

# INVESTMENT POLICY STATEMENT



## Community First Foundation Pooled Assets

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# EXECUTIVE SUMMARY – Long Term Assets with Alternatives

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**Planning Time Horizon:**..... Greater than 5 years

**Targeted Return:**..... CPI + 5%(1)

**Risk Tolerance:**..... Modeled losses not to exceed -17% in any year, with a statistical confidence level of 95% (2)

<b>Asset Allocation</b>	<b>Lower <u>Limit</u></b>	<b>Upper <u>Limit</u></b>
Equities	30%	60%
Fixed Income	25%	45%
Alternative Investments	5%	25%
Cash Equivalent	0%	10%

(1) Annual modeled returns may vary from the Targeted Return based upon risk tolerance and other cost/benefit considerations.

(2) There is a 5% probability that the 1 year risk tolerance of -17% will be exceeded. Actual losses may exceed modeled losses throughout the year. Modeled losses will be reviewed and revised annually based on future capital market assumptions.

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Equities	35%	65%
Fixed Income	30%	60%
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(1) Annual modeled returns may vary from the Targeted Return based upon risk tolerance and other cost/benefit considerations.

(2) There is a 5% probability that the 1 year risk tolerance of -17% will be exceeded. Actual losses may exceed modeled losses throughout the year. Modeled losses will be reviewed and revised annually based on future capital market assumptions.

# EXECUTIVE SUMMARY – Short/Intermediate Term Assets

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**Planning Time Horizon:**..... Less than 5 years

**Targeted Return:**..... CPI + 2.0%(1)

**Risk Tolerance:**..... Modeled losses not to exceed -8% in any year, with a statistical confidence level of 95% (2)

<b>Asset Allocation</b>	<b>Lower <u>Limit</u></b>	<b>Upper <u>Limit</u></b>
Equities	5%	35%
Fixed Income	60%	90%
Cash Equivalent	0%	10%

(1) Annual modeled returns may vary from the Targeted Return based upon risk tolerance and other cost/benefit considerations.

(2) There is a 5% probability that the 1 year risk tolerance of -8% will be exceeded. Actual losses may exceed modeled losses throughout the year. Modeled losses will be reviewed and revised annually based on future capital market assumptions.

## **PURPOSE OF THIS INVESTMENT POLICY**

This statement of investment policy is set forth by the Board of Directors of Community First Foundation (the Foundation) in order to:

- 1) Define and assign the responsibilities of all involved parties.
- 2) Establish a clear understanding for all involved parties of the investment goals and objectives of Funds' assets.
- 3) Offer guidance and limitations to all investment managers regarding the investment of Funds' assets.
- 4) Establish a basis for evaluating investment results.
- 5) Establish the relevant investment horizon for which the Funds' assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude that will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

## **SCOPE**

This statement of investment policy reflects the investment policies, objectives, and constraints of Community First Foundation Pooled Assets and applies to all investments not governed by another investment policy statement at the Foundation.

## **DELEGATION OF AUTHORITY:**

The Finance and Investment Committee of the Foundation is responsible for directing and monitoring the investment management of the Funds' assets. As such, the Finance and Investment Committee is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

- 1) Investment Management Consultant. The Investment Management Consultant may assist the Finance and Investment Committee in: establishing investment policy, objectives, and guidelines; selecting Investment Managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
- 2) Investment Manager. The Investment Manager has discretion to purchase, sell or hold the specific securities that will be used to meet the Fund's investment objectives.
- 3) Custodian. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian will perform regular

accounting of assets owned and held in custody as well as movement of assets into and out of the Fund accounts.

- 4) Additional specialists (such as attorneys, auditors, actuaries, and others) may be employed by the Finance and Investment Committee to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

Managers will be held responsible and accountable to achieve the objectives herein stated and as may be further defined by the Finance and Investment Committee. While it is believed that the limitations will not hamper Investment Managers, each manager should request modifications that they deem appropriate.

If such experts employed are also deemed to be fiduciaries, they must acknowledge such in writing. All expenses for such experts must be customary and reasonable and will be borne by the Fund as deemed appropriate and necessary.

