

COMMUNITY FOUNDATION FOR THE TWIN TIERS, INC.

Investment and Spending Policies

SECTION 1. INVESTMENT OVERSIGHT & POLICY GUIDANCE

A. DESCRIPTION OF THE FOUNDATION

The Community Foundation for the Twin Tiers, Inc. (the “Foundation”) is a collection of donations from private citizens and organizations that, in aggregate, form a fund. The fund supports grant making to selected charities within the community and the operating expenses of the Foundation.

The Foundation is a publicly supported charitable organization under Section 501(c)(3) of the Internal Revenue Code. Its purpose is to be a vehicle to receive and accept gifts to be administered for charitable purposes primarily in the four counties served by the Foundation: Bradford, Sullivan, and Tioga in Pennsylvania and Tioga in New York State.

B. PURPOSE AND BACKGROUND

The purpose of the Community Foundation for the Twin Tier’s **Investment and Spending Policies (IS Policies)** is to support current as well as future grantmaking and administrative needs while ensuring the inflation-adjusted spending power of the Foundation’s charitable assets over time.

In developing the IS Policies, the Foundation’s Board acknowledges that its ability to disburse funds is directly linked to and influenced by its investment approach. Because the Foundation is a community foundation, the vast majority of its assets comprise permanent endowments for discretionary as well as donor-designated charitable needs. With an investment time horizon of essentially forever, the Board of Directors takes a long-term view in setting and monitoring the impact of these policies.

This Investment and Spending Policies (the “Statement”) is intended to:

- Outline the investment-related responsibilities of the Board of Directors, the Finance & Investment Committee, the Foundation staff and the providers of investment services retained to assist with the management of the Foundation.
- Establish formal investment guidelines incorporating prudent risk parameters, appropriate asset guidelines and realistic return goals.
- Provide a framework for regular constructive communication between the Board, the Committee, the staff and the Foundation’s providers of investment services.
- Create standards of investment performance by which the Investment Managers agree to be measured over a reasonable time period.
- Be reviewed at least yearly by the Board of Directors and the Finance & Investment Committee to ensure the relevance of its contents to current capital market conditions and the needs of the Foundation and to make any recommended changes.

C. FIDUCIARY RESPONSIBILITY

The Board of Directors has fiduciary responsibility for all funds of the Foundation, which are held subject to and in accordance with the Foundation's governing documents (namely its articles of incorporation and bylaws, as may be further amended from time to time).

The Foundation serves as direct trustee for a portion of the Foundation's assets, and will select an appropriate investment approach, consistent with IS Policies, for managing such assets, which may include using one or more investment managers, using mutual funds, retaining bank trust services, or other strategies.

Fiduciary responsibility for a portion of the Foundation's assets is shared with trustee banks and investment management advisory organizations. Institutional trustees must be qualified to provide trust services. Trustees must also be willing to manage assets subject to the Foundations governing documents, IS Policies, and the fiduciary oversight of the Board of Directors to assure that the donor's trust will qualify as a "component fund" of our community foundation as defined by the Department of Treasury and Internal Revenue Service (IRS).

D. DIVESTMENT OF EXCESS BUSINESS HOLDINGS

In accordance with the Pension Protection Act of 2006 the holdings of a Donor-Advised fund in a business enterprise, together with the holdings of persons who are disqualified persons with respect to that fund, may not exceed any of the following:

- Twenty percent (thirty-five percent if it can be shown that persons who are not disqualified persons have effective control of the business) of the voting stock (Donor-advised funds are barred from holding non-voting stock of an incorporated business unless the disqualified persons collectively own less than 20 percent of the voting stock) of an incorporated business
- Twenty percent of the profits interest of a partnership or joint venture of the beneficial interest of a trust or similar entity

Definitions:

Business enterprise is the active conduct of a trade or business, including any activity that is regularly carried on for the production of income from the sale of goods or the performance of services.

Disqualified persons are donors and persons appointed or designated by donors are disqualified persons if they have-or reasonably expect to have-advisory privileges with respect to the donor-advised fund by virtue of their status as donors. Members of donors' and advisors' families are also disqualified.

Ownership of unincorporated businesses that are not substantially related to the fund's purposes is also prohibited.

Donor-advised funds receiving gifts of interests in a business enterprise will divest the holdings that are above the permitted amount within five years. There is the possibility of an additional five years if approved by the Secretary of the Treasury. This mainly affects contributions of closely-held businesses because the disqualified persons will generally own more than 20 percent of the business. Under the *de minimis* rule, the donor-advised fund could continue to hold an interest that did not exceed two percent of the voting stock and two percent of the value.

E. FINANCE & INVESTMENT COMMITTEE

The Board of Directors of the Foundation (the "Board") has established a Finance & Investment Committee (the "Committee"). While the Board bears the overall fiduciary responsibility for the Foundation, the Committee shall recommend to the Board the specific investment policy for the Foundation and shall be responsible for its day-to-day guidance, monitoring and oversight.

