

HANDLEY REGIONAL LIBRARY BOARD  
INVESTMENT POLICY STATEMENT  
SEPTEMBER 2020

*Prepared by*

Wilbanks, Smith & Thomas Asset Management, LLC

## **Purpose**

The purpose of this Statement is to establish a clear understanding between the Handley Regional Library Board (the Library), the Bank of Clarke County, and Wilbanks, Smith & Thomas Asset Management, LLC (the Manager) of the investment policies and objectives of the Library's assets. This statement will outline an overall philosophy that is specific enough for the Manager to know what is expected, but sufficiently flexible to allow for changing economic conditions and securities markets. The policy will provide realistic risk policies to guide toward long-term rate of return objectives which will serve as standards for evaluating investment performance. The policy also will establish the investment restrictions to be placed upon the Manager and will outline procedures for policy and performance review.

In addition to the non-managed checking and operating accounts held at the Bank of Clarke County, the Manager oversees the investment accounts for the library with the following objectives:

**Handley Regional Library Endowment Fund:** The Endowment was established in 1996 to "provide for the expansion and growth needs of the Handley Regional Library and to provide a supplemental source of income to deal with fluctuations in public funding, utilization, and any other occurrence which may impact on the financial stability of the Library." Current policy also states that "so much of the income as is requested by the Handley Regional Library Board will be distributed to the Library from the Endowment fund. Principal may not be distributed to the Library except for capital expenditures."

**Handley Board of Trustees' Fund:** The Trustees' Fund distributes income to the Library.

**Mahaney Trust Fund:** The Mahaney Trust was established in 1981 and its funds are to be "used for special projects and equipment to encourage the greater use of the library and to increase the quality of the service of the library."

**Clayton Cochran Archives Endowment Fund:** The Endowment fund was established in 2013 for the purposes of Archives (per document instructions).

**Harry F. Byrd Jr. Endowment Building Fund:** The Endowment fund was established in 2013 for the purposes of a building fund (per document instructions).

**Kafitz Endowment Fund:** Established in 2014 for capital improvements, books and supplies for the Clarke County branch of the Handley Regional Library.

Because each of the funds distributes income to the Library and a fundamental objective of each is to maximize cash flow, the overall allocation of the funds will be yield-oriented. Initially each account will be invested in a mix that is roughly 50% equity and 50% fixed income. It is the Manager's responsibility to adjust that allocation, within the ranges noted under Asset Allocation below, in order to maximize both yield and growth as market conditions permit.

## **Objectives**

This investment policy states the overall investment objectives of the portfolio. It also contains a target asset mix and asset mix restrictions, which in combination with the skills of the Manager, should achieve these objectives.

The Manager's primary objectives are to:

1. Implement these policies in order to achieve the portfolio's objectives.
2. Notify the Handley Regional Library Board should circumstances occur in which the Manager believes the policy needs to be modified to achieve the objectives.
3. Outperform the target asset mix, which is defined later in this document.

The objectives of the portfolio should be pursued as a long-term goal designed to maximize the returns without exposure to undue risk, as defined herein. Knowing that the Library understands that fluctuating rates of return are characteristic of securities markets, the Manager's greatest concern should be capital preservation, long-term appreciation of the assets and consistency of total portfolio returns. Recognizing that short-term market fluctuations may cause variations in the portfolio performance, the Library expects the portfolio to achieve the following objectives over a five-year moving time period:

1. The portfolio's total return, which includes income and change in market value net of fees, should exceed the increase in the Consumer Price Index by 2% annually.
2. The total return should exceed 5% annually.

Understanding that the long-term positive correlation exists between performance volatility (risk) and expected returns in the securities markets, the Library has established the following short-term objectives:

1. The portfolio should be invested to minimize the likelihood of low or negative total returns. Based on the proposed asset allocation, the largest expected downside return in any three-year time period is negative cumulative 20 percent (20.0%).
2. While it is understood that the Manager will deviate from the target asset allocation below, the Library wishes to limit the extent of the potential underperformance. Because of the inherent difficulty in defining specific restrictions which would cover all possibilities, the Library expects the Manager to invest so as to prevent the returns of the total portfolio from underperforming the blended benchmark for the target allocation defined in the "Target Asset Mix Table" on the following page.

## **Statement of Responsibilities**

The Library Trustees are responsible for overseeing the administrative and investment management of the accounts. This includes, but is not limited to, the selection of appropriate asset classes, allowable ranges of holdings by asset class, the individual investment manager, as well as the definition of acceptable securities, investment performance expectations, and

monitoring compliance with state and federal investment regulations. The Trustees will communicate investment policy, guidelines, and performance expectations to the Investment Manager. In addition, the Trustees will also review and evaluate investment performance regularly to assure that the Library policy is being followed and progress is being made toward achieving the objectives of each account.

The Manager is responsible for making investment decisions (purchasing, holding or selling securities) for the sole interest and exclusive purpose of providing returns for the Library. The assets must be invested with the care, skill and diligence that a prudent man acting in this capacity would undertake. All investments will be made within the guidelines of quality, marketability and diversification mandated by controlling statutes.

The Custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Library, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The Custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Library's accounts.

### **Asset Allocation**

The Library expects the asset allocation policies to reflect and be consistent with the investment objectives and risk tolerances expressed throughout this statement. These policies, developed after examining the historical relationships of risk and return among asset classes, are designed to provide the highest probability of meeting or exceeding the return objectives at the lowest possible risk.