## **DEFINITIONS**

1. "Funds" shall mean the three distinct Investment Portfolios of the Foundation.
2. "Finance and Investment Committee" shall be a committee appointed by the governing Board of Directors.
3. "Total return" shall mean the market value increase or decrease in the security plus interest and dividends received over a stated period of time.
4. "Investment Manager" shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Fund assets.
5. "Investment Management Consultant" shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
6. "Securities" shall refer to the marketable investment securities that are defined as acceptable in this statement.
7. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for the long term assets is greater than 5 years. The investment horizon for the short/intermediate term assets is less than 5 years.
8. "Alternative Investments" shall mean investment products other than traditional investments such as stocks, bonds or cash. This broad definition makes it impossible to list all alternative strategies, but the most common areas are real estate, private equity, venture capital, commodities, and hedged or absolute return strategies. One common theme of alternative investments is that they have historically had modest correlations with traditional investments.
9. "Style Universe," or Peer Groups shall mean a group of investment products with similar investment objectives. Universes are used in addition to indexes to assess relative performance.

## **ASSIGNMENT OF RESPONSIBILITY:**

### **Responsibility of the Finance and Investment Committee of the Foundation**

The Finance and Investment Committee is charged with the responsibility for the management of the assets of the Funds. The specific responsibilities of the Finance and Investment Committee relating to the investment management of the Funds' assets include:

1. Projecting the Funds' financial needs and communicating such needs to the Investment Managers on a timely basis.
2. Determining the Funds' risk tolerance and Investment Horizon within the ranges set forth in this Investment Policy Statement and communicating these to the appropriate parties.
3. Establishing reasonable and consistent investment objectives, policies, and guidelines that will direct the investment of the Funds' assets.
4. Establishing specific allocations within the ranges set forth in this Investment Policy Statement and communicating them to the Investment Management Consultant.
5. Selecting qualified investment professionals, including, but not limited to, Investment Manager(s), Investment Management Consultant(s), and Custodian(s).
6. Regularly evaluating the performance of the Investment Manager(s) to assure adherence to policy guidelines and monitor investment objective progress.
7. Developing and enacting proper control procedures (e.g., replacing Investment Manager(s) due to fundamental change in investment process, or failure to comply with established guidelines).
8. Regularly communicating with the Board of Directors as to portfolio performance.

### **Responsibility of Investment Management Consultant(s)**

The Investment Management Consultant's role is that of a non-discretionary advisor to the Finance and Investment Committee of the Foundation. Investment advice concerning the investment management of the Funds' assets will be offered by the Investment Management Consultant, and will be consistent with the investment objectives, policies, guidelines, and constraints as established in this statement. Specific responsibilities of the Investment Management Consultant include:

1. Assisting in the development and periodic review of investment policy.
2. Conducting Investment Manager searches when requested by the Finance and Investment Committee.
3. Providing "due diligence" or research on the Investment Manager(s).
4. Monitoring the performance of the Investment Manager(s) to provide the Finance and Investment Committee with the ability to determine the progress toward the investment objectives.
5. Communicating matters of policy, manager research and manager performance

- to the Finance and Investment Committee.
6. Reviewing the Funds' investment history, historical capital markets performance, and the contents of this investment policy statement to any newly appointed members of the Finance and Investment Committee.
  7. Informing the Finance and Investment Committee regarding any qualitative change to investment management organization (examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.).

### **Responsibility of the Investment Manager(s)**

Each Separate Account Investment Manager must acknowledge in writing its acceptance of responsibility as a fiduciary (mutual funds are exempt from this requirement). Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
2. Reporting, on a timely basis, quarterly investment performance results.
3. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process or the investment objective progress of the Funds' investment management.
4. Informing the Investment Management Consultant regarding any qualitative change to investment management organization (examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.).
5. Voting proxies, if requested by the Finance and Investment Committee, on behalf of the Funds and communicating such voting records to the Finance and Investment Committee on a timely basis.

### **GENERAL INVESTMENT PRINCIPLES**

1. Investments shall be made solely in the best interests of the Funds.
2. The Funds shall be administered under principles consistent with the Uniform Prudent Management of Institutional Funds Act of the State of Colorado.
3. Diversification among different investment styles and investment managers shall be utilized.
4. The Finance and Investment Committee may employ one or more investment managers of varying styles and philosophies to attain the Funds' objectives.
5. Cash is to be employed productively at all times by investment in short-term cash equivalents to provide safety, liquidity, and reasonable return.