1. RESPONSIBILITIES

The specific duties and responsibilities of the Committee in regard to these policies shall be to:

- a. Recommend investment objectives and policies to the Board of Directors as outlined in this statement;
- b. Recommend investment service providers for the Foundation and monitor performance;
- c. Provide the Board with information regarding fund investment structure and performance against established objectives and policies;
- d. Monitor the investments with regard to the Foundation's fiduciary considerations;
- e. Recommend specific asset allocation percentage targets;
- f. Establish specific asset allocation targets for each investment agent;
- g. Periodically review and recommend withdrawal policy to the Board for grant-making;
- h. Periodically review and recommend withdrawal policy to the Board for operating costs.
- i. Recommend removal of investment service providers;
- j. Negotiate and recommend to the Board compensation arrangements for investment service providers;
- k. Receive, review and retain the reports of the investment service providers and other external reports on the financial condition of the Foundation, including receipts, disbursements and investment performance.

2. COMMITTEE OPERATION

- a. The Committee shall meet as required, but not less than four times each year.
- b. The actions of the Committee shall be recorded in formal minutes.
- c. The Committee may adopt procedures necessary to conduct its affairs.
- d. The Committee may authorize members or agents to execute or deliver any instrument on its behalf.
- e. The staff of the Foundation is authorized to carry out all administrative functions required by Committee action.

F. TOTAL RETURN APPROACH

The Foundation utilizes a "Total Return" approach to guide its investing and spending, as allowed by Pennsylvania Codes 5547, 5548, and 5549 pertaining to the use and management of trust assets by nonprofit corporations, and as permitted by its governing documents. This approach allows the Board to establish an annual payout rate based on a percentage of the asset base over a four-year period. The payout amount may be more or less than the actual income earned by interest and dividends, with capital appreciation (and in rare cases principal) used to help meet the established payout when necessary. By using the total return approach, the Foundation is able to maintain and increase the value of donated assets while funding current needs at an appropriate level.

The benefits of total return include:

- The Foundation and its financial trustees are not forced to focus investment strategies on required distributions from income alone.
- Because investments can be managed for both growth and income, the Foundation can better focus on current needs while assuring adequate funding for future needs.
- A larger and more predictable flow of funds will be available since distribution will not be determined solely by changes in current investment income, interest rates, etc.

G. SPENDING POLICY

The annual cash payout of all funds, except those funds containing illiquid assets (such as certain real estate or other property) will be 4.0% of the average market value, using a 16-quarter trailing average and net of financial management fees. For funds less than four years old, the market value will be the average of all quarterly market values to date. This payout will be used to meet both grant making and administrative needs. The payout rate will be established by the Board at its January meeting, and may be adjusted to reflect special funding needs and/or financial market conditions.

To meet the payout level determined each year, the Foundation may utilize both traditional interest and dividends generated by its various funds as well as capital appreciation. Where prudent and not inconsistent with the Foundation's bylaws, trust documents, and fund agreements, the Foundation may use a portion of the principal of certain funds (such as new funds with little or no capital appreciation) to meet the established payout or to fund special projects as determined by the Board or as designated by the donor of such funds. This spending strategy reflects the total return approach to investing and disbursing funds described above.

In the event that the endowment fund value falls below historic dollar value, spending from the fund will be suspended until the fund value rises above the minimum fund balance needed to support grants.

SECTION 2. ENDOWMENT FUNDS

A. LONG-TERM GOALS

The long-term goals of the Foundation's investment and spending policy will be:

- To protect the assets of the Foundation and strive to maximize the total return to the extent possible without assuming excessive risk;
- To provide a relatively predictable, stable and inflation adjusted payout stream for grant making and operations;
- To maintain a balance between spending and protecting the real (i.e., inflation adjusted) value of the Foundation's assets.

B. INVESTMENT RETURN AND RISK PARAMETERS

1. ANNUALIZED RETURN

The objective is to achieve an annualized total return that, at a minimum, will grow the assets by the rate of inflation, after having allowed for grant-making and operating expenses. In order to meet the above Spending Policy, the Foundation's assets must be managed to meet the payout percentage and assure sufficient growth beyond inflation, to maintain and ideally grow the spending power of those assets over time.

Thus the investment target of the Foundation is to achieve a minimum long-term (10+years), average total return of **8% or greater annually** (exclusive of Program-Related Investments described below). The minimum acceptable rate of return over a rolling 4-year period is that which equals or exceeds the payout rate plus the rate of inflation. Additionally, annual and quarterly performance must be in an acceptable range relative to appropriate benchmarks and the objectives outlined below including exceeding the above 8% target when the benchmarks are consistently performing above that level.

2. TOTAL RETURN

Investment objectives will be achieved using a total return strategy, where long-term return may come from both market value increases (realized and unrealized capital appreciation) and/or from current yield (interest and dividends).

