



VETERANS
LEGAL SERVICES



VETERANS LEGAL SERVICES

ENDOWMENT INVESTMENT POLICY

PURPOSE

This Policy sets forth: (i) the role and responsibilities of the Board of Directors and the Endowment Committee of Veterans Legal Services (“VLS” or the “Organization”) with respect to VLS’s endowment assets, including the Colonel Ruby W. Linn Endowment Fund; and (ii) the Organization’s investment objectives and policies with respect to the Organization’s endowment assets. This Policy is designed to ensure that VLS’s stewardship of the Organization’s endowment assets is in furtherance of VLS’s mission of providing free legal advice and representation to low-income military veterans.

ROLES AND RESPONSIBILITIES

i. VLS Board of Directors and Endowment Committee

The Board of Directors has the overall responsibility for the management of the Organization’s endowment assets. The Board of Directors has delegated to the Endowment Committee the direct responsibility for the supervision of the investment of the Organization’s endowment assets and the establishment and monitoring of investment practices and procedures.

In the oversight and management of the Organization’s endowment assets, the Board of Directors and the Endowment Committee will adhere to the following standards:

- a. The Board of Directors and the Endowment Committee will operate the Organization’s endowment investment program in compliance with all applicable laws and regulations concerning the management of investment assets of a nonprofit organization, including the Massachusetts Uniform Prudent Management of Institutional Funds Act (“Massachusetts UPMIFA”) (Mass. Gen. Laws c. 180A).
- b. In seeking to achieve the investment objectives of the Organization, the Board of Directors and the Endowment Committee will exercise prudence and appropriate care and loyalty in accordance with Massachusetts UPMIFA and other applicable standards of care and loyalty. All decisions relating to the investment of endowment assets must be based solely on the interest of the Organization.
- c. The Organization will comply with applicable accounting and reporting standards for endowment funds.

In carrying out its duties, the Endowment Committee's responsibilities will include:

- a. selection of endowment investment advisors, investment managers, and/or investment funds;
- b. retention, supervision and termination of service firms and professionals;
- c. quarterly review of the endowment investment performance, including compliance with stated asset allocation policies;
- d. annual monitoring and review of the overall costs of endowment investment;
- e. annual review and determination as to whether this Policy and the Organization's endowment investment processes require revision;
- f. quarterly reporting to the Organization's Board of Directors with updates and recommendations.

All gifts to VLS remain subject to the organization's Gift Acceptance Policy (copy attached as Appendix A) and VLS reserves the right to decline a gift that is contrary to the organization's mission or for other reasons in the organization's sole discretion. If a Donor of endowment assets prescribes investment or expenditure objectives or requirements that differ from those stated above or elsewhere in this Policy, and said gift is accepted by VLS, the Donor's objectives and requirements shall govern the investment and expenditure of the assets contributed by the Donor.

Veterans Legal Services is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code. This tax-exempt status shall be taken into consideration when making investment and expenditure decisions regarding the Organization's endowment assets.

ii. Custodian

The Custodian is charged with the responsibility of ensuring the safekeeping of the Funds and providing cash management services, administrative support and accounting services. The specific duties and responsibilities of the Custodian are to:

- a. Settle securities transactions on a timely basis.
- b. Collect all income and dividends when due.
- c. Value the holdings.
- d. Invest all available cash in an overnight sweep account or other short term investment vehicle as directed by VLS.
- e. Provide monthly reports that detail transactions, cash flows, securities held and their current values and change in value of each security and the overall Fund since the previous report.
- f. Ensure that the Funds are the registered or beneficial owner of all assets contained in the custody account.

In order to ensure the appropriate level of asset protection, the Custodian shall be either a trust company operating under state trust laws or a broker-dealer operating under federal and state securities laws and regulations. In addition, the Custodian must be an entity that is unaffiliated with the Advisor. The Custodian is identified in Appendix B to this IPS.

iii. Investment Advisor

The Endowment Committee may retain an Investment Advisor to manage the Funds in concert with its investment governance responsibilities. The Investment Advisor will be responsible for the discretionary management of a multiple-asset class, multiple-manager investment strategy that complies with the constraints and guidelines of this IPS. The Investment Advisor, if any, is identified in Appendix B to this IPS.

