

# ***NORTH CAROLINA COMMUNITY FOUNDATION INVESTMENT POLICY STATEMENT***

The purpose of this Investment Policy Statement is to establish a clear understanding between the Finance Committee of the North Carolina Community Foundation (hereafter referred to as the "Finance Committee" and the "Foundation") acting on behalf of the Board of Directors of the Foundation and the Asset Manager(s) engaged to invest assets of the Foundation under conditions set forth herein. This Investment Policy Statement will outline for all stakeholders an overall philosophy that establishes specific expectations, but allows sufficient flexibility for changing economic and securities market conditions. This Investment Policy Statement will provide guidance and limitations for the Asset Manager(s), outline procedures for policy and performance review, and establish formal criteria to select, monitor, evaluate and compare the performance results achieved by each investment option and each Asset Manager on a regular basis.

## **Investment Objectives**

The overall investment objective of the Foundation is to preserve and protect fund principal while achieving a long-term net rate of return sufficient to cover a 5% spending policy plus an average 1% administrative fee plus inflation, as measured by the CPI index, over a complete market and economic cycle. Achieving these objectives will require assuming a moderate level of risk, a long-term investment horizon and asset diversification.

Earnings from the investment portfolio will provide for annual grant making. Funds available to grant are calculated on a calendar year basis based on 5% times the average of the previous 12 quarter-ending balances by fund as of 9/30.

The Foundation administers two types of funds: 1) Endowed Funds and 2) Non-endowed Gift Funds. Endowed Funds are those in which a percentage is distributed for charitable purposes each year but whose corpus is intended to remain in tact in perpetuity with normal fluctuation due to market cycles. Non-endowed Gift Funds are those that are to be distributed for charitable purposes with little or no principal remaining to the Foundation.

The primary objectives of the investments of each of these types of funds will be:

1. **Endowed Funds: Growth & Income Model** – The investment objective for Endowed Funds is to provide long-term growth of principal and income, without undue exposure to risk. These funds may experience greater return and volatility relative to Non-endowed Gift Funds.
2. **Non-Endowed Gift Funds: Liquidity & Stability Model** – The investment objective for Non-endowed Gift Funds is to provide for the preservation and stability of principal through investment in high quality, liquid investments (cash/cash equivalents).

The Finance Committee will consider investment of Endowed Funds in a manner other than the Growth & Income Model and investment of Non-endowed Gift Funds in a manner other than the Liquidity & Stability Mode on a fund-by-fund basis after review of the charitable objectives of each fund. The Finance Committee, upon approval of an Alternative Investments option, will have the investments adjusted and monitored to meet the objectives of that specific fund.

## **Asset Allocation Guidelines**

Management of the Foundation assets shall be monitored to the Asset Allocation Guidelines provided in the table on the following page. Each Asset Manager may have their direct allocation attached through addenda.

### ASSET ALLOCATION GUIDELINES (at Market Value)

| Class                   | Style                     | Target      | Range            | Benchmark Indices  | Allowable Securities   |
|-------------------------|---------------------------|-------------|------------------|--|--|
| Equities                | Large Cap Growth          | 17.5%       | 12% – 30%        | - Growth: <b>Russell 1000 Growth</b><br>- Core Blend: S&P 500  | - Common Stock<br>- Convertible Notes and Bonds<br>- Convertible Preferred Stock<br>- Mutual funds that invest in the above<br>- Exchange Traded Funds (ETFs) that invest in the above                             |
|                         | Large Cap Value           | 17.5%       | 12% – 30%        | - Value: <b>Russell 1000 Value</b><br>- Core Blend: S&P 500  |  |
|                         | Mid Cap                   | 15%         | 5% – 20%         | - Core Blend: <b>Russell Mid Cap</b><br>- Russell Mid Cap Growth<br>- Russell Mid Cap Value  |  |
|                         | Small Cap                 | 5%          | 0% – 15%         | - Core Blend: <b>Russell 2000</b><br>- Russell 2000 Growth<br>- Russell 2000 Value   |  |
|                         | International Core        | 10%         | 5% – 20%         | - Large Cap: <b>MSCI EAFE</b><br>- Emerging Mkts: MSCI Emrg Mkts   | - American Depository Receipts (ADRs) of non-US Companies  |
|                         | <b>Total Equities</b>     | <b>65%</b>  | <b>55% – 80%</b> |  |  |
| Fixed Income            | Domestic Fixed            | 20%         | 15% – 40%        | - Intermediate: <b>Barclays Capital Intermediate Government Credit</b><br>- Long: Merrill Lynch Corp. & Govt. Long Term<br>- Short: Merrill Lynch 1-3 Master | - US Government and Agencies<br>- Corporate Notes and Bonds<br>- Mortgage-backed Bonds<br>- Preferred Stock<br>- Funded Amortization Class Collateralized Mortgage Obligations or other “early tranche” CMOs       |
|                         | Global Fixed              | 5%          | 0% – 10%         | - Citigroup WGBI WORLD   | - Sovereign debt of developed and emerging countries<br>- Foreign fixed income securities allowed under Domestic Fixed   |
|                         | <b>Total Fixed Income</b> | <b>25%</b>  | <b>20% – 40%</b> |  |  |
| Cash & Equivalents      |                           | 5%          | 0% – 20%         | - <b>Citigroup 90-day T-Bills</b>  | - US Treasury Bills and Notes<br>- Money Market Funds & Certificates of Deposit<br>- Commercial Paper (A-1 S&P and/or P-1 Moody's)<br>- Banker's Acceptances (A, A/B or B -rated banks)<br>- Repurchase Agreements |
| Alternative Investments |                           | 5%          | 0% – 10%         | - REITs: NAREIT<br>- Hedge Funds: S&P 500 / H<br>- Managed Futures: MARs Index   | - Private Equity Funds<br>- Venture Capital Funds<br>- Buyout Funds<br>- Hedge Funds<br>- Managed Futures Funds<br>- Commodities / Hard Assets<br>- All asset / All authority                                      |
| <b>Total Portfolio</b>  |                           | <b>100%</b> |                  |  |  |