### **INVESTMENT MANAGEMENT POLICY:**

1. Preservation of Capital. Consistent with their respective investment styles and philosophies, Investment Managers must make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.
2. Risk Aversion. Understanding that risk is present in all types of securities and investment styles, the Finance and Investment Committee recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Funds' objectives. However, the Investment Managers must make reasonable efforts to control risk and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
3. Adherence to Investment Discipline. Investment Managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

## **GOAL OF FOUNDATION**

The Finance and Investment Committee believes that grants to be made in the future are as important as grants made today. This is consistent with the philosophy that the Foundation is to exist in perpetuity and, therefore, should provide for grant making in perpetuity. To attain this goal, the overriding investment objective of this Foundation is to maintain purchasing power and generate investment returns, collectively total return, as defined for each investment pool while carrying out the mission of the Foundation. The Finance and Investment Committee will attempt to balance the Foundation's shorter-term grant making obligations with its goal to provide grants consistent with a spending policy that is determined by the Board of Directors. This balance is facilitated through the use of three separate Foundation pools of assets.

## **INVESTMENT OBJECTIVES**

In order to meet its needs, the investment strategy of the Foundation is to emphasize total return as defined above. Specifically, the primary objective in the investment management for Funds' assets shall be:

Preservation of Purchasing Power: to achieve returns equal to the rate of inflation over the investment horizon in order to preserve purchasing power of Fund assets.

The secondary objective in the investment management of the Funds' assets shall be to maximize the generation of investment returns in excess of purchasing power while avoiding excessive risk. Risk control is an important element in the investment of the Funds' assets.

## **GUIDELINES AND INVESTMENT POLICY**

### **Risk Tolerances**

The Board of Directors recognizes the difficulty of achieving the investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Board of Directors also recognizes that some risk must be assumed to achieve the investment objectives over the long-term.

In establishing the risk tolerances of the Investment Policy Statement, the ability to withstand short and intermediate term variability were considered, and consequently three distinct portfolios have been created for the Foundation's Assets. Prospects for the future, current financial condition, and several other factors, suggest collectively that moderate interim fluctuations in market value and rates of return can be tolerated within the long-term assets in order to achieve long-term objectives. For the Foundation's Short/Intermediate Term Assets, the probability of short term needs, history of short-term requests, typical lead time of the requests and several other factors, suggest collectively that minor interim fluctuations in market value and rates of return can be tolerated in order to achieve mid-term objectives.

For purposes of definition, a risk tolerance of -17% in any one year (with a statistical confidence level of 95%) is established for the Long Term Assets with Alternatives. A risk tolerance of -17% in any one year (with a statistical confidence of 95%) is established for the Long Term Assets without Alternatives. A risk tolerance of -8% in any one year (with a statistical confidence of 95%) is established for the Short/Intermediate Term Assets. This will be reviewed annually by the Finance and Investment Committee and changes, if any, will be recommended to the Board of Directors.

### **Performance Expectations**

The desired investment objective is a long-term rate of return on Long Term Assets with Alternatives that is approximately 5% greater than the anticipated rate of inflation as measured by the Consumer Price Index (CPI). The desired investment objective is a long-term rate of return on Long Term Assets without Alternatives that is approximately 5% greater than the anticipated rate of inflation as measured by the Consumer Price Index (CPI). The desired investment objective for the Short/Intermediate Term Assets is approximately 2.0% greater than the anticipated rate of inflation as measured by the CPI. The target rates of return for the Funds have been based upon the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in this Investment Policy Statement.

The Board of Directors realizes that market performance varies and that a 2% to 5% real rate of return may not be meaningful during some periods. Accordingly, relative performance benchmarks for the managers are set forth in the "Control Procedures" section.

Over a time frame of greater than five years, the Investment Portfolios' overall annualized total return, after deducting for advisory, money management, and custodial fees, as well as total transaction costs, should perform above a customized index comprised of market indices weighted by the strategic asset allocation of the Investment Portfolios.

