Arch Community Fund

Investment Policy Statement (IPS)

FINAL

PREAMBLE

The Arch Community Fund ("Arch") exists solely to serve a public purpose — to strengthen grassroots movements, to resist oppression, and to build towards a more equitable future. This purpose guides not only our grant-making, but the use of all of our resources, including investment capital, so as to use them towards reducing harm to, and building wealth and power in, historically oppressed people and communities.

We are skeptical of any practice of philanthropy in which foundations fund good work without challenging the conditions that create the need for philanthropy in the first place. Wealth in this society has been foundationally derived from land theft from Native Americans and the enslavement and forced labor of African Americans. The ongoing systematic denial of wealth and power among oppressed communities, coupled with the financialization of the economy and the exploitation of the environment for short term gains, has created a system that is rife with injustices that philanthropy purports to remedy. While grants are critical to redistributing wealth and power, funders cannot rectify these inequities through grants alone.

There is all too frequently a disconnect between foundations' grant-making and investing practices. A relatively small amount of a foundation's budget, typically around 5%, goes to socially-driven giving, while the large balance is invested in extractive financial markets to maximize returns. We don't believe in an "ends justify the means" approach that justifies investing in harmful systems in order to generate more money to give away. We believe in an investment philosophy that divests from systems that drive the inequality we strive to address, minimizes harm, and invests in projects that create transformative change. So, while tax and fiduciary laws regulate our operations, they do not determine our investment policies.

Arch's core values of Resistance, Community Leadership, Systemic Change and Racial Equity will inform our investment decisions. Shifting power and resources to communities that have been historically denied opportunities to build wealth and power is core to Arch's mission. Arch supports transformative organizing that is about altering the power distribution in society. Accordingly, we will prioritize investments that shift control of and access to resources over those that maximize return and further accumulation of foundation assets.

Arch will not invest foundation assets in the stock market. While one could certainly argue that there are individual companies that "do good", we are choosing not to participate in the system itself, which is built on profit and speculation and ultimately perpetuates concentration of wealth and racial disparities.

Arch's commitment to transformative change does not replace our intent to invest our capital well and prudently. Arch will seek to manage risk and return with a diversified asset allocation that blends standard fixed income instruments (such as bonds and US government agencies) with assets that have a broader public purpose (municipal bonds, program-related investments and Community Investment Notes), and those that have the potential for higher social impact (i.e. investments that democratize wealth and power such as Community Development Financial Institutions, direct social impact investments, and direct equity and debt impact funds.) In managing how we allocate the foundation's assets, we will ensure that we maintain sufficient liquidity to support our grantmaking commitments.

We recognize that by not investing in public equities, the annual financial returns from investments that come in to the foundation are almost certain to be less than the grant-making dollars that go out. This is viable for Arch because we are not striving to preserve capital for future generations. We define ourselves as neither a "spend down" nor a "perpetual" foundation but as fully focused on the best use of a dollar for mission, with ongoing decision-making regarding whether spending more or less capital is more or less likely to support transformative change.

Arch will allocate and rebalance the concentration of asset classes, industry groups, and enterprise types to mitigate both social and financial risk, according to portfolio guidelines as articulated in the investment policy statement (IPS) and regularly reviewed and adjusted by the Board. Arch will conduct due diligence on all of foundation investments, however it will not limit itself to traditional evaluative criteria in doing so. We will, for example, consider funding projects that do not meet traditional thresholds of collateral or a proven track record if the potential for transformative change is high.

We believe that our fiduciary duties of care require that our investments not harm those whom we intend to benefit by our philanthropy. Therefore, compliance with policies that account for mission risk, broadly construed (including environmental, social, civic, and similar systemic risks to the well-being of oppressed people and communities) is part of the Board's fiduciary duty.

Whenever possible, Arch will leverage its investments to support the social change work of its grantees. We will consider integrated capital strategies that may include a wide range of financial capital, including gifts, grants, loan guarantees, loans, convertible debt or equity. We will also consult with our grantees as we seek to identify investment opportunities that support the democratization of wealth and power.

This IPS reflects our current strategy and operational needs and is subject to change when necessary. As such, we will revisit this IPS regularly - at least annually and more often if there are significant market events or strategic shifts to Arch's priorities.

