



Community Foundation

Great River Bend

Investment Policy

Community Foundation of the Great River Bend

Investment Policy Statement

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I. Definitions

Introduction

The Community Foundation of the Great River Bend is an Iowa, tax-exempt, Internal Revenue Code Section 501(c)(3), not-for-profit, autonomous, publicly supported, philanthropic organization formed and operated primarily as a permanent collection of endowed funds for the long-term benefit of the Great River Bend area in Iowa and Illinois. As such, it is intended that the Corporation must meet the public support test required for community foundations under Section 170(b)(1)(A)(vi) as modified by Treas. Reg. 1.170A-9(c)(10). The IRS classifies the Community Foundation of the Great River Bend, Inc., as an Internal Revenue Code Section 509(a)(1) organization.

Purpose

This Investment Policy Statement was adopted by the Board of Directors of the Community Foundation of the Great River Bend (the Board) to direct the prudent investment of its investment portfolio (the Portfolio) in a manner consistent with the investment objectives stated herein. The Board had delegated financial oversight of the Portfolio to the Investment Committee (the Committee).

The Investment Policy Statement shall be used by the Committee in performing its duty to oversee the investment portfolio (in managing, monitoring and reporting on the investment portfolio) and by the Investment Managers.

It is expected that the Committee will review this document on a regular basis. Any revisions will be recommended to the Board for approval.

Scope

This Policy applies to all assets that are included in the Foundation's investment portfolio for which the Committee has been given discretionary investment authority.

Fiduciary Duty

All assets shall be managed consistent with sound and prudent fiduciary practices, such as the Prudent Investors Act. In seeking to attain the investment objectives set forth in the policy, the Committee and its members must act with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person in like capacity and familiar with such matters would use in the conduct of an enterprise of the like character and with like aims. All investment actions and decisions must be based solely on the interests of the Foundation. Investment Managers must provide full and fair disclosure to the Committee of all material facts regarding any potential conflicts of interest.

Definition of Duties

Board of Directors

The Board has the ultimate fiduciary responsibility for the portfolio. The Board must ensure that appropriate policies governing the management of the Portfolio are in

place and that these policies are being effectively implemented. To implement these responsibilities, the Board sets and approves the Investment Policy Statement and delegates responsibility to the Investment Committee for implementation and ongoing monitoring. At least annually the Board will receive a performance report and review of the Investment Policy Statement from the Committee.

Investment Committee

The Committee is responsible for implementing the Investment Policy. This responsibility includes approving investment strategy, hiring and firing of investment managers, monitoring performance of the investment portfolio on a regular basis (at least quarterly), and maintaining sufficient knowledge about the portfolio and its managers so as to be reasonably assured of their compliance with the Investment Policy.

Definition of Asset Classes

Equities

Equities include common stock (both domestic and foreign), preferred stock, and managed or index funds made up of these securities.

Fixed Income

Fixed income instruments include any securities (both domestic and foreign) that provide contractual payments and/or have specific maturity dates, or managed funds made up of these securities.

Cash/Cash Equivalents

Cash equivalents include cash, US Government or agency bills, commercial paper rated A1, A2, P1, or P2, no-load money market mutual funds, or managed funds made up of these securities.

II. Objectives

Investment related objectives for the Community Foundation of the Great River Bend are:

Risk Tolerance

Fiduciary standards of prudence apply to Foundation investments. Given a range of risk from very low to very high, endowment investments should carry a moderate level of risk.

Asset Mix

All investments of foundation funds will be made in accordance with the guidelines set forth below. Diversification of assets should be employed.

Strategy

Because the Portfolio is expected to endure into perpetuity, and because inflation can have an impact on its Performance Objective, the long-term risk of not investing in growth securities outweighs the short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities. Fixed income securities will be used to lower the short-term volatility of the portfolio and to provide income stability, especially during periods of weak or negative equity markets. Cash is not a strategic asset of the portfolio, but is residual to the investment process and used to meet short-term liquidity needs. Other asset classes are included to provide diversification (e.g. international equities) and incremental return (e.g. small cap equities).