ENDOWMENT INVESTMENT OBJECTIVES

The overall endowment investment objectives of the Organization are as follows, stated in descending order of priority:

- a. preserve and grow the economic value of the overall portfolio of endowment assets in light of inflation; and
- b. to the extent possible, provide operating funds for the Organization, net of fund administrative expenses, in an amount that is not subject to large fluctuations from year-to-year.

ENDOWMENT INVESTMENT GUIDELINES

The Organization is expected to operate in perpetuity, so a long-term investment horizon, defined as 20 years, will be employed.

Permitted investments include: cash and cash equivalents, marketable securities including equities and fixed income securities, and mutual funds. High risk and alternative investments are not permitted except as a component of a low risk mutual fund.

Portfolio assets will be allocated across assets classes in accordance with the following guideline, with rebalancing done on a semi-annual basis or more frequently if deemed necessary:

- 0% - 30% Equity, including up to 15% Foreign Equity
- 70% - 100% Fixed Income, Cash or Cash Equivalents

More specifics related to the asset allocation objectives are provided in the Asset Allocation Executive Summary appended hereto as Appendix C.

Risk mitigation is an important element in the investment of the Organization's endowment assets.

The Organization will maintain a reasonable diversification of endowment investment assets within assets classes and investment categories.

Investments within the investment portfolio will be selected to provide liquidity on an as-needed basis.

A cash account may be maintained with a zero to very low risk tolerance to keep cash available for distributions and anticipated expenses.

An endowment gift clearing account may be maintained for the purpose of receiving, liquidating and allocating financial gifts to the Organization's endowment.

The Board of Directors and Endowment Committee or its designee will regularly monitor the endowment fund investment performance. Performance will be evaluated at least quarterly on a total return, net of fees basis. The Portfolio's composite investment performance will be judged against the Organization's long-term real return objective and periodic distribution objective. The performance of Portfolio components will be judged against applicable index measures and the established IPS benchmark defined below by the target asset allocation strategy.

The following index measures will be used in calculating benchmark returns as appropriate:

- Domestic Equity: Russell 3000
- International Equity: MSCI ACWI ex US
- Global Fixed Income: Barclays Aggregate Bond
- Alternatives: HFR: FOF (Hedge Fund: Fund of Funds)

ENDOWMENT EXPENDITURE GUIDELINES

In making distributions from the endowment, the Organization will use a total-return-based spending policy, meaning that distributions will be funded from net investment income, net realized gains, and proceeds from the sale of investments.

Distribution decisions will be subject to the priorities set forth in the Endowment Investment Objectives section, above.

APPENDIX A **GIFT ACCEPTANCE POLICY**

I. Introduction

Veterans Legal Services, a 501(c)(3) non-profit organization organized under the laws of the Commonwealth of Massachusetts, encourages the solicitation and acceptance of gifts to Veterans Legal Services (“VLS”) for purposes that will help VLS further and fulfill its mission. The following policies and guidelines govern acceptance of gifts made to VLS or for the benefit of any of VLS’s programs.

II. Mission

The mission of Veterans Legal Services is to promote self-sufficiency, financial security, and stability through accessible and comprehensive legal services.

III. Purpose of Policies and Guidelines

The VLS staff and Board of Directors solicit current and deferred/planned gifts from individuals, corporations, and foundations to secure the future growth and mission of VLS. These policies and guidelines govern the acceptance of gifts by VLS, and provide guidance to prospective donors and their advisors when making gifts to VLS. The provisions of these policies shall apply to all gifts received by VLS for any of its programs or services. IRS guidelines on charitable donations and valuation of donated property, as well as other resources on charitable giving, are attached as appendices to this document.

IV. Use of Legal Counsel

VLS shall seek the advice of legal counsel in matters relating to acceptance of gifts as appropriate. Review by outside counsel is recommended for the following:

1. Closely held stock transfers that are subject to restrictions or buy-sell agreements;
2. Documents naming Veterans Legal Services or any of its divisions as Trustee;
3. Gifts involving contracts, such as bargain sales or other documents that require VLS to assume an obligation;
4. Transactions with potential conflicts of interest that may invoke IRS sanctions or jeopardize VLS’s non-profit status; and
5. Other instances in which the use of counsel is deemed appropriate by the Gift Acceptance Committee.

V. Conflict of Interest

VLS will urge all prospective donors to seek the assistance of personal legal and financial advisors in matters relating to their gifts and the resulting tax and estate planning consequences. VLS will comply with the *Model Standards of Practice for the Charitable Gift Planner* promulgated by the National Committee on Planned Giving, attached as an appendix to this document.