INTRODUCTION

Consistent with the Arch Community Fund Investment Policy Statement (IPS), portfolio investments shall be made in fixed income securities, cash equivalents and money market funds that are liquid and produce reasonable income, as well as invested in public purpose and high social impact investments that maximize social and environmental return consistent with Arch's IPS. Every effort shall be made to invest in such a manner that not only "does no harm," but also democratizes capital by moving wealth and power into the hands of historically oppressed communities.

To meet the financial goals and objectives of the IPS Preamble, there must be a balance between financial liquidity for necessary aggressive social justice grant-making, as well as investments for longer term high social impact, which may necessarily require some degree of increased financial risk and/or increased lack of liquidity. These objectives, however, are consistent with the fiduciary duties of Arch Community Fund officers, directors, and stakeholders.

To implement the goals and objectives of Arch Community Fund, a balanced and evolving asset allocation model is necessary. Because we will not invest in the stock market for long-term capital appreciation, the current portfolio income will be maintained over time only if it is balanced with additional funding, as well by capital appreciation and growth produced from longer term high social impact illiquid securities, including for-profit and non-profit equity investments, not limited to private placement securities, affordable and low income residential real estate, including urban and rural land trusts, profit and non-profit small business enterprises, including worker-owned cooperatives, and longer-term investments in community based financial institutions, including CRA housing securities, CDFIs and diversified private and public partnerships and private placements. Federal agency securities, mortgage-backed securities, municipal and state securities, local government agency debt securities and Program-Related Investments (PRIs) developed and funded by Arch, are also appropriate investments, including low interest or zero interest Arch portfolio loans for specific Arch community projects, especially those that may enhance the impact of grants. Open-end and closed-end publicly traded mutual funds, as well as Exchange Traded Funds (ETFs) comprised of such securities designated above, may also be appropriate liquid investment instruments.

Arch Community Fund envisions that to build wealth and power in historically oppressed communities, an aggressive grant program should be supplemented by an investment strategy that enhances community impact, while at the same time producing the necessary income to finance the Fund's activities. Long-term capital growth will be provided by mostly illiquid long-term impact assets, real estate, and private equity investments. There is no guarantee, nor is it a goal, that Arch Community Fund will inevitably be sustainable or exist in perpetuity based upon this investment strategy; however, the portfolio will attempt to provide the necessary financial support for the most positive outcome as outlined in the IPS.

I. General

The Arch Community Fund (Arch) has written and approved the following Investment Policy to provide an effective guide for the management of Arch funds. This policy describes the general philosophy, investment strategy, performance expectations, and ongoing supervision of the investment portfolio. This policy is intended to be consistent with the Preamble above and to also specify implementation and review procedures, such as strategic asset allocation, risk and return expectations, securities guidelines, criteria for selection of portfolio managers, including registered investment advisors (RIAs), brokers or other financial professionals and monitoring procedures. This document will be reviewed annually as economic, environmental, market and other social conditions warrant.

II. Investment Philosophy

The Investment objective of Arch is to produce reasonable income consistent with maximizing positive social impact, addressing major human rights, economic inequality, social justice and movement priorities, while confronting and opposing global corporate domination of the economic, social and political environments. Our highest priority is to build wealth and power in communities who have historically been denied it. Reasonable financial return should be consistent with the social impact priorities established by Arch, including liquidity needs and with long-term appreciation of high social impact capital.

Arch should be managed as a balanced portfolio to produce reasonable income and liquidity to provide adequate financial support for the organization to fulfill its primary goal to develop and implement a long-term impact investment strategy to maximize social and environmental goals.

III. Time Horizon

Normal investment guidelines are generally based upon an investment horizon of from three to seven years (i.e., a normal business cycle), but the time horizon for Arch is unknown. The goal and objective of the organization is neither perpetual nor “spend down,” but based upon the goals outlined above.

IV. Risk Tolerance

Arch recognizes the difficulty of achieving its objectives in light of the uncertainties and complexities of the contemporary investment market, the current economic, political, social and environmental atmosphere existing within global communities, including the United States. The asset allocations and security quality guidelines in this Policy, however, are designed to produce an investment strategy with a relatively low level of risk initially, with proper liquid diversification, but later, as a longer-term illiquid portfolio is created, to possibly increase financial risk, but implement a stable impact strategy to fulfill Arch’s primary objectives. Arch recognizes that risk of loss or the exhaustion of all of its capital may be inevitable and necessary to achieve Arch’s long-term objectives.