**Asset Allocation Constraints**

The Board of Directors believes that risk and liquidity are, in large part, a function of asset class mix. The Board of Directors has reviewed the long-term performance characteristics of various asset classes, focusing on balancing risks and returns. The following asset classes were reviewed:

- Equity
- Fixed Income
- Alternatives
- Cash Equivalent

Based on the time horizon, risk tolerances, performance expectations and asset class preferences identified by the Board of Directors for each distinct portfolio, an efficient or optimal portfolio was identified. The strategic asset allocation of each portfolio will be established by the Finance and Investment Committee annually within the limits indicated as follows:

**Long Term Assets with Alternatives**

<b>Asset Allocation</b>	Lower <u>Limit</u>	Upper <u>Limit</u>
Equities	30%	60%
Fixed Income	25%	45%
Alternative Investments	5%	25%
Cash Equivalent	0%	10%

**Long Term Assets without Alternatives**

<b>Asset Allocation</b>	Lower <u>Limit</u>	Upper <u>Limit</u>
Equities	35%	65%
Fixed Income	30%	60%
Cash Equivalent	0%	10%

**Short/Intermediate Term Assets**

<b>Asset Allocation</b>	Lower <u>Limit</u>	Upper <u>Limit</u>
Equities	5%	35%

Fixed Income	60%	90%
Cash Equivalent	0%	10%

## **Temporary Variances from Cash Allocation Limits**

When necessary and/or available, cash inflows and cash outflows will be deployed in a manner consistent with the asset allocation limits. Based on the direction of the Finance and Investment Committee, cash allocations can be exceeded for short periods of time while investment strategies are being deployed.

## **SECURITIES GUIDELINES**

The Finance and Investment Committee will tactically implement specific investment styles that are within the allocation ranges set forth in this Investment Policy statement.

### **Mutual Funds**

Each mutual fund is expected to adhere to the terms and conditions set forth in its prospectus.

### **Domestic Equity Mutual Funds**

Large Cap Core Equity: An investment strategy where the portfolio's characteristics and performance mimic that of the S&P 500 Index; the style universe is the Large Cap Core Equity Universe.

Large Cap Value Equity: An investment strategy where the investment manager invests in companies believed to be undervalued or possessing lower than average price/earnings ratios, based on their potential for capital appreciation. The benchmark is the S&P 500 Value Index; the style universe is the Large Cap Value Equity Universe.

Large Cap Growth Equity: An investment strategy where the investment manager invests in companies that are expected to have above average prospects for long-term growth in earnings and profitability. The benchmark is the S&P 500 Growth Index; the style universe is the Large Growth Equity Universe.

Mid Cap Value Equity: An investment strategy where the investment manager invests mainly in mid capitalization companies that are believed to be currently undervalued in the general market. The benchmark is the S&P 400 Value Index; the style is the Mid Cap Value Equity Universe.

Small Cap Growth Equity: An investment strategy where the investment manager invests mainly in small capitalization companies that are expected to have above average prospects for long-term growth in earnings and profitability. The benchmark is the S&P 600 Growth Index; the style universe is the Small Cap Growth Equity

Universe.

Small Cap Value Equity: An investment strategy where the manager invests mainly in small capitalization companies that are believed to be currently undervalued in the general market. The benchmark is the S&P 600 Value Index; the style universe is the Small Cap Value Equity Universe.

### **International Equity Mutual Funds**

An investment strategy where the investment manager develops well-diversified portfolio holdings of mostly large issues in developed countries with liquid markets, resulting in characteristics similar to that of an index such as the MSCI EAFE Index. The benchmark is the MSCI EAFE Index; the style universe is the Non-U.S. Equity Universe.

### **Fixed Income Mutual Funds**

Core Fixed Income: A fixed income (bond) strategy that constructs portfolios to approximate the investment results of the Barclays Capital Aggregate Index with a modest amount of variability in duration around the index. The objective is to achieve value added from sector or issue selection. The benchmark is the Barclays Capital Aggregate Bond Index; the style universe is the Core Fixed Income Universe.

Defensive Fixed Income: A fixed income (bond) strategy that constructs portfolios to approximate the investment results of the Barclays Capital Government Bond Index with a modest amount of variability in duration around the index. The objective is to achieve value added from sector or issue selection. The benchmark is the Barclays Capital Government 1-3 Year Credit Index; the style universe is the U.S. Short-Term Investment Grade Universe.