3. VOLATILITY

In light of the Foundation's long-term horizon and limited liquidity needs over and above withdrawal policies, the fund can assume volatility consistent with a long-term investment return objective. The asset allocation and investment agent guidelines are designed to provide a balance that will avoid concentrations in any single asset class, risk level and manager style.

Risk: The Foundation and its financial trustees will manage funds to experience Risk commensurate with (volatility and variability of return) that of a composite index of:

70% S&P 500 Index
30% Lehman Aggregate Bond Index

Return: The intent of the Trustees is to out perform, over rolling 5 year periods of time, by .5% (50 basis points) net of fees the composite index as follows:

70% S&P 500 Index
30% Lehman Brothers Aggregate Bond Index

In addition, a rate of return objective of 4.0% (spending policy) plus administrative expenses of 1%, plus CPI shall be monitored on a quarterly basis to measure the true "absolute" rate of return needed for Foundation assets.

C. INVESTMENT CONSIDERATIONS

1. LIQUIDITY

Liquidity needs are low. Except for investment purposes and spending requirements, the fund requires no sizable liquid reserves. In addition, investing in marketable securities will enable the fund to raise cash on short notice as necessary. The lack of liquidity needs would permit investments in assets not readily liquid should the Board deem it appropriate.

2. TIME HORIZON

The funds have a long time horizon, which is typical for most foundations. The horizon extends well beyond a normal market cycle, and for the purposes of investment strategy, can be considered to be in "perpetuity."

3. LAWS AND REGULATION

Historically, most endowment and foundation funds were governed by state regulations, which embraced the Prudent Man Rule. The Prudent Investor Rule has gradually replaced this standard, and on June 25, 1999, Pennsylvania enacted this rule. The Prudent Investor Rule places greater emphasis on investment decisions in the context of the whole portfolio or strategy; no specific investment or course of action, taken alone, is considered inherently prudent or imprudent. By contrast, for the outdated Prudent Man Rule, each

investment would individually be judged prudent or imprudent. The Prudent Investor concept is consistent with the goals of the Committee.

4. TAX CONSIDERATION

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Consequently, tax considerations are not a meaningful constraint, other than the fact that securities with tax-exempt features should be avoided.

5. OTHER

Guided by the Prudent Investor Rule, the Finance & Investment Committee and the Foundation's investment agents shall consider only financial criteria in formulating investment policies and decisions, unless specifically directed to do otherwise in a definitive manner by the Board of Directors.

D. WITHDRAWAL POLICY

1. WITHDRAWALS FOR GRANT-MAKING

The Committee's recommendation regarding withdrawals for grant making will be:

- a. Formula based and consistent with donor instruction.
- b. For the purpose of this formula, the asset base will be equal to a four-year moving average of quarterly market values, ending the third quarter of each year. No grants will be allocated from a fund that has slipped below the required minimum fund balance at the end of the third quarter unless the contract for the fund allows invasion of the principle for grant payouts.
- c. The entire allocation will be available on the first business day of the following year.
- d. Any amounts from the prior year's allocation that remain unspent may be carried forward.

2. WITHDRAWALS FOR OPERATIONS

The Board may use a percentage of the Foundation's asset base for operations. The same conditions outlined above (2 - 4) in grant-making apply to operations. For purposes of applying the yearly administrative fee, the amount in each fund as of September 30 each year will be used as the base on which to apply the fee. No fees will be allocated from a fund that has slipped below the required minimum fund balance at the end of the third quarter of that fiscal year. The yearly administrative fee levied by the CFTT on funds under its management will be withdrawn from the funds by December 31st of each year.

E. ASSET ALLOCATION AND REBALANCING GUIDELINES

Asset allocation is widely recognized as the single most important determinant of long-term returns. The asset allocation guidelines and targets are designed to strike a balance among several competing objectives: Maximizing long-term investment returns, hedging against disasters (inflation and deflation) and moderating year-to-year volatility.

The Finance & Investment Committee will recommend to the Board specific percentage asset allocation targets for endowed funds. The major asset categories will be: Equities, Fixed Income, Cash, Discretionary, and Other Assets. The Committee can propose a change in the asset allocation guidelines at any time to the Board. The current Board policy for asset allocation is attached in Exhibit #1.

The allocation targets will be maintained by using cash inflows or outflows to rebalance the funds among asset classes and investment service providers. If cash flows are not sufficient, the Committee or the investment agents will rebalance the components to the appropriate target levels.

The Finance & Investment Committee may ask the Board of Directors for a temporary exception to the allocation policy when the Foundation and the country are experiencing extraordinary market conditions.

Asset allocation will be based on market value.

F. PORTFOLIO GUIDELINES FOR MAIN INVESTMENT POOL

1. EQUITIES

The purpose of the Foundation's equity investment portfolio is to provide total return. The equity portfolios shall consist of marketable securities that may be purchased on recognized exchanges in the U.S. and, in the case of international stocks, throughout the world. In any case, the following restrictions apply:

- a. The equity securities of any one corporate issuer should not exceed 5% of the equity portion, based on market value, of any manager's portfolio.
- b. Broad diversification must be maintained by holding the portfolio within ten percentage points of the S&P sector weighting.
- c. For these purposes, regulated investment companies (mutual funds) shall be considered and evaluated based on the underlying holdings as to their asset classes and concentration. Moreover, mutual funds shall not be considered derivative securities unless their underlying holdings contain or rely heavily on such holdings for their performance.