Community Foundation of the Great River Bend

Asset Allocation Guidelines

Asset Class	Acceptable % of total assets	Acceptable Total Range	Benchmark
Large Cap Equities	Up to 80%	50% - 80%	S & P 500
Mid Cap Equities	Up to 20%		S & P 400
Small Cap Equities	Up to 20%		S & P 600
International Equities	Up to 20%		MSCI Eafe Ndr_D
REIT's	Up to 10%		NAREIT
Total Equities			
Fixed Income	20% to 50%	20% - 50%	Lehman Intermediate A Corporate Index
High Yield *	Up to 5%		CSFB High Yield Bond Index
Total Fixed Income			
Cash/Cash Equivalents		0% - 15%	Treasury Bills
Total		100%	

* High Yield Investments may be purchased in Mutual Funds only and not as individual investments.

Rebalancing

The above ranges are for the entire Portfolio. Each Investment Manager will be expected to declare a target investment allocation at the beginning of each calendar year. Managers can make adjustments to their declared target asset allocation on a prospective, quarterly basis, within a window of time beginning two weeks before the quarter end and ending two weeks after the quarter end. Each manager's allocation must be within the Acceptable Total Ranges (column 3 above) of Equity, Fixed Income and Cash but the portfolios may differ in relation to Range Within Asset Class (column 2 above). The intention is to not drive managers into a segment with which they are not comfortable but in total to maintain a balanced portfolio. The intent is to allow managers to invest in the segments that make sense in relation to their expertise with the larger managers balancing out the total portfolio. The Portfolio will be reviewed quarterly as to the appropriateness of rebalancing.

Spending Policy

Spending policy objectives for endowment funds covered by the total return concept and asset allocation recommendations set forth in the investment objectives are:

- A. The primary objective is to preserve the real value (inflation adjusted) of current assets and future gifts. The rate of growth on endowment funds as a result of investment performance should maintain or increase its purchasing power over time.
- B. The next objective is to provide a consistent flow of funds in support of foundation expenditures including both administrative and grant-making activities.
- C. The spending policy will be monitored with the objective that all endowment funds maintain or increase the real value of the endowment principal over the long term.

III. Implementation

It is the intent of the Committee to select and retain competent investment managers. It is believed that over time, managers who understand the Foundation's long-term goals will be better able to contribute to overall performance.

Time Horizon

The Foundation seeks to attain investment results over a full market cycle. It is anticipated that all investment objectives will be attained in each year and recognizes that over various time periods investment managers may produce significant over or under performance relative to the broad markets. For this reason, long-term investment returns will be measured over a 3-year rolling average.

Manager Performance Objectives

All investment returns shall be measured net of fees. Each investment manager will be reviewed on an ongoing basis and evaluated upon the following criteria:

- a) Ability to meet or beat the return of the appropriate benchmark index;
- b) % above or below their appropriate index as compared to other managers;
- c) Adherence to the guidelines and objectives of this Investment Policy Statement;
- d) Avoidance of regulatory actions against the firm, its principals or employees.

Investment Manager Rotation

The Community Foundation recognizes the importance of the partnership we have with the Investment Managers. The policy to rotate the investment of gifts received from donors who do not designate an investment manager was created to reward the managers with the best performance and to thank them for their partnership with the Community Foundation.

The Investment Managers will be ranked according to the variance to their designated benchmarks. Rotation funds will only be awarded to investment managers who beat their 3 year benchmarks. The investment manager with the best investment performance relative to the appropriate benchmarks (over the preceding calendar 3 year period) will receive the first \$200,000 as the funds become available. The second ranking investment manager will receive the second \$200,000. The remaining managers who beat their benchmarks over the preceding 3 year period will be placed in line for funds based on their percentage above their appropriate benchmarks. Those remaining managers will receive \$200,000 as funds become available. Those managers out of compliance with current investment policies, including asset allocation guidelines, will not be eligible to receive additional funds until the non-compliance is corrected.