## NOTES TO THE ASSET ALLOCATION GUIDELINES TABLE

1. **Bolded Indices** in Asset Allocation Guidelines Table are employed to determine an overall weighted portfolio benchmark for Asset Manager review purposes. If there are no investments in a particular asset style, its target percentage will be applied to another style's benchmark in calculating the overall benchmark. The Foundation may also employ a Universal level benchmark comprised of 65% S&P 500 Index, 30% BCIGC Index and 5% Citigroup 3-month T-Bills for additional reporting purposes.
2. The Finance Committee may engage Asset Managers whose disciplines require investments outside the established Asset Allocation Guidelines. However, taken as a component of the aggregate fund, such disciplines must fit within the overall Asset Allocation Guidelines established in this Investment Policy Statement. If the Finance Committee wishes to consider assets not approved in this Investment Policy Statement, they may do so only with the approval of the Board of Directors.
3. In the event that the above aggregate Asset Allocation Guidelines are violated, for reasons including but not limited to market price fluctuations, the Finance Committee will work toward bringing the aggregate portfolio(s) into compliance with these Asset Allocation Guidelines (rebalance) by the end of the 1<sup>st</sup> quarter following the fiscal year-end.
4. Alternative Investments may only be purchased/managed by specialty Asset Managers approved by the Finance Committee.

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### **General**

1. The assets of the Foundation will be invested by one or more Asset Managers. A qualifying Asset Manager must be a Bank, Trust Company, Insurance Company, or Registered Investment Advisor, or other entity approved by the Board of Directors.
2. The Finance Committee expects each Asset Manager to manage assets with the care, skill, prudence and diligence that a "prudent person" acting in a like capacity and familiar with such matters would use in the investment of a fund of like character with similar aims according to the "prudent man" rule as defined in the Employee Retirement Income Security Act of 1974 (ERISA).
3. The Finance Committee's selection of an Asset Manager shall be based on prudent due diligence procedures.
4. The Finance Committee may engage one or more Asset Managers of varying styles and philosophies to attain the Finance Committee's long-term performance objectives and may engage Investment Consultant(s) to provide oversight, advisory and reporting functions. Asset Managers may be hired to manage an asset class specialty i.e. large cap value, large cap growth, international, fixed income, etc. (each a "Specialty Asset Manager"). Investment parameters for Specialty Asset Managers must be specified in an addendum to this Investment Policy Statement.
5. Risk measurement will be obtained for each Asset Manager by observing the long-term statistics of BETA and STANDARD DEVIATION, which will measure volatility vs. the Asset Manager's appropriate index. These measurements, over each of a rolling three and five year period, are expected to indicate value added by each Asset Manager (ALPHA).