2. FIXED INCOME

The purpose of the Foundation's fixed income portfolio is to preserve principal by hedging against deflation, provide stability in the level of current income, and limit the volatility of the total fund. The following restrictions apply: Securities shall be diversified and limited to obligations of U.S. Government and its agencies, and corporate obligations regarded as investment grade by Moody's and Standard and Poor's.

Where fixed income mutual funds are employed, each fund's average rating should be regarded as investment grade, consistent with the foregoing.

3. CASH

Cash includes short-term (maturity less than one year) fixed income instruments issued by the U.S. Government or its agencies, high quality corporate debt securities or money market instruments and bank certificates of deposit. Any cash position in the portfolios will be included in the calculation of total return.

4. DISCRETIONARY

The Discretionary allocation is designed to give the investment agents additional flexibility to structure their overall asset mix to seek greater return, or lower risk, or greater diversification, or a more defensive positioning. The following guidelines apply:

- a. Any investments that are acceptable under sections A., B., or C. of the Portfolio Guidelines are acceptable for this allocation.
- b. Agents may invest in publicly traded mutual funds that may help meet the goals described above. These investments could include, among others:

- 1) Sector funds (such as REITs, technology, health care, energy, precious metals, etc.)
 - 2) Commodity funds (such as a real asset fund, natural resources, timber funds, etc.)
 - 3) High Yield Bond funds
 - 4) Emerging Market funds
- c. If purchases of individual equities or fixed income securities are undertaken, no more than 5% of the Discretionary allocation may be invested in any one corporate issuer.

5. OTHER

The Committee may consider other investments when the need occurs. These may result from gifts to the Foundation or recommendations for alternative asset classes.

6. RESTRICTED SECURITIES FOR SEPARATELY MANAGED ACCOUNTS

Under the Prudent Investor Rule, there is no individual investment that is, per se, imprudent; rather, each investment is judged in the context of the entire portfolio. However, this Investment Policy does restrict some individual investments outside of a mutual fund context. The following categories of securities or security transactions are not permissible without the written approval of the Finance & Investment Committee:

- a. Commodities and Futures, including oil and gas properties, except for properties and interests held at the present time, or which may come to the Foundation as a Board approved and accepted gift.
- b. Selling securities short.
- c. Venture Capital Funds (other than as part of the Foundation's Program-Related Investment Program)
- d. Letter Stock
- e. Margin purchases or lending or borrowing money, except for publicly traded debt.
- f. The buying and selling of Put and Call Options.
- g. Private Placements
- h. Writing, purchasing, or selling naked options.
- i. Derivative securities including collateralized mortgage obligations (CMO's), except (a) mutual funds as provided above, and (b) hedging transactions, limited to exposure, for principal protection.
- j. Real estate properties, except for properties or interests held at the present time, or which may come to the Foundation as a Board-approved and accepted gift.
- k. All securities not offered through an SEC registration filing except for direct obligations of the US government and its agencies and for managers specifically hired to manage foreign equities.
- l. The buying and selling of foreign securities not registered through an SEC filing or not denominated in US dollars.

Exception: In case of bequest, alternate investment classes may be held with the intention to liquidate as soon as deemed prudent by the Directors.

Any questions that arise about acceptable or unacceptable investments should be directed to the Finance & Investment Committee.

7. EXEMPTION TO ALLOWABLE SECURITIES AND PROHIBITED TRANSACTIONS:

Due to the nature of many SEC registered mutual funds, and insurance company commingled vehicles, the prohibited securities and investment practices listed above may be waived. Each “fund” will be evaluated on a case-by-case basis to determine its appropriateness as an investment vehicle for the Foundation.

G. PORTFOLIO GUIDELINES FOR ALTERNATIVE POOLS

1. SOCIALLY RESPONSIBLE INVESTMENT PORTFOLIO

For the general comingled pool of investments, the Foundation does not employ any social screens. However, the Foundation may choose to invest funds in a socially responsible manner. To this end, for this pool of funds the Foundation seeks selectively to avoid investing in companies that promote usage of tobacco, alcohol and gambling and to avoid investment in companies that are rated poorly (by such screening device as the Manager or Foundation may reasonably choose) in the areas of diversity, treatment of employees, corporate governance and care of the environment. As social screening will always affect the composition of a portfolio, the Foundation recognizes that the screened portfolios may not follow the same asset allocations as the general pool and are likely to have risk and return characteristics that are somewhat different from a comparable, unscreened portfolio.