Performance will be reviewed on a rolling twelve-quarter period and evaluated at the end of each calendar year. Rate of Return will be calculated using a time-weighted

comparison net of fees. A new rotation of funds will begin March 1 of each year and end February 28, as funds are available.

When a new investment manager establishes a partnership with the Community Foundation, such manager is eligible to manage additional funds from the rotation after a full 3 calendar years of investment history. The manager must also be in compliance with current investment policies.

Managers are limited to a single rotation each year. Thereafter, undirected assets received by the Foundation will be allocated by direction of the Investment Committee.

IV. Guidelines and Restrictions

General

Each investment manager shall:

- Have a minimum of \$10,000 to become an Investment Manager. The Investment Manager has 3 years to increase that balance to \$50,000. (Not including funds awarded the Investment Manger through the Foundations rotation policy.) If the account has not been increased the Foundation would consider moving the funds. It is hoped that this will help ensure that the Foundation work with an Investment Manager who will actively promote the Foundation.
- Have full investment discretion with regard to security selection consistent with this Investment Policy Statement and is expected to maintain a fully invested portfolio (0 – 15% in cash);
- Immediately notify the Committee in writing of any material changes in the investment outlook, strategy, portfolio structure, firm ownership or senior personnel;
- Make no purchase that would cause a position in the portfolio to exceed 5% of the outstanding voting shares of the company or invest with the intent of controlling management;
- Not invest in non-marketable securities.

Equity Guidelines

Each equity investment manager shall:

- Assure that no position of any one company exceeds 10% of the manager's total portfolio as measured at market;
- Maintain a minimum of 20 positions in the portfolio to provide adequate diversification;
- Maintain adequate diversification among economic sectors;
- Maintain a maximum beta of 1.2% on the portfolio relative to the S&P 500;
- Not buy or hold shares of H&R Block. Due to our audit relationship with RSM McGladrey, Inc., the Foundation is prohibited from holding shares of H&R Block stock.

Fixed Income Guidelines

Each fixed income investment manager shall:

- Maintain an overall weighted average credit rating of "A" by Standards and Poor, Moody or another nationally recognized rating agency service;
- Hold no more than 10% of the fixed income portfolio in investments rated below investment grade. Split rated securities will be governed by the lower rating;
- Maintain a duration within +/-20% of the effective duration of the benchmark index;
- With respect to the corporate sector of the portfolio, maintain adequate diversification amongst economic sectors;

- Assure that no position of any one issuer shall exceed 10% of the manager's total portfolio as measured at market value except for securities issued by the U.S. government or its agencies;
- Invest no more than 20% of the portfolio in mortgage-backed securities;
- Not buy or hold debt securities of H&R Block. Due to our audit relationship with RSM McGladrey, Inc., the Foundation is prohibited from holding any H&R Block debt securities.

Unacceptable Securities

Investments should be consistent with this policy, but certain types of investments are not considered to be prudent for this endowment including but not limited to securities purchased on margin, derivatives, puts or naked calls, warrants to purchase stock, commodities or commodities contracts, minerals, oil, gas, or other mineral exploration or development programs.

V. Monitoring and Reporting

Reporting

Open communication between the investment managers and the Foundation is critical to the success of the Foundation. The investment manager shall provide the following at least annually.

- A written review of key investment decisions, investment performance and portfolio structure;
- An annual written declaration of target asset allocation mix;
- An organizational update;
- A review of the manager's understanding of investment guidelines and expectations and any suggestions to improve the policy or guidelines;

In addition, the following is required of each investment manager:

- Quarterly transaction and asset statements provided to the Foundation no later than the fifteenth business day following the end of the quarter;
- Quarterly summary sheet (provided by the Foundation);
- An annual detailed breakdown of all fees charged to the Foundation including management fees, transaction fees and mutual fund fees;
- Immediate notification to the Foundation of any exceptions to this investment policy statement with a recommended plan of action to correct the violation.