High Yield: Investment managers whose investment objective is to obtain high current income by investing primarily in non-investment grade fixed-income securities. Due to the increased level of default risk, security selection focuses on credit-risk analysis. The benchmark is Barclays Capital High Yield Index; the style universe is CAI: High Yield Style.

Floating Rate Corporate Loans: A fixed income investment strategy that invests in floating rate bank loans. The interest rates on these loans are typically reset on a periodic basis to account for changes in the level of interest rates. The benchmark is the CSFB Leveraged Loan Index; the style universe is the Bank Loan Funds Universe.

### **Commodity Mutual Funds**

Investment vehicles that gain exposure to commodity price movements (e.g. changes in the price of oil, corn, gold, etc.) primarily through the use of futures, swaps and other commodity-linked securities. The benchmark is the Dow Jones-UBS Commodity Index.

## **Separate Account Investment Managers**

Each separate account investment manager (except alternative investment managers) selected to manage the Foundation's Investment Portfolios must adhere to the following guidelines. The following securities and transactions are not authorized without prior Board of Directors approval:

- Letter stock and other unregistered securities; and short sales or margin transactions.
- Securities lending; pledging or hypothecating securities.
- Investments in the equity securities of any company with a record of less than three years of continuous operation, including the operation of any predecessor.
- Investments for the purpose of exercising control of management.

In addition, certain investment specific guidelines for separate account managers will be required as noted below in each investment category.

### **Domestic Equities**

- Equity holdings in any one company should not exceed 7% at current market value of the equity portfolio. Not more than 15% of the market value of the equity portfolio should be invested in any one industry and not more than 30% in any one sector.
- Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded.
- The investment manager shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the manager will be evaluated against their peers on the performance of the total funds under their direct management.
- The manager may not invest more than 10% of the market value of the equity portfolio subject to their discretion in foreign equities.

### **International Equities**

- The portfolio is expected to be diversified across countries, with the majority of assets invested in countries represented in the benchmark of the Morgan Stanley Capital International, Europe, Australia & Far East index (MSCI EAFE). Equity holdings in any one company should not exceed 7% of the market value equity portfolio. The equity portfolio sector weightings should not exceed +/- 10% of the MSCI EAFE Index sector weightings.
- The investment manager may enter into foreign exchange contracts on

currency provided that use of such contracts is limited to hedging currency exposure existing within the manager's portfolio. There shall be no direct foreign currency speculation or any related investment activity.

### **Investment Grade Fixed Income**

- At least 85% of the fixed-income securities held in the portfolio shall have a Moody's, Standard & Poor's and/or a Fitch's credit quality rating of no less than "BBB". U.S. Treasury securities and U.S. government agency securities, which are unrated securities, are qualified for inclusion in the portfolio.
- The exposure of the portfolio to any one issuer, other than securities of the U.S. government or U. S. agencies, shall not exceed 10% of the market value of the fixed income portfolio.
- The duration of the portfolio should fall within a 25% range around the benchmark index.
- To the extent possible, holdings of individual issues shall be large enough for easy liquidation.
- The investment manager shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the manager will be evaluated against their peers on the performance of the total funds under their direct management.

### **High Yield Fixed Income**

- The majority of the fixed income securities held in the portfolio shall carry a Standard & Poor's, Moody's, Duff and Phelps' or Fitch credit quality rating below BBB.
- No more than 10% of the market value of the portfolio may be invested in either U.S. Treasury or Government agency securities unless the manager has specific written authorization.
- No more than 10% of the market value of the portfolio may be invested in non-U.S. dollar denominated securities unless the manager has specific written authorization.
- No more than 10% of the market value of the portfolio may be invested in securities in bankruptcy at the time of purchase.
- Exposure to any one issuer, other than to securities of the U.S. Government or its agencies, may not exceed 10% of the market value of the portfolio.
- Allocation to any one economic sector should not be excessive and should be consistent relative to the High Yield market and to managers following similar style disciplines.

- Holdings of individual issues shall be large enough for easy liquidation.

### **Direct Real Estate**

An investment strategy where the investment manager invests in a well diversified portfolio of equity real estate. The portfolio should be diversified both by geographic region and property type. The benchmark is the NCREIF Index; the universe is the Total Real Estate Database.