2. OTHER SEPARATELY MANAGED FUND PORTFOLIOS

To request a specific investment house, fund and investment manager the donor must have at least \$250,000 to invest. The investment manager recommended for overseeing the investment of these funds must have agreed in writing to abide by these Investment & Spending Policies and will be governed by them in regard to their performance evaluation using the standards established under these I&S Policies.

SECTION 3. NON-ENDOWED FUNDS

The CFTT maintains several types of nonpermanent funds: Non-Endowed Field of Interest, Donor Designated, Scholarship, Pass-Through, Discretionary, Donor Advised, and Agency funds. These funds are designed to be intermediate-term (2-5 years) and short term (less than two (2) years) and have no spending limit. These funds may include capital campaigns, grants for projects, expected current fund payout, etc. Preservation of principal is the most critical factor in the investment strategy for these funds.

The portfolio of non-permanent assets may be invested in a variety of instruments with average maturity not to exceed five (5) years for each individual investment category. The guidelines below will apply to making short and Intermediate –term investments for the Foundation:

- Certificate(s) of deposit
- Corporate bonds rated A or better
- Obligations backed by the US Government
- Money Market accounts

A. TYPES OF NONPERMANENT FUNDS

The CFTT maintains three types of nonpermanent investment pools: Short-Term Asset Accounts, Intermediate-Term Asset Accounts, and Annuity Fund Asset Accounts.

1. SHORT-TERM ASSET ACCOUNTS.

These short-term funds hold assets used for operations (Local Bank Checking Account, Local Bank & Vanguard Money Market Accounts for Operating Funds, Local Bank Savings Short-term holding Account for

Endowment funds, Operating Reserve Fund, Capital Expenditure Reserve Fund, and Annuity Reserve Fund), special projects and charitable funds. Funds created through memorial contributions will be invested in Short-Term Investments until the purpose is defined and a fund agreement executed. Cash may be invested in bank accounts, commercial paper, obligations issued by or guaranteed by the U.S. Treasury or securities issued by government –sponsored enterprises, money market funds, or certificates of deposit. Commercial paper must be rated at least A-1 by Standard & Poors or P-1 by Moody’s Investors Services. Limitations on maturities should not normally exceed one year without the prior approval of the Investment Committee. The investment manager may not purchase short-term financial instruments considered to contain speculative characteristics (uncertainty of principal and/or interest). The investment manager also may not invest more than 10% of the account’s market value in the obligations of a single issuer, with the exception of the United States Government and its agencies. Uninvested cash reserves should be kept at minimum levels.

- a. Operating Reserve Fund. The CFTT maintains an operating reserve to assure sufficient cash flow throughout the year and during various market conditions. The optimal operating reserve balance is equivalent to six month average operating expenses. The operating reserve is not to include items such as prepaid expenses or fixed assets. The principles governing the investment of these funds includes: preservation of capital, liquidity (at least 50% must be available within six months) and optimization of investment return within the constraints of preservation of capital and liquidity.
- b. Capital Expenditure Reserve Fund. This reserve exists to provide partial funding for the purchase or replacement of capital items. The cash flow needs for such items fluctuate significantly from one year to the next. By building and maintaining a reserve, funds should be available to purchase capital items when needed by the CFTT. Operating surpluses and/or an amount up to annual depreciation expense can be used to fund the reserve. These funds can be used to purchase capital items with an estimated life greater than one year and an initial value of \$500 or more. Such items may include, furniture, equipment, software, real estate, etc. Management may purchase items as needed up to the annually determined capital expenditure budget.
- c. Gift Annuity Reserve. The CFTT maintains a reserve for gift annuities in the event an annuity beneficiary outlives the annuity’s assets. The gift annuity reserve is maintained at a minimum of 10% of the total gift annuity liability. Ten percent of the residual value for annuities written after January 1, 2009 is placed in this account. The gift annuity reserve is credited with the interest earned. The CFTT Board of Directors reviews the adequacy of the reserve on an annual basis. The Board will consider redirecting dollars from the gift annuity reserve to discretionary grantmaking when its value exceeds 15% of the total gift annuity liability. This decision will be based upon a review of the current gift annuity contracts and the potential for adding annuity contracts.

2. INTERMEDIATE-TERM ASSET ACCOUNTS.

The CFTT is committed to supporting a wide variety of program activities and grantmaking. This includes projects that have finite and short-term funding schedules, such as holding funds for specific projects of other not-for-profit organizations and charitable pass-through funds. These funds hold assets reserved for the fulfillment of charitable objectives within a two-to-five year timeframe. Any fund that is expected to exist for five years or less will generally not be invested in the endowment pool as these funds do not require the diversification and long-term investment returns that endowments need to stay viable. The assets are invested and managed in accordance with these guidelines. Suitable investments for the purpose of managing this pool are:

- a. **Equity Securities:** Publicly traded common and preferred stocks, convertible preferred stocks and convertible debentures. Equity securities may be chosen from the NYSE, Regional Exchanges, and the National Over-the-Counter Market. All assets must have readily ascertainable market values and be fully liquid and marketable.
- b. **Debt Instruments:** United States Government and Agency Obligations. Corporate Obligations must have an average A or better agency rating by one of the three major rating agencies. Maturity structure will be left to the discretion of the Investment Manager who will manage to a short and intermediate duration not to exceed three years.