VI. Restrictions on Gifts

VLS will accept unrestricted gifts, and gifts for specific programs and purposes, provided that such gifts are not inconsistent with VLS's stated mission, purposes, and priorities. VLS will not accept gifts that are too restrictive in purpose. Gifts that are too restrictive include those that violate the terms of the organization's corporate charter, gifts that are too difficult to administer, or gifts that are for purposes outside of VLS's mission. All final decisions on the restrictive nature of a gift, and its acceptance or refusal, shall be made by VLS's Gift Acceptance Committee.

VII. Gift Acceptance Committee

VLS's Gift Acceptance Committee shall consist of the following:

1. The VLS President;
2. The VLS Treasurer;
3. Three other members of the VLS Board of Directors appointed by the President; and
4. The Executive Director(s), who shall participate in a non-voting capacity.

The Gift Acceptance Committee is charged with the responsibility of reviewing all gifts made to VLS, properly screening and accepting those gifts, and making recommendations to the VLS Board of Directors on gift acceptance issues, where appropriate.

VIII. Types of Gifts

The following gifts are acceptable, subject to the criteria stated below:

- a. Cash
- b. Tangible Personal Property
- c. Securities
- d. Real Estate
- e. Remainder Interests in Property
- f. Oil, Gas and Mineral Interests
- g. Bargain Sales
- h. Life Insurance
- i. Charitable Gift Annuities
- j. Charitable Remainder Trusts
- k. Charitable Lead Trusts
- l. Retirement Plan Beneficiary Designations
- m. Bequests
- n. Life Insurance Beneficiary Designations

IX. Criteria for Gift Acceptance

- a. **Cash** – Acceptable in any form. Checks shall be made payable to Veterans Legal Services and mailed to: Veterans Legal Services, P.O. Box 8457, Boston, MA 02114.
- b. **Tangible Personal Property** – All gifts of tangible personal property shall be examined according to the following criteria before acceptance:
 - i. Does the property further fulfillment of VLS’s mission?
 - ii. Was the property solicited to fulfill a specific need? e.g., an item off of the organization’s “wish list?”
 - iii. Is the property marketable?
 - iv. Are there any undue restrictions on the use, display, or sale of the property?
 - v. Are there any carrying costs for the property?

The VLS Gift Acceptance Committee shall make the final determination on the acceptance of tangible property gifts.

- c. **Securities** – VLS may accept both publicly traded and closely held securities.
 - i. **Publicly Traded Securities** – Marketable securities may be transferred to an account maintained at one or more brokerage firms or delivered physically with the transferor’s signature or stock power attached. As a general rule, all marketable securities shall be sold upon receipt unless otherwise directed by the Gift Acceptance Committee. In some cases marketable securities may be restricted by applicable securities law; in such cases the final determination of the acceptance of restricted securities shall be made by the VLS Gift Acceptance Committee.
 - ii. **Closely Held Securities** – Closely held securities which include not only debt and equity positions in non-publicly traded companies, but also interests in limited partnerships and limited liability companies, or other ownership forms, can be accepted subject to the approval of the VLS Gift Acceptance Committee. However, such gifts shall be reviewed prior to acceptance to determine:
 - 1. There are no restrictions on the security that would prevent VLS from converting those assets to cash;
 - 2. The security is marketable; and
 - 3. The security will not generate any undesirable tax consequences for the Charity.

If potential problems arise on initial review of the security, further review and recommendation by an outside professional are strongly recommended before making a final decision on acceptance of the gift. The VLS Gift Acceptance Committee, with possible advice from outside legal counsel, shall make the final determination on the acceptance of closely held securities when

necessary. Every effort will be made to sell non-marketable securities as soon as possible.

- d. **Real Estate** – Gifts of real estate may include developed property, undeveloped property, or gifts subject to a prior life interest. Prior to acceptance of real estate, VLS shall require an initial environmental review of the property to ensure that the property has no environmental damage. Environmental inspection forms are attached as an appendix to this document. In the event that an initial inspection reveals a potential environmental problem, VLS shall retain a qualified inspection firm to conduct an environmental audit. The cost of such an audit shall generally be an expense of the donor.