Asset allocation, as well as liquid securities and quality guidelines, manages risk, but will not eliminate it. Arch is committed to a longer-term strategy that maximizes the goals of Arch through a range of diverse investments that prioritize social impact.

V. Strategy

Arch funds may be managed internally by staff and/or the Board purchasing eligible investments through brokerage firms and/or by hiring and retaining RIAs or other qualified professionals and institutions to implement the IPS.

A. General

To achieve the objectives, Arch will employ the following investment strategies:

1. Asset allocations will be set, monitored, and reviewed on an ongoing basis in an attempt to better understand the risk and return characteristics of alternative portfolio scenarios.

2. Diversification of assets will be employed to ensure that adverse performance from one asset class, one security, or one group of securities will not have an unduly detrimental effect on the entire portfolio's performance. Diversification is interpreted to include diversification by asset type, geographic proximity, and individual securities. As the total funds eligible for investment increase, further diversification by the utilization of RIAs or other financial professionals, with differing investment management styles may need to be considered.
3. If investment management is delegated to RIAs, Arch will not place restrictions on individual security selection by the RIAs except as regards to social criteria, quality, and diversification criteria as stated herein.

B. Eligible Investments

Tier 1: Cash Holdings

Arch shall have the discretion to invest a portion of the assets in cash reserves when deemed appropriate.

1. Cash equivalent reserves shall consist of government securities and certificates of deposit (CDs).
2. Any idle cash not invested shall be invested through an automatic bank sweep account managed by a broker-dealer custodian, or a similar money market open-ended mutual fund. We will prioritize CDs and money market funds at locally owned and controlled banks.

Tier 2: Fixed Income – Government (federal)

1. Bonds. Only investment grade fixed income securities should be purchased. Since long maturities can result in significant capital risk during a period of rising interest rates, the average duration of the bond portfolio shall be ten years or less. Individual security selection, security size, current interest, and overall portfolio turnover are left to the discretion of staff and/or the RIAs, except that:
   a. For that portion of Arch allocated to the fixed income portfolio, only bonds rated "A" or better by Standard & Poor's or Moody's shall be purchased, and only bonds rated "BBB" by Standard & Poor's or "Baa" or better by Moody's shall be held.
   b. Individual issues shall have sufficient liquidity to be actively traded without excessive risk to Arch.
2. Mutual Funds. Open-ended and closed-ended fixed income mutual funds that meet similar investment and social objectives of Arch and which have professional portfolio management are appropriate for investment.
3. U.S. Government Agency Securities. U.S. government agency securities should be considered as AAA rated and are qualified for inclusion in the portfolio. Government agency securities can often be a superior investment with safety of income and return of principal at maturity assured. Once again, however, during periods of low interest rates, it is important to reduce capital risk by maintaining an average bond maturity duration of ten years or less.

Tier 3: Public Purpose

1. State and local government municipal bonds (green bonds) issued by public agencies that may be tax exempt or taxable that serve a public purpose to finance affordable housing, mass transit, water conservation, waste management, alternative energy or any other purpose that is consistent with Arch's liquidity and social goals.

2. Community Investment Notes, such as Calvert Notes, that are typically short-term notes with yields from 1.00% to 4% at terms of 1-15 years custodied at numerous broker-dealers.
3. Program Related Investments (PRIs) and individual loans authorized by the Board to implement the investment strategy discussed herein. Such loans may be custodied with national, state, or local financial institutions, including community banks or Community Development Financial Institutions (CDFIs), credit unions or registered and licensed bank and non-bank financial institutions.
4. Community Development Financial Institutions (CDFIs), community banks, credit unions or loan funds that are exempt from federal or state registration, such as community loan funds that issue unsecured promissory notes to support impact investment opportunities.

Tier 4: High Social Impact

1. Impact Investment funds that provide impact asset investments on platforms retaining professional management that manage multiple small business enterprise investments in a variety of industries that are long-term illiquid investments, generally with higher risk.
2. Direct investments into for profit and not for profit businesses that meet Arch's investment priorities.

The Arch Community Fund Board may authorize any additional programs and policies for alternative investment opportunities consistent with the Arch IPS. Arch may also consider loans and other financing arrangements that amplify grant-making and high impact social investments.

C. Prohibited Investments and Transactions

1. Commodities, commodity contracts, options, and futures
2. Short sales or margin transactions
3. Derivatives of any kind
4. Lending, pledging, or hypothecating securities
5. Securities purchased on margin
6. Investments for the purpose of exercising control of management
7. Publicly traded common and preferred stocks, warrants, and other equity obligations traded on national exchanges.