- c. **Cash and Equivalents:** Cash reserves may consist of individual fixed income securities such as Commercial Paper, U.S. Treasury Bills, and other similar instruments with less than one year to maturity and/or money market funds. Cash reserves should be free from risk and instantly liquid.

3. **GIFT ANNUITY ASSET ACCOUNTS.**

These funds hold assets dedicated to the fulfillment of charitable gift annuity agreements established on behalf of individual donors. When the donor's life expectancy exceeds 10 years, the assets are invested and managed in accordance with the Endowments Investment Policy, with one exception:

- Because the CFTT has entered into an agreement that specifies the amount of the distributions due the donor during the donor's lifetime, endowment spending policy and spending rates do not apply to these funds.
- Sufficient liquidity is maintained in order meet quarterly annuity payment obligations. When the donor's life expectancy is less than ten years, the assets are invested and managed in accordance with the Endowment Investment Policy with this additional exception:
- Asset classes are the same, but the standard asset allocation differs.

When the donor's life expectancy is less than five years, the assets are invested and managed in accordance with the Non-Endowment (Non-Permanent) Investment Policy for Intermediate-Term Asset accounts.

When the donor's life expectancy is less than three years, the assets are invested and managed in accordance with the Non-Endowment Investment Policy for Short-Term asset accounts.

B. **SHORT-TERM GUIDELINES**

The Foundation has established a separate Short-Term Investment Pool that is managed to achieve the objective of minimizing loss of principal. Assets in the short-term pool will be invested in cash and cash equivalents. Three possible alternatives are provided for fund holders:

1. **For Project Funds Requiring FDIC Insurance:** These project funds will be invested in an insured bank or brokerage money market or CDs. Laddered CDs may be used when a project's time frame is known. For projects with accumulations of \$250,000 or more, separate accounts will be established in order to keep the money FDIC insured.
2. **For Project Funds NOT Requiring FDIC Insurance:** These project funds may be invested in the Foundation's Vanguard Money Market Account. This investment is particularly attractive for large project funds, due to the fact that separate accounts do not need to be created.
3. **For Pass-Through Funds Requiring FDIC Insurance:** Due to the uncertainty in the timing of withdrawals from these funds, they will be invested in a regional bank's FDIC insured money market. When the balance of the fund is below the minimum required amount for the money market, the balance will be transferred to the Foundation's checking account and remain there until depleted.

Investments should be purchased with laddered maturity dates in order to meet the weekly cash needs of the CFTT. On a bi-weekly basis cash is needed to pay for operating expenses and grant disbursements from non-permanent funds, therefore the disbursement of cash is a regular occurrence and a sufficient level of cash should be kept available to meet these requirements(at least \$5,000 in the CFTT local bank operating fund money market account). Operating expenses are generally predictable and spread through the year. Grant disbursements are unpredictable and can occur at any time during the year, but are typically submitted seven days prior to disbursement. When necessary, securities will need to be liquidated in order to meet cash demands. Upon liquidation, the funds will be transferred to the CFTT's checking account.

C. INTERMEDIATE-TERM GUIDELINES

The investment objectives for the intermediate-term pool are:

- Over 2 to 5 years a minimum average annual growth rate of the underlying principal (and additions) exceeding the 180-day Treasury Bill Index by 2.25%.
- Both the Board of Directors and the Finance/Investment Committee desire that the principal value of the fund and the return generated by the fund be so managed as to at least offset any inflationary pressures on them.
- It is believed that this is a relatively conservative approach and that the Board has taken appropriate measures to control risk allowing any Investment Manager(s) necessary tolerances to reasonably safeguard the assets subject to his/her control. The Board of Directors and the Finance/Investment Committee would rather set forth conservative minimum expectations than lofty goals which may force any Investment Manager(s) to take risks inconsistent with the purpose of these assets.

If any Investment Manager wishes to use an investment vehicle not included in the above list, a written request from the manager must be approved by the Board of Directors through the Finance/Investment Committee.

D. EVALUATION OF INVESTMENT MANAGERS

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:

- Avoidance of regulatory actions against the firm, in principals, or employees
- Adherence to the firm's investment philosophy and style, and continuity of its personnel and practices.
- Ability to provide high quality customer service to the CFTT.
- Adherence to the guidelines and objectives of the Short-Term Investment Policy.
- Ability to meet or exceed an internal benchmark of the CFTT's rate of return on its checking sweep account.

E. PERFORMANCE OBJECTIVES

In order to evaluate the performance of the non-endowment pools and the investment managers over shorter time periods, the CFTT has also adopted a market benchmark for each pool and each manager. For each pool as a whole, the Total Portfolio Benchmark will consist of a suitable index for each asset class used. These indices will be weighted on a quarterly basis according to the CFTT's strategic asset allocation targets for the pool listed below.