### **Hedged Fund-of-Funds**

The Long Term Assets with Alternatives Investment Portfolio may include hedged fund-of-funds. The primary objective of these strategies selected shall be diversification, and low correlation with other asset classes. The overall risk profile expected from hedged fund-of-funds strategies shall be maintained at a lower level than that of direct equity portfolios although individual hedge funds may entail greater risk.

Leverage at the fund-of-funds level is not allowed.

Investments will be sought which provide premiums over public market returns sufficient to compensate for the risk and illiquidity of hedge fund-of-funds products. Return expectations may vary greatly depending on the investment strategy.

Investments in hedge fund products will be through fund-of-fund vehicles. The fund-of-fund vehicles will be either limited liability partnerships, limited liability corporations or managed accounts. The vehicles' investment managers will have discretion with respect to management of the fund-of-funds investment programs, operating within the parameters delineated in the funds' legal documentation.

Low Correlated Hedge – These fund-of-funds products combine a number of different strategies including but not limited to Event Driven, Relative Value, Distressed, Equity Market Neutral, Long/Short Credit, Various Arbitrage, Long/Short Equity and Global Macro. Generally, these products will have a net long bias and a positive correlation to equity markets. The benchmark is the HFRI Fund-of-Funds Composite Index.

Conservative Low Correlated Hedge – These fund-of-funds products tend to seek consistent returns by primarily investing in funds that generally engage in more 'conservative' strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage. Over longer time periods they will exhibit a lower historical annual standard deviation than the products in the Low Correlated Hedge category. Generally, these products will have a very low positive correlation and in some cases, a negative correlation to the equity markets. The benchmark is the HFRI Fund-of-Funds Conservative Index.

## Guidelines:

- The securities guidelines for fund-of-fund vehicles will be determined by the fund-of-fund's legal documentation.
- Investment in the hedged fund-of-funds vehicles should not represent more than 20% of the total market value of the individual fund-of-funds.
- The investment manager of the fund of funds vehicle shall be a bank, or a registered advisor under the Investment Advisors Act of 1940.

### **Private Equity Fund-of-Funds**

Private equity investments include (1) venture capital funds focusing on start-up, early and expansion stage companies, (2) mezzanine funds investing in equity and debt instruments of established companies, (3) buy-out and acquisition funds that make controlling and non-controlling investments in established companies, and (4) special situation funds.

Investments will be sought that provide premiums over public market returns sufficient to compensate for the risk and illiquidity of venture capital/private equity investments. Return expectations may vary greatly depending on the investment strategy.

Investments in private equity will be through fund-of-fund vehicles. The fund-of-fund vehicles will be either limited liability partnerships, limited liability corporations or managed accounts. The vehicles' investment managers will have discretion with respect to management of the fund-of-funds' investment program, operating within the parameters delineated in the funds' legal documentation.

## Guidelines:

- The securities guidelines for fund-of-fund vehicles will be determined by the fund-of-funds' legal documentation.
- Investment in the fund-of-funds vehicle should not represent more than 20% of the total market value of the individual fund-of-funds.
- The investment manager of the private equity fund-of-funds vehicle shall be a bank, or a registered advisor under the Investment Advisors Act of 1940.

### **SELECTION OF INVESTMENT MANAGERS**

The Finance and Investment Committee, with the assistance of the Investment Management Consultant, will select appropriate Investment Managers to manage the Investment Portfolios. At a minimum, Investment Managers must:

- (1) Be a bank, insurance company, investment management company, or investment adviser as defined by the Registered Investment Advisers Act of 1940.
- (2) Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees. Performance calculations and presentations should comply with GIPS standards.
- (3) Provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the manager relative to other managers of like investment style.
- (4) Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel. This information can be a copy of a recent Request for Proposal (RFP) completed by the manager, form ADV Part II or a current prospectus.
- (5) Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
- (6) Have no outstanding legal judgments or past judgments which may reflect negatively upon the firm.