Although dynamic capital markets may cause fluctuating risk/return opportunities over a market cycle, the following standards will be used to evaluate the Manager's asset allocation (as measured at market value) over a five-year moving time period.

Target Asset Mix Table				
Asset Class	Min Weight	Target Weight	Max Weight	Representative Index
Equities	30%	50%	70%	Russell 3000: 80% MSCI EAFE: 20%
Fixed Income	30%	48%	70%	Barclays 1-5 Year Government/Credit
Cash & Equivalents	1%	2%	40%	3 Month T-Bill

1. Equities (including all convertible securities) may be represented in the portfolio up to 70% in individual stocks listed on the New York, American or NASDAQ exchanges, or mutual funds or exchange traded funds (ETFs).
2. Fixed income securities (including preferred stocks) may be represented in the portfolio up to 70% of the portfolio's market value in individual bonds, mutual funds or exchange traded funds (ETFs).

3. Cash equivalents (including all senior debt securities with under one year to maturity) may be held to a maximum 40% of the portfolio's market value, with a minimum of 1%.

Because security market conditions can vary greatly throughout a market cycle, the Library grants the Manager full discretion to change the asset mix within the above ranges, for the purpose of increasing investment returns and/or reducing risks. If the Manager believes that certain opportunities justify allocations beyond the limits prescribed above, the Manager may exceed them only with the written consent of the Library.

## **Policies and Restrictions**

The Library intends to use the investment policies and restrictions presented in this statement as a framework to help achieve the investment objectives at a level of risk deemed acceptable. The policy allows the Manager substantial discretion in the asset allocation and diversification of the assets for the purposes of increasing investment returns and/or reducing risk exposure. When appropriate, the Library also gives to the Manager broad responsibility to shift the commitment of assets among asset classes, and individual securities to pursue opportunities presented by long-term secular changes within the capital markets.

## **Equities**

The Library expects the Manager to maintain the equity portfolio at a risk level comparable to that of the global equity market. Equity holdings must be of readily marketable securities of U.S. or foreign corporations and traded on the New York, American and Regional Stock Exchanges, or the NASDAQ markets. The manager may also use open or closed end mutual funds or exchange traded fund (ETFs). The Manager is prohibited from investing in private placements, letter stock, commodities, and uncovered options; or from engaging in short sales or other specialized investment activities. The Manager also will have full discretion over turnover and allocation of equity component.

## **Fixed Income**

Investments in fixed income securities will be managed primarily to preserve capital but also to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums. The Manager may select from appropriately liquid (sold within seven days at market value) preferred stocks, corporate debt securities, obligations of the U.S. Government and its agencies, taxable securities of municipal and state governments and securities convertible to equities. The Manager may also purchase open or closed end mutual funds or exchange traded funds (ETFs). These investments will be subject to the following limitations:

1. No issues may be purchased with more than 30-years to maturity.
2. Investments in securities of a single issuer (with the exception of the U.S. Government and its agencies) must not exceed 10% of the market value of the portfolio.
3. Only corporate debt issues that meet or exceed a credit rating of Investment Grade from Standard & Poor's and Moody's, may be purchased. High yield securities are permissible

if purchased in through mutual funds, and the high yield segment of the portfolio may not exceed 10% of assets.

The Manager is prohibited from investing in private placements, from speculating in fixed income or interest rate futures, and derivatives.

Within the above restrictions, the Manager has complete discretion over timing and selection of fixed income securities.

### **Cash and Equivalents**

The Manager may invest in commercial paper, bankers' acceptances, repurchase agreements, U.S. Treasury Bills, certificates of deposit, and money market funds to provide income, liquidity for expense payments, and preservation of the portfolio's principal value. All such assets must represent maturities on one year or less at the time of purchase. Commercial paper must be rated A-1 or P-1 by Standard & Poor's and Moody's, respectively. Bankers' acceptances and certificates of deposit should only be purchased from larger, well-capitalized domestic and foreign banks with a minimum of an A rating from one of the major rating agencies. The Manager may not purchase short-term financial instruments considered to contain speculative characteristics (uncertainty of principal and/or interest). The Manager also may not invest more than 10% of the portfolio's market value in the obligations of a single issuer, with the exception of the U.S. Government and its agencies. Uninvested cash reserves should be kept to minimum levels. Within the limitations mentioned above, the Manager has complete discretion to allocate and select short-term cash and equivalent securities.

### **Other Assets**

The Manager will not purchase assets other than those mentioned above without the written consent of the Library.

### **Communications**

The Manager is required to give the Library a quarterly portfolio review detailing investment performance (time-weighted), strategy, and portfolio value. Also, the Library must receive information about changes in the Manager's investment philosophy, management, ownership, and key personnel in a timely fashion, which is not to exceed three months from the change.

Meetings will be held annually or as requested by the Library and the Manager to discuss:

1. The Manager's investment performance and risk levels in light of the stated policies and objectives.
2. The Manager's views on important developments within the economy and securities markets, and their potential effect on the investment strategy, asset allocation, and portfolio performance.

3. The effects of changes within the Manager's organization on investment philosophy, strategy, and performance.
4. Proposed amendments to the policies and objectives presented in this Statement.

The Library may call more frequent meetings if significant concerns arise about the Manager's performance, strategy, personnel, and organizational structure.

Agreed and Accepted

---

The Handley Regional Library Board

---

Date

---

Wilbanks, Smith & Thomas Asset Management, LLC

---

Date

---

Bank of Clarke County

---

Date