1. INTERMEDIATE AND SHORT-TERM ANNUITY FUNDS

CFTT's intermediate and short-term allocation is 40 percent equity and 60 percent fixed income and cash equivalents. The established ranges, targets, and benchmarks are these asset classes are:

Class	Minimum	Maximum	Target	Benchmark
Cash	2%	10%	5%	90-day T-Bill = 25 bps
Fixed Income	30%	75%	55%	Lehman Int Govt/Credit
Equities				
Domestic	20%	40%	30%	MSCI US Broad Market Index

Class	Minimum	Maximum	Target	Benchmark
International	5%	15%	10%	
Foreign				MSCI Foreign Market
Emerging				MSCI Emerging Market

2. INTERMEDIATE-TERM POOL

This pool has a target allocation of 100% fixed income securities. It is designed for funds with a spending horizon of two to five years.

Class	Minimum	Maximum	Target	Benchmark
Fixed Income & Cash				
Aggregate Bonds	15%	25%	20%	Lehman Agg. Intermediate
Short Term Bonds	40%	50%	45%	Citigroup Gov't/Credit 1-3 Yr
Global Bonds	2%	7%	5%	Citigroup World Gov't
Cash	5%	15%	10%	U.S. Treasury Bills
Equities				
Large Cap Equities	10%	20%	15%	MSCI US Broad Market Index
Small Cap Equities	0%	5%	2.5%	Russell 2000 Index
International Equities	0%	5%	2.5%	MSCI Emerging Market

3. SHORT-TERM POOL – CAPITAL PRESERVATION

This pool is designed to preserve principal and provide current income and liquidity by investing in high quality, short-term financial instruments including money market instruments and bank certificates of deposit. It is designed for funds seeking stability or for that portion of a fund that is to be distributed within one year.

Class	Minimum	Maximum	Target	Benchmark
Money Market Securities	0%	100%	%	U.S. Treasury Bills
Bank CDs	0%	100%	%	U.S. Treasury Bills

4. SOCIAL IMPACT POOL

This pool has a broad target allocation of 30% fixed income and 70% equity. It is designed for funds with a long-term spending horizon of five or more years, and that wish to limit investment according to standard social avoidance lists (e.g., military, tobacco, alcohol, gambling), as well as issues related to environmental, corporate citizenship, animal rights and international human rights.

Class	Minimum	Maximum	Target	Benchmark
U.S. Large Cap Equity	37%	43%	40%	S&P 500
U.S. Small Cap Equity	7%	13%	10%	Russell 2000
Int'l Developed Mkts Eq	17%	23%	20%	MSCI EAFE
Aggregate Bonds	27%	33%	30%	Lehman Aggregate

SECTION 4. INVESTMENT AGENTS OF THE FOUNDATION

A. INVESTMENT PROGRAM

The minimum threshold to establish a new investment management account is \$250,000. The Foundation also allows investment managers to establish a “step-up account” with an initial gift of \$50,000 and build to the

\$250,000 minimum within three years. If the account fails to reach \$250,000 within the three years, the Foundation Board may elect to redistribute the money among other investment management accounts held by the Foundation.

Investment agents must assume the following responsibilities:

- To acknowledge in writing acceptance of the objectives, guidelines and performance benchmarks as defined in this Statement of Investment and Spending Policies, and to invest the assets of the Foundation accordingly.
- To exercise full discretionary authority for funds under management as to all buy, hold, and sell decisions for each security under management, subject to the guidelines as defined in this Statement.
- To rebalance the asset classes in the portfolio as deemed appropriate by the investment agent to comply with Board policy.
- To recommend changes in this Statement based upon material and sustained changes to capital markets.
- To protect securities by using insurance, i.e. SIPC, or by segregating such as in a bank trust department.

B. REPORTING

1. TIMING & CONTENT

Investment agents shall produce a statement within 45 days from the end of each quarter displaying the cost, market values, and percentage distributions for each separate portfolio asset class.

Quarterly: Each investment manager/trustee bank shall provide 13 copies of a report to the Foundation President within 45 days from the **end of each quarter**—which includes the following information for both the quarter & the year to date:

- Beginning Market Value
- Ending Market Value
- Current mix of asset classes (percentage of assets in each class)
- Total Return for portfolio being managed
- Appropriate benchmark for each asset class

Annually: When reporting for the fourth quarter, ending December 31 of each year, in addition to the above, managers/trustees shall also include:

- Current list of holdings (where mutual funds are used, include a current prospectus listing holdings)
- Brief description of fundamental investment philosophy
- Market Outlook
- Any changes in organizational structure, personnel, or other pertinent factors

2. RATE OF RETURN

Investment agents shall produce a statement soon after the end of each quarter demonstrating the time-weighted rates of return for the latest quarter, trailing year, and year-to-date, if appropriate. These reports shall include the performance of the relevant benchmark.