D. Diversification / Concentration Limitations in the Fixed Income Portfolio

1. Arch shall emphasize quality in security selection and shall minimize risk of large loss through diversification.
2. Not more than 5% of the market value of the total fixed income portfolio should be invested in the securities of any one corporate issuer, except U.S. government agency and treasury securities.

VI. The Targeted Asset Allocation Shall be as Follows:

Within the next 18 months, we hope to be at the following asset allocation:

Asset Type	Target %	Included instruments
Tier 1: Cash Holdings	10-20%	Cash, CDs, Money Markets, Mutual funds
Tier 2: Fixed income - Government	25%-35%	Federal agencies, U.S. Treasuries, Investment Grade Bonds, Municipal Bonds
Tier 3: Public Purpose	25%-35%	Green Bonds, Social Impact Notes (e.g Calvert), Capital Impact Notes, PRIs, , CRA Fixed Income Mutual Funds, CDFIs
Tier 4: High Social Impact	10-20%	Investments in Debt or Equity Impact Funds and direct investments in private and/or nonprofit businesses that further Arch's goal of building wealth and power in historically oppressed people and communities.

**Because Arch Community Fund is not a "spend down" foundation or an entity that is necessarily meant to exist in perpetuity, the asset allocation model will be one of continual evolution, based upon the degree in which it receives additional or continual funding and realized gains from long-term illiquid investments.   Investment returns are realized over the life of the Fund and are based upon the mix or the diversification of investment securities that comprise the portfolio. It is possible that at the end of the Foundation's existence, only long-term high social impact investments shall remain in the portfolio, with little or no short-term fixed-income investment securities or cash. There is no expectation of financial results other than to maximize the social impact of both our grants and investment portfolio. The expectation of the Fund's current liquid assets will be to produce reasonable current income to support the administration of the Fund, in addition to providing supplemental financing of the ongoing grant program.

All assets shall be properly diversified and rebalanced appropriately no less than approximately every six months based upon Arch investment strategy and allocation model.

VII. Brokerage Firms

All brokerage firm's transaction business with Arch will maintain substantial assets and be of good reputation. Commissions on trades directed to all brokers will be on a discounted basis and best execution will be required.

VIII. Selection and Duties of External Investment Management Firms, Including Financial Professionals Handling Impact Assets.

Arch is authorized to engage the services of one or more RIAs or other financial professionals who possess the necessary registration, license and/or specialized research facilities and skills to meet the investment objectives consistent with the overall Arch investment strategy. RIAs hired by Arch must be

registered as a bank, insurance company, investment management company, or RIA pursuant to the Investment Advisor's Act of 1940 and annually provide Arch with a copy of their form ADV Part 2, as referenced by Rule 204-3 of the Act.
All RIAs are required to:

A. Adhere to the "prudent investor rule," "prudent man rule," or Common Trust Law, pursuant to such federal or state laws as presently apply.
B. Utilize the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like circumstances.
C. Manage Arch assets under its care, custody, and/or control in accordance with the Arch policies and guidelines as set forth herein (and also expressed in separate written agreements) and exercise investment discretion within the objectives and guidelines set forth herein.
D. Act in full accordance and compliance with all applicable laws, rules, and regulations from local, state, federal, and international political entities as they pertain to fiduciary duties and responsibilities.
E. Provide quarterly written reports showing securities held, cost basis, and current market value of public securities held by a registered broker dealer or bank custodian.
F. Provide historical quarterly performance data calculated on a time-weighted basis reports net of fees on publicly-traded securities held by a broker dealer or custodian.
G. Promptly inform Arch in writing regarding all significant and/or material matters and changes pertaining to the RIAs, included but not limited to:
H. Ownership
I. Organization structure
J. Financial condition
K. Professional staff
L. All material legal, SEC, and other regulatory agency proceedings affecting the firm.
M. Acknowledge and agree in writing to their fiduciary duty to fully comply with the entire Arch IPS as set forth herein.
N. Acknowledge and agree in writing to their fiduciary duty to fully comply with the entire Arch IPA as set forth herein.

IX. Investment and Social and Environmental Policy Performance Shall be Monitored on a Semi-Annual Basis.

Arch will monitor the following:

A. Adherence to Arch policies, objectives, and guidelines.
B. Investment philosophy consistency.
C. Material changes in RIA or other external managers or financial / investment professionals' organization, financial conditions, investment philosophy, and/or personnel.