Monitoring

The Community Foundation allows its investment managers a great deal of latitude in its investment policies. In the event a manager does not adhere to those policies the following measures will be taken.

Asset Allocation

If an investment manager is out of compliance with the general asset mix, a Foundation staff member would notify the manager that compliance is mandatory. If a manager is not in compliance after another three months, ½ of the assets under their management would be removed, and if the manager is not in compliance after another 6 months (out of compliance one year), all assets remaining would be removed.

Endowment Investment Manager Discipline

The Foundation has enjoyed a productive partnership with its investment managers. It is believed that the policy to allow donors to specify a manager, and for a fiduciary to retain assets gifted by fiduciary clients, has assisted in the growth of the Foundation.

Discipline/termination of a manager for failure to achieve certain levels of investment performance will be as follows:

1. Donor Initiated. When a donor has nominated a manager and the donor's fund is the only fund being managed by that manager, the donor may request that the manager be terminated at any time.
2. Foundation Initiated/Investment Performance.
 - a. Investment performance that is less than one half of the pro-rated benchmark return against which the endowment pool as a whole is measured is not a reasonable return. When a manager produces less than one-half of the pro-rated benchmark return over a calendar one-year period, the manager will be put on the watch list, and appear before the Investment Committee to discuss how they will improve their performance. The manager will be taken off the watch list when their performance for a calendar one-year period exceeds one-half of the pro-rated benchmark return.
 - b. When a manager produces less than one-half of the pro-rated benchmark return over a three-year period, 50% of the assets that the manager received in rotation up to a maximum of 25% of their total assets under management will be removed by the Foundation. Assets under management because of donor choice will remain with the manager.
 - c. One year later, if the manager's return in that year does not exceed one-half of the pro-rated benchmark return, all remaining assets that the manager received in rotation up to a maximum of 50% of their total assets under management will be removed by the Foundation. Assets under management because of donor choice will remain with the manager.
 - d. One year later, if the manager's return in that year does not exceed one-half of the pro-rated benchmark return, the manager will be terminated and all assets under management will be removed.

If a manager has been terminated, they may rejoin as a manager if a donor asks for them to be added as a manager. When they rejoin, they will be on the watch list until their performance for a calendar one-year period exceeds one-half of the pro-rated benchmark return.

VI. Charitable Remainder Unitrust Policy

The Community Foundation is the trustee for several Charitable Remainder Unitrusts. These funds are invested in accounts that stand alone from other pooled accounts for legal reporting purposes.

CRUT/CRT Investment Managers shall adhere to the preceding Investment Policies set forth by the Community Foundation of the Great River Bend. If an Investment manager feels there is a justification for investing in a way that deviates from that policy they should submit a proposal to the Investment Committee in writing for review and approval.

In addition, to preserve the tax-exempt nature of Charitable Remainder Unitrusts, there are certain investments that are prohibited. Any investment that produces unrelated business income cannot be used in a Charitable Remainder Unitrust. An example of an investment that produces unrelated business income and is prohibited by this policy is a limited partnership.

VII. Charitable Giving Funds

The Community Foundation also maintains Charitable Giving Funds. These funds are non endowed and are created by donors usually with the intention of giving the money away in a short period of time. For most donors the objective for this type of fund is to remain liquid so that granting can be done at any time. Periodically, a donor will have a more long term objective in mind for the funds and will request a more aggressive means of investing. CGF's donors can choose from 4 investment objectives.

- Money Market – for capital preservation
- Balanced Fund – a 60/40 mix of stocks and bonds
- Growth – for long-term capital appreciation (all stock)
- Equity-Income – for reasonable total return (all stock)

Depending on donor direction investment managers may be asked to find a single mutual fund that would fulfill either the growth or equity income objective.