Time-weighted rate-of-return performance measures allow comparisons to recognizable indices. This method corrects for the biases stemming from additions to and withdrawals from investments.

Return calculations should employ AIMR standards.

C. REVIEW MEETINGS

Each manager/trustee may also be asked to meet privately with the Finance & Investment Committee to provide a context to the written report and to respond to questions as needed. The Finance & Investment Committee shall report to the Board at least annually on the status of investments following its annual meeting with consultants and managers.

At the request of the Committee, but not less than once each year, each investment agent will participate in a review meeting, the agenda to include:

- A review and reappraisal of the investment program.
- A commentary on investment results in light of the appropriate standards of performance.
- A synopsis of the key investment decisions made by the Agent, the underlying rationale, and how those decisions could affect future results.
- A discussion of the Agent's outlook, what specific investment decisions this outlook may trigger and how these decisions could affect future results.

D. COMMUNICATION

Each Investment Agent is responsible for maintaining communication with a designee of the Committee on all material matters pertaining to investment policies and the management of the Foundation's assets. In particular, each Investment Agent will:

- Provide immediate notice by phone (followed by written notice within 7 business days) of material changes in its firm ownership organizational structure, financial condition, senior staffing and management that could substantially affect the ability of the agent to manage the assets of the Foundation, where permissible by law.
- Provide timely notice of any material changes in its investment outlook, strategy, and portfolio structure.
- Provide timely notice of involvement in any litigation or regulatory investigation relating to the organization's investment activities that could substantially affect the ability of the agent to manage the assets of the Foundation.

SECTION 5. REVIEW PROCESS FOR INVESTMENTS

Investment performance review of all portfolios will be conducted quarterly to ascertain progress against the objectives of the Foundation. The quarterly reports should cover three basic areas:

- returns,
- comparison of returns to benchmarks and a peer group of similar portfolios,
- compliance with relevant policies and objectives.

Beyond these customary reviews, certain circumstances or events, as outlined below, will trigger automatic formal reviews and where appropriate, reconsideration by the Finance & Investment Committee of the appropriateness of continuing to use the affected agent. None of these circumstances or events shall serve as automatic cause for changing investment agents, but will merely indicate the need for review.

A. DISAPPOINTING RELATIVE PERFORMANCE FOR OVERALL ALLOCATION

- Five-year cumulative return significantly trails benchmark index;
- Ranking of portfolio’s five-year return against the peer group is significantly below median;
- Ranking of portfolio’s one-year return against the peer group is significantly below median.

B. FUND MANAGEMENT ORGANIZATION CHANGES

- Turnover of portfolio manager or other personnel significant to the portfolio management process;
- Ownership change;
- Involvement in relevant regulatory investigation or litigation.

C. DEVIATION FROM INVESTMENT METHODS THAT BUILT HISTORICAL RECORDS

- Aggregate assets are insufficient to ensure broad diversification, efficient trading, and economies of scale;
- Assets grow too large to be managed in a manner similar to methods that built historical record;
- Portfolio characteristics do not match stylistic expectations;
- Significant change in fees.

D. RELATIVE OVERALL PERFORMANCE IN EXCESS OF EXPECTATIONS

- Ranking of portfolio’s five-year cumulative return is dramatically above the median;
- Ranking of portfolio’s one-year return versus peer portfolios is dramatically above the median.

E. BENCHMARK INDICES

Each component asset class of the Foundation will be measured against the appropriate benchmark:

<u>Asset Class</u>	<u>Index</u>
U S. Large Cap Stocks:	S&P 500 Index
U.S. Small Cap Stocks:	Russell 2000 Index

Non-U.S. Stocks:	Morgan Stanley Capital International Europe Australia, Far East: (EAFE) Index
Fixed Income:	Lehman Aggregate Bond Index
Real Estate:	Frank Russell NCREIF Property Index

<u>Asset Class</u>	<u>Index</u>
<i>Intermediate Bonds</i>	<i>Shearson Lehman Government/Corporate Intermediate Bond Index</i>
<i>Cash Equivalents</i>	<i>Money Fund Report Average, 90-Day Treasury Bill Rates, Consumer Price Index</i>
Cash:	U.S. Treasury Bills
Discretionary:	70% S&P 500 Index/30% Lehman Aggregate

Attention will be paid to rolling 3, 5, 7, and 10 year time periods as well as shorter time periods should the situation warrant.

**EXHIBIT #1 – CFTT BOARD POLICY REGARDING ASSET ALLOCATION
FOR ENDOWMENT FUNDS**

	<u>Range</u>	<u>Target</u>
Equities:		
Large Cap	30 - 40%	35%
Small Cap	5 - 15%	10%
International	10 - 20%	<u>15%</u>
Total Equities	45 - 75%	60%
Cash	0 - 5%	0%
Fixed Income	25 - 40%	30%
Discretionary	0 - 15%	<u>10%</u> 100%