Arch shall establish appropriate investment, social and environmental policy performance benchmarks based upon the long-term policy and program goals by Arch Community Fund.

X. Investment Social Criteria

Assets of Arch are to be invested primarily to promote the goals, objectives, policies, and programs of Arch consistent with fiduciary responsibility and the Arch Community Fund Investment Policy Statement.

A. Exclusion

While Arch will not invest in publicly traded equity securities, it may consider investments in private placements in for-profit and non-profit business enterprises, including financial institutions with a variety of lending services. Arch requires that such investments and loans not only be consistent with inclusionary purposes set forth in this IPS, but must also not be inconsistent with the goals, policies and programs of Arch. As such, investments shall not be made in business enterprises that:

1. Pollute the air, water, or soil, or consistently and flagrantly violate regulations of the U.S. Environmental Protection Agency (EPA), Equal Employment Opportunity Commission (EEOC), or the National Labor Relations Board (NLRB).
2. Have ties to private prisons and the system of mass incarceration
3. Manufacture or distribute tobacco or tobacco products.
4. Produce or generate electricity through nuclear power.
5. Genetically engineer food, plants, or seed produced or grown for human or animal consumption or production.
6. Produce weapons or landmines or are Prime Defense Contractors with the U.S. Department of Defense (DOD).
7. Carry out experimentation or tests of live animals in the development of products or have primary business practices that involve the inhumane treatment of animals.
8. Are involved in the gambling or gaming industry.
9. Violate or deny basic human and labor organizing rights of workers.
10. Are involved in the extraction of carbon-based resources, such as coal, petroleum, and natural gas for the production of fossil fuels.
11. Discriminate on the basis of race, gender, sexual orientation or perceived disability.

Finance Sector Screen

Given the considerable social, environmental, economic, and political power wielded by banks and non-bank financial institutions relative to their lending practices in the global economy and society, there is a need to adhere to enhanced screening criteria for business enterprises or corporations in this sector. Arch Community Fund will avoid financial institutions that:

1. Directly finance the production of weapons or armaments.
2. Finance projects that have been demonstrated to undermine basic human rights, as articulated in the 1948 Universal Declaration of Human Rights.
3. Finance projects that significantly undermine indigenous rights as articulated in the United Nations Declaration on the Rights of Indigenous Peoples.
4. Fail to invest adequately in local communities as evidenced by banks with a “needs to improve” or “significant noncompliance” community reinvestment act (CRA) rating.
5. Are involved in any sort of predatory lending

On the other hand, Arch will favor financial enterprises with:

1. “Outstanding” CRA ratings
2. Significant relationships with Community Development Financial Institutions (CFCIs).
3. Policies and programs that favor historically oppressed and marginalized people regarding the organization’s lending criteria.

4. Policies and programs in the organization’s lending criteria for business or non-profit or other bank customers to monitor and reduce GHG emitting activities.
5. Policies and programs in the organization’s lending criteria to promote sustainable agriculture with an emphasis on organically grown products and small-scale farming practices that favors family producers.
6. Policies and programs in the organization’s lending criteria to promote small business enterprise development, female and minority entrepreneurship, the financing of affordable and low-income multi-family residential housing construction and rehabilitation.

Inclusion

Arch Community Fund will encourage investments primarily to promote the goals, objectives, policies and programs of Arch, consistent with our Preamble, fiduciary duty and the Arch IPS.

Consistent with the above statement, Arch will encourage investments that:

1. Finance Housing, small businesses, community economic development, democratize capital, and develop alternative energy.
2. Promote asset building in historically oppressed communities
3. Implement policies that promote the welfare of their employees and the environment.
4. Promote gender equity
5. Bargain fairly with their employees.
6. Have a positive impact upon society through the quality or safety of their products.
7. Freely disclose and implement exemplary human and labor rights’ policies along with environmental codes of conduct.
8. Strive for a sustainable environment through the goods and services provided.

XI. Reporting

The Fund’s custodian bank or broker-dealer shall provide the Board monthly reports as well as end-of-the-year reports regarding all pertinent transaction dates of each separately managed broker custodied securities portfolio for the preceding month. The portfolio manager will provide the Board with detailed information on a quarterly basis on asset allocation and investment performance of broker custodied assets, including other relevant information on markets, interest rates, corporate earnings and/or future investment strategies and advice.