In addition to the above, the following criteria will be considered in the selection of private equity, real estate and hedge fund managers:

1. The Investment Manager's strategy must fit the Long Term Assets with Alternatives Investment Portfolio's risk and return objectives.
2. The Investment Manager's strategy must be appropriate in the current market environment; sufficient investment opportunities must be available for the Investment Manager to fulfill its objectives.
3. The Investment Manager's prior investment experience should be representative of the strategy proposed.
4. The Finance and Investment Committee may (1) accept smaller investment commitments, (2) streamline its investment due diligence process in order to respond to opportunities, and (3) consider non-traditional track records, including an Investment Manager's record outside of alternative investment products.

## **CONTROL PROCEDURES**

### **Performance Objectives**

Investment performance will be reviewed at least annually by the Finance and

Investment Committee and Investment Management Consultant to determine the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

It is not expected that the Investment Policy Statement will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the Investment Policy Statement.

**Monitoring of Investment Managers**

Performance will be evaluated and reported quarterly to test progress toward the attainment of longer-term targets. It is understood that there are likely to be short-term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on peer-performance comparisons with Investment Managers employing similar styles.

On a timely basis, but not less than four times a year, the Finance and Investment Committee will meet to focus on:

- Investment Managers’ adherence to the guidelines in this Investment Policy Statement and the Finance and Investment Committee allocations;
- Material changes in the Investment Managers’ organization, investment philosophy and/or personnel; and,
- Comparisons of the results to appropriate indices and peer groups, specifically:

<b>Asset Category</b>	<b>Index</b>	<b>Peer Group Universe</b>
<b>Domestic Large Cap Core Equity</b>	S & P 500 Index	Large Cap Core
<b>Domestic Large Cap Value Equity</b>	S & P 500 Value Index	Large Cap Value
<b>Domestic Large Cap Growth Equity</b>	S&P 500 Growth Index	Large Cap Growth
<b>Domestic Mid Cap</b>	S&P 400 Value Index	Mid Cap Value

<b>Value Equity</b>		
<b>Domestic Small Cap Growth Equity</b>	S&P 600 Growth Index	Small Cap Growth
<b>Domestic Small Cap Value Equity</b>	S&P 600 Value Index	Small Cap Value
<b>International Equity</b>	MSCI EAFE	Non-US Equity
<b>Core Fixed Income</b>	Barclays Capital Aggregate	Core Fixed Income
<b>Defensive Fixed Income</b>	Barclays Capital Government 1-3 Year Credit Index	U.S. Short-Term Investment Grade Universe
<b>Floating Rate Corporate Loans</b>	CSFB Leveraged Loan Index	Bank Loan Funds
<b>High Yield</b>	Barclays Capital High Yield Index	CAI: High Yield Style
<b>Real Estate</b>	NCREIF Index	Total Real Estate Database
<b>Commodities</b>	Dow Jones-UBS Commodity Index	N/A
<b>Low Correlated Hedge Fund</b>	HFRI Fund-of-Fund Composite Index	N/A
<b>Conservative Low Correlated Hedge Fund</b>	HFRI Fund-of Fund Conservative Index	N/A
<b>Private Equity</b>	Cambridge Assoc. PE Index	N/A

The risk associated with each Investment Manager, as measured by the variability of quarterly returns (standard deviation), must not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group.

The Finance and investment Committee is aware that the ongoing review and analysis of Investment Managers is just as important as the due diligence implemented during the Investment Manager selection process.

The performance of the Investment Managers will be monitored on an ongoing basis by the Finance and Investment Committee and Investment Management Consultant and it is at the Finance and Investment Committee's discretion to take corrective action by replacing an Investment Manager if they deem it appropriate at any time.

## **Investment Performance Review and Evaluation**

Performance reports shall be compiled at least quarterly and communicated by the Investment Management Consultant to the Finance and Investment Committee for review. The Finance and Investment Committee shall communicate this information to the Board of Directors of the Foundation. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals and guidelines as set forth in this statement. The Finance and Investment Committee intends to evaluate the portfolios continuously and reserves the right to terminate a manager for any reason, including the following:

1. Investment performance which 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 or Finance and Investment Committee instructions, including communication and reporting requirements.
3. Significant qualitative changes to the Investment Management organization.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

## **Investment Policy Review**

To assure continued relevance of the guidelines, objectives, financial status, and capital-markets expectations as established in this statement of investment policy, the Finance and Investment Committee will review and evaluate this Investment Policy Statement at least annually.