## **Portfolio Guidelines and Restrictions**

Asset Managers (with the exception of Asset Managers of Alternative Investments and Global Fixed Income) must adhere to the following Portfolio Guidelines and Restrictions. The *Prohibited Assets* and *Prohibited Transactions* identified below apply to all other asset classes, investment styles, and the activities of the Asset Managers of such assets, unless otherwise approved by the Finance Committee:

| <b>Prohibited Assets</b>  | <b>Prohibited Transactions</b>   |
|---|--|
| Including, but not limited to: <ol style="list-style-type: none"><li>1. Commodities and Futures Contracts</li><li>2. Private Placements</li><li>3. Purchasing Options</li><li>4. Limited Partnerships</li><li>5. Derivatives</li><li>6. Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs</li><li>7. Individual Mortgages</li><li>8. Lettered stock or other non-marketable securities</li><li>9. Unregistered Stock</li></ol> | Including, but not limited to: <ol style="list-style-type: none"><li>1. Short Selling</li><li>2. Margin Transactions</li><li>3. Currency Hedging</li></ol> |

### **Guidelines for Equity Investments**

For prudent portfolio diversification (with the exception of funds invested in Mutual Funds), Equity Investments should adhere to the following Guidelines for Equity Investments, unless otherwise approved by the Finance Committee:

1. Individual equity purchases cannot exceed 5% at cost and 10% of market of the Asset Manager's equity portfolio value.
2. The market value of an investment in any one industry sector should not exceed 2 times the benchmark's sector weighting.
3. For benchmark sectors less than 15%, the Asset Manager may exceed a double weighting up to a maximum of 30%.

### **Guidelines for Fixed Income Investments**

Fixed income securities will be managed with the purpose of lowering volatility and producing current income. Fixed Income Investments (with the exception of funds invested in Mutual Funds and Global Fixed Income) should adhere to the following Guidelines for Fixed Income Investments:

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 5% of market value of such issuer.
3. Only corporate or governmental debt issues that meet or exceed a credit rating of BBB from Standard & Poor's and/or a BAA rating from Moody's, may be purchased. (Must be investment grade quality).

### **Guidelines for Exchange Traded Funds**

Investment in Exchange Traded Funds (ETFs) should be limited to those that are generally designed to replicate the price and yield performance of a broad market (i.e. S&P 500) or should be used in conjunction with other investments in order to achieve the target asset allocation strategy outlined in the Asset Allocation Guidelines.

## **Guidelines for Alternative Investments**

In recognition of the increasing opportunity in today's investment universe, the Finance Committee may consider Alternative Investment vehicles, if deemed prudent.

Investment in Alternative Investments is limited to not more than 10% of the value of the total assets of the portfolio at the time of initial investment. An investment shall be deemed Private Equity, Buyout, Venture Capital, Managed Futures Funds, Commodities / Hard Assets or All Asset / All Authority funds if it results in the acquisition of equity or debt interests, or a combination thereof, in a business which is expected to grow substantially in the future and in which the interests are not secured solely by real estate. A Private Equity, Buy Out, Venture Capital, Managed Futures Funds, Commodities / Hard Assets or All Asset / All Authority investment may be made if, in the judgment of the Finance Committee, the investment is likely to enhance the performance and diversification of the Foundation's investment portfolio. In determining whether the investment meets the standard or prudence, the Finance Committee may consider the actual and/or expected risk and return characteristics of a universe of similar investments or appropriate benchmarks. An investment shall be deemed Hedge Fund if it is in pursuit of "absolute return" in that it has a goal to generate a positive return regardless of whether asset prices are rising or falling. To achieve absolute return, the Asset Manager may engage in non-traditional investment practices otherwise restricted from use under Portfolio Guidelines and Restrictions.

## **Responsibilities**

### **Responsibilities of the Asset Manager(s)**

Asset Managers will have full discretion to make all investment decisions within the limitations set forth in this Investment Policy Statement. Specific responsibilities of the Asset Manager(s) include:

1. Perform discretionary investment management including decisions to buy, sell, or hold various securities.
2. Provide the Investment Consultant (as identified by the Finance Committee) with copies of all available statements, documents, and reports in a timely manner after the close of each period.
3. Communicate any major changes to economic outlook, investment strategy, or any other factors, which would affect expected performance or process to the Investment Consultant and the Finance Committee.
4. When appropriate, vote proxies and keep all records that will be governed by the Asset Manager's client agreement.
5. Comply with applicable law, report any discrepancies, and notify the Investment Consultant and the Finance Committee of any legal action taken against the Asset Manager(s), any arbitration involving the Asset Manager(s), or any judgments against the Asset Manager(s) or any of its employees.
6. Implement this Investment Policy Statement to achieve the investment objectives.
7. Notify the Investment Consultant and the Finance Committee should circumstances occur which the Asset Manager believes would require a modification of this Investment Policy Statement in order to achieve the Foundation's stated objectives.
8. Notify the Investment Consultant and the Finance Committee of any material change in the investment management personnel or ownership of the Asset Manager, within 45 days of occurrence.