When appropriate, a title binder shall be obtained by VLS prior to the acceptance of a gift of real property. The cost of obtaining a title binder shall generally be an expense of the donor.

Prior to acceptance of a gift of real property, the gift shall be approved by the VLS Gift Acceptance Committee and legal counsel. Criteria for consideration in acceptance of the property shall include all of the below:

1. Is the property useful for the purposes VLS?
2. Is the property marketable?
3. Are there any restrictions, reservations, easements, or other limitations associated with the property?
4. Are there carrying costs, which may include insurance property taxes, mortgages, notes, etc., associated with the property?
5. Does the environmental audit reflect that the property is not damaged?
6. Are there any other indications of potential liability associated with the property?

The VLS Board of Directors shall make the final determination of whether to accept a gift of real estate, after considering the recommendations of the Gift Acceptance Committee.

- e. **Remainder Interests in Property** – VLS will accept a remainder interest in a personal residence, farm, or vacation property, subject to the provisions of paragraph d. above concerning gifts of real estate. The donor or other occupants may continue to occupy the real property for the duration of the measuring life stated in the deed or other document conveying the remainder interest in the property. At the end of the measuring life, VLS may use the property or reduce it to cash. A donor who wishes to make a gift of a remainder interest must assume responsibility for expenses for maintenance, real estate taxes, and any property indebtedness.
- f. **Oil, Gas and Mineral Interests** – VLS may accept oil and gas property interests, when appropriate. Prior to acceptance of an oil and gas interest the gift shall be approved by the VLS Gift Acceptance Committee, and, if necessary, by legal counsel. Criteria for evaluation of such gifts shall include:

1. Gifts of surface rights should have a value of \$20,000 or greater;

2. Gifts of oil, gas, and mineral interests should generate at least \$3,000 per year in royalties or other income, as determined by the average income for three years prior to the gift;
3. The property should not have extended liabilities or encumbrances that make receipt of the gift difficult, costly, or otherwise inappropriate;
4. A working interest is rarely accepted. A working interest may only be accepted where there is a plan to minimize potential liability and tax consequences; and
5. The property should undergo an environmental review to ensure that VLS has no current or potential exposure to environmental liability.

The VLS Board of Directors shall make the final determination of whether to accept a gift of oil, gas, or mineral interests, after considering the recommendations of the Gift Acceptance Committee.

- g. **Bargain Sales** – VLS will enter into a bargain sale arrangement in instances where a bargain sale will further the mission and purposes of the organization. *All bargain sales must be reviewed and recommended by the VLS Gift Acceptance Committee and voted on and approved by the VLS Board of Directors.* Criteria for evaluation of potential bargain sales shall include:

1. Obtaining an independent appraisal substantiating the fair market value of the property;
2. The amount of debt the charity must assume with the property, if any. The debt ratio of the property may not exceed 50% of fair market value;
3. VLS must determine that it will use the property, or that there is a market for the property allowing for sale of the property within 12 months of receipt; and
4. The costs to VLS of insurance, storage, maintenance, safeguards, taxes, or other expenses associate with the property during any holding period.

- h. **Life Insurance** – VLS must be named as both beneficiary and irrevocable owner of a life insurance policy before that life insurance policy may be recorded as a gift. The gift is valued at the policy's interpolated reserve value, or cash surrender value, upon receipt. If the donor contributes future premium payments, VLS will include the entire amount of the additional premium payment as a gift in the year that the payment is made.

If the donor does not elect to continue to make gifts to cover the premium payments on the life insurance policy, VLS may elect to:

1. Continue to make premium payments;
2. Convert the policy to a "paid up" policy;
3. Surrender the policy for its cash value.

The VLS Gift Acceptance Committee shall make a recommendation to the Board of Directors, which shall vote on whether or not to expend organization funds to pay premiums to maintain a policy, or convert or surrender the policy.

