Phone: \_\_\_\_\_ Email: \_\_\_\_\_

**Administrative:**

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Work Phone: \_\_\_\_\_ Email: \_\_\_\_\_

**Statements:**

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Work Phone: \_\_\_\_\_ Email: \_\_\_\_\_

What is the preference in GHCF requesting transfers from the Investment Manager?

Form *(please provide a template to GHCF)*

Verbal or Written Request *(i.e. email)*

**Donor:**

\_\_\_\_\_  
Signature Date

\_\_\_\_\_  
Printed Name

**Financial Advisor:**

\_\_\_\_\_  
Signature Date

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Firm Name

**Greater Houston Community Foundation:**

\_\_\_\_\_  
Signature Date

\_\_\_\_\_  
Printed Name