### **Responsibilities of the Finance Committee**

The Board of Directors is responsible for the management of the assets of the Foundation. The Board of Directors shall discharge its duties solely in the interest of the Foundation, with the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent man, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.

Within the broad framework of this Investment Policy Statement set by the Board of Directors, the Finance Committee shall have direct responsibility for the oversight and management of the Foundation's

investments and for the establishment of investment policies and procedures. The following are responsibilities of the Finance Committee:

1. Establish reasonable and consistent investment objectives, policies, asset allocation, and guidelines.
2. Select qualified investment professionals, including Asset Managers, Investment Consultants, and Custodians.
3. Determine the Foundation's investment objectives, risk tolerance and time horizon and communicate these to the Asset Manager(s) and Investment Consultant.
4. Evaluate portfolio performance to assure that the Asset Manager(s) adhere to policy guidelines and monitor investment objectives.
5. Develop and enact proper control procedures to include the engagement, termination and replacement of investment professionals.
6. Communicate with the Board of Directors as to the results of investment performance on a quarterly basis. Reviews of investment performance by the Board of Directors will be done annually or more frequently if desired, however, the review of performance by the Finance Committee will be quarterly.
7. Recommend to the Board of Directors proposed changes and revisions to this Investment Policy Statement from time to time.

### **Responsibilities of the Investment Consultant**

The Investment Consultant's role is to provide information and advice to the Finance Committee concerning investment management of the Foundation's investment assets. Such advice will be consistent with the investment objectives, policies, guidelines, and constraints as established in this Investment Policy Statement. Specific responsibilities of the Investment Consultant include:

1. Assist in the development and periodic review of the Investment Policy Statement.
2. Provide the Finance Committee with information regarding overall market conditions.
3. Conduct Asset Manager searches where appropriate and make recommendations as required.
4. Monitor the Asset Manager(s) through benchmark comparisons and provide the Finance Committee with quarterly reports on the Foundation's relative performance.
5. Communicate matters of policy and Asset Manager performance to the Finance Committee and make recommendations where appropriate.
6. Make recommendations as to the modification of the Foundation's investment policies, goals, or guidelines.
7. Review the Foundation's investment history and the contents of this Investment Policy Statement with any newly appointed members of the Finance Committee.
8. Maintain timely communications with the Finance Committee relative to material changes in ownership, organization, and key personnel within each Asset Manager's organization. (Subject to notification from the Asset Manager within 45 days of occurrence).
9. Execute all duties in the Institutional Consulting Service Agreement.

### **Asset Manager Performance Review and Evaluation**

Asset Manager performance will be compiled quarterly by the Investment Consultant and communicated to the Finance Committee for review. The investment performance of total portfolio, as well as asset class components, is to be measured against commonly accepted performance benchmarks (refer to the Asset Allocation Guidelines Table for benchmark comparisons). The Finance Committee will evaluate the portfolio(s) over complete market cycles (at least three-year rolling periods), but reserves the right to terminate an Asset Manager for any reason at any time, including but not limited to the following:

1. Investment performance that is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this Investment Policy Statement that is applicable to the Asset Manager.
3. Changes to the personnel, ownership, reputation, standards, financial strength or stability of the Asset Manager which the Finance Committee deems to be or could become a concern to the Foundation.

## **Communications**

The Asset Manager and/or the Investment Consultant is required to give the Finance Committee quarterly account reviews detailing investment performance against predetermined benchmarks (time-weighted and dollar weighted), market outlook, account value, and comparisons with established benchmarks. In addition, the Asset Manager shall communicate any changes in the Asset Manager's investment philosophy, management, ownership, and key personnel, within 45 days from the change, to the Finance Committee and Investment Consultant.

Meetings may be held on an as-needed basis between the Finance Committee, the Asset Manager, and/or the Investment Consultant. Topics to be discussed may include:

1. The Asset Manager's relative investment performance and risk levels in light of the Foundation's stated policies and objectives.
2. The Asset Manager's views on important developments in the economy and the securities markets, and their potential effect on investment strategy, asset allocation, and account performance.
3. Any contemplated changes in the Asset Manager's organization on investment philosophy, strategy, and performance.
4. Proposed amendments to the policies and objectives presented in this Investment Policy Statement.

The Finance Committee and/or the Investment Consultant may choose to meet more frequently with the Asset Manager if concerns arise about the Asset Manager's performance, strategy, personnel, or organizational structure.

## **Investment Policy Review**

To assure continued relevance of the guidelines, objectives, financial status, and capital markets' expectations as established in this Investment Policy Statement, the Finance Committee shall review this Investment Policy Statement at least annually.