- i. **Charitable Remainder Trusts¹** – VLS may accept designation as remainder beneficiary of a charitable remainder trust with approval of the VLS Gift Acceptance Committee. VLS will not accept appointment as Trustee of a charitable remainder trust.
- j. **Charitable Lead Trusts²** – VLS may accept designation as income beneficiary of a charitable lead trust. The VLS will not accept appointment as Trustee of a charitable lead trust.
- k. **Retirement Plan Beneficiary Designations** – Donors and supporters of VLS will be encouraged to name VLS as beneficiary of their retirement plans. Such designations will not be recorded as gifts to VLS until such time as the gift becomes irrevocable. When the gift is irrevocable, but is not due until a future date, the present value of that gift may be recorded at the time the gift becomes irrevocable.
- l. **Bequests** – Donors and supporters of VLS will be encouraged to make bequests to VLS under their wills and trusts. Such bequests will not be recorded as gifts to VLS until such time as the gift becomes irrevocable. When the gift is irrevocable, but is not due until a future date, the present value of that gift may be recorded at the time the gift becomes irrevocable.
- m. **Life Insurance Beneficiary Designations** – Donors and supporters of VLS will be encouraged to name VLS as a beneficiary or contingent beneficiary of their life insurance policies. Such designations shall not be recorded as gifts to VLS until such time as the gift becomes irrevocable. When the gift is irrevocable, but is not due until a future date, the present value of that gift may be recorded at the time the gift becomes irrevocable.

X. Miscellaneous Provisions –

- a. **Securing appraisals and legal fees for gifts to VLS** – The donor will be responsible for securing the necessary appraisals, and for the cost of independent legal counsel, if needed, for all gifts made to VLS, unless otherwise agreed to by the VLS Board of Directors.
- b. **Valuation of Gifts for Development Purposes** – VLS will record a gift received at its valuation for gift purposes on the date of the gift.
- c. **Responsibility for IRS filings upon the sale of gift items** – The VLS Gift Acceptance Committee is responsible for filing IRS Form 8282 upon the sale or disposition of any asset sold within two years of receipt by VLS when the charitable deduction value of the item is more than \$5,000. VLS must file this form within 125 days of the date of sale or disposition of the asset. Form 8282 with Filing Instructions is attached as an appendix to this document.

XI. Amendment of VLS’s Gift Acceptance Policy – These policies and guidelines have been reviewed and accepted by the Board of Directors on September 13, 2016. The Board

¹ A charitable remainder trust is an irrevocable trust designed to reduce the beneficiary’s taxable income by first dispersing income to the beneficiary and then dispersing the remainder to a tax-exempt charity.

² A charitable lead trust is an irrevocable trust designed to reduce the beneficiary’s taxable income by first dispersing a portion of the income to a tax-exempt charity, then, after a specified period of time, dispersing the reduced income to the beneficiary where it may be taxed at a lower rate.

of Directors must approve any changes to, or deviations from, these policies and guidelines.

XII. Appendix (Omitted from Endowment Investment Policy)

A. Model Standards of Practice for the Charitable Gift Planner.

B. Environmental Inspection Forms.

C. IRS Form 8282 and Instructions.

D. IRS Publication 561 Determining the Value of Donated Property.

E. IRS Publication 526 Charitable Contributions.

APPENDIX B
CUSTODIAN AND INVESTMENT ADVISOR

CUSTODIAN: The Custodian of the VLS endowment assets is the custodial arm of Fidelity Investments, Boston.

INVESTMENT ADVISOR: No formal Advisor at this time.

APPENDIX C
ASSET ALLOCATION EXECUTIVE SUMMARY

Type of Account	Institutional / Nonprofit
Portfolio Strategy	Conservative Portfolio 0-30% Equity, including up to 15% Foreign Equity 70%-100% Fixed Income, Cash, or Cash Equivalents
Assets at Inception	\$250,000
Time Horizon	10 years or longer
Annual Target Return*	4.5% or 2.5% over CPI-U
Downside Risk Tolerance *	0.6% annual decline (5% confidence)

*Modeled risk and return statistics are based on forward estimates for the balanced index allocation detailed below. The intent of these factors is to quantify the base level of risk and returns for the adopted portfolio allocation. The intent of the advisor is to outperform this base level return through manager selection, strategic rebalancing, and tactical portfolio modifications.

Risk and return statistics were generated using Mercer’s Capital Market Outlook.

Asset Allocation Policy

<u>Asset Class</u>	<u>Neutral Allocation</u>	<u>Asset Class Ranges</u>
Equities, including up to 15% Foreign	30%	0-30%
Fixed Income / Cash / Cash Equivalents	70%	70-100%
Alternative Strategies	0%	0%

Blended Index Benchmark: Domestic Equity: Russell 3000
International Equity: MSCI ACWI ex US
Fixed Income: Barclays Aggregate Bond
Alternatives: HFRI Conservative FOF (Fund of Funds)