Community Foundation
CENTRAL BLUE RIDGE
25 Years 1992-2017

Investment Policy Statement

(Revised March 2018)

I. Introduction

The mission of the Community Foundation of Central Blue Ridge (Foundation) is to enrich the quality of life by responding to needs and inspiring philanthropy in our community.

We create a better community by:

- Providing charitable options, expertise and inspiration for people who want to give back to their community.
- Making strategic grants and providing services to help nonprofit organizations do the direct program work they do best.
- Providing leadership and serving as a trustworthy partner on critical issues facing the region where we live.

The purpose of this Investment Policy Statement (IPS) is to set forth the investment objectives of the Foundation and certain procedures to guide the investment management of the Foundation's portfolio toward the desired results. The Board of Directors (Board) has delegated supervisory authority over its investment portfolio to the Investment Committee (Committee). This written Investment Policy provides the framework for decision making and is designed to provide continuity in the investment approach of future Committee members of the Foundation. To effectively manage the investment objectives of the Foundation, the investment portfolio will be divided between two funds; one for short-term funds that are stable and available at any time and another fund for long-term growth (Endowment Fund).

Certain terms in this document, that are italicized, are more specifically defined in the Definitions (Section VIII).

II. Investment Objectives

This IPS provides for two distinct and separate investment objectives to accommodate both the short-term and long-term financial needs of the Foundation. Each Fund has a separate asset allocation strategy, which will be covered in this IPS.

Short-Term Fund
The primary investment objective of the Short-Term Fund is stability of principal. This fund is appropriate for non-endowed funds or other situations where funds can be withdrawn with little or no advance notice, and/or in situations where only minimal fluctuations to principal can be tolerated. The Foundation shall target a cash balance in the Short-Term Fund which will equal six months of operating expenditures, grants, and awards. The cash balance will stay within a range between 20% above or 20% below the targeted cash balance. For performance evaluation purposes, the Committee will track one, two, and three year period trailing returns as compared to money market funds.

Endowment Fund
The primary investment objective of the Endowment Fund is to provide returns that cover the Foundation's defined spending rate, which includes the annual administrative fee, and exceed inflation (provide real growth in spending). There will be some inevitable volatility in principal value that will be experienced from pursuing this objective that will affect the stability of the payout.

To assist the Foundation in gauging the success of the return on investments, the Foundation shall employ as its investment return goal the following formula:

5yr Annualized CPI + Spending Rate (4%) + Average Administrative Fee (1%)

The target return is based on a trailing five year calculation. This is the time period used to judge whether or not the portfolio is meeting its objective. Each individual year may be more or less than the target.

III. Spending Policy

For permanent endowment funds, each year the Foundation shall distribute 4% of the fund's average market value over the previous 5 years, calculating this average using calendar year-end market values. This spending policy may be revised by the Committee and submitted to the Board for approval from time to time.

IV. Asset Allocation

The Committee believes that the Funds' risk and liquidity posture are, in large part, a function of asset class mix. The Investment Consultant (Consultant) has presented, to the Committee, summary information about the long-term performance of various asset classes, focusing on balancing the risks and rewards of market behavior. This section of the IPS identifies the asset mix chosen for the two separate Funds, each with different investment objectives.

Short-Term Fund
The Consultant is authorized to manage the Short-Term Fund for enhanced yields consistent with a conservative cash management policy. To manage credit risk, the asset allocation for this Fund will be limited to the following instruments:

- Money Market Mutual Funds and ultrashort bond funds
- Bank Accounts
- Government issues (known as "Treasuries")
- Government-Sponsored Enterprise Securities (known as "Agencies"), such as Farm Credit System, Federal Home Loan Bank System, Federal National Mortgage Association, and Student Loan Marketing Association, some of which are not explicitly backed by the full faith and credit of the U.S. Government.
- FDIC insured Certificates of Deposit, to be bought in increments up to the maximum insured limit per bank to assure insurance coverage and only at banks rated 165 ("Excellent") or higher, as rated by the *Bank Financial Quarterly*, issued by IDC Financial Publishing, Inc.

With the possible exception of the "ultra-short bond funds", no instrument will have a maturity at issue, or remaining maturity at purchase, or greater than twelve months. Generally, and depending upon the specific liquidity needs of the Foundation, a ladder strategy will be employed to further minimize interest rate risk.

Endowment Fund
Considering the Endowment Fund's investment objective, time horizon, risk tolerance, performance expectation, and asset class preference, an appropriate allocation was identified, as shown in the following "Asset Allocation Targets" chart. Once this allocation strategy is implemented, the percentage allocation to each asset class sub-category may vary by as much as plus or minus 30% of the target percentage. Asset allocation targets and rebalancing policy will not be changed without Committee approval.

Asset Allocation Targets - "D" Portfolio
(30% bands)

Asset Category	Rebalancing Trigger - Low End	Portfolio Percentage Allocation	Rebalancing Trigger - High End
I. Safety Assets	0.7%	1.0%	1.3%
Total Safety Assets		**1.0%**	
II. Income Assets			
Domestic Bonds:			
Short Term Maturities (1-5 yrs)	2.8%	4.0%	5.2%
Intermediate Term Maturities (5-10	3.0%	4.25%	5.5%
Long Term Maturities (10+ yrs)	3.0%	4.25%	5.5%
Inflation Protected Bonds	2.8%	4.0%	5.2%
International Bonds	3.9%	5.5%	7.2%
Total Income Assets		**22.0%**	
III. Growth Assets			
Large Cap U.S. Stocks - Value	11.9%	17.0%	22.1%
Large Cap U.S. Stocks - Growth	7.7%	11.0%	14.3%
International Stocks - Value	6.3%	9.0%	11.7%
International Stocks - Growth	4.2%	6.0%	7.8%
Growth Real Estate	4.9%	7.0%	9.1%
Total Growth Assets		**50.0%**	
IV. Aggressive Assets			
Small Cap U.S. Stocks - Value	7.7%	11.0%	14.3%
Small Cap U.S. Stocks - Growth	3.5%	5.0%	6.5%
International Small Cap	2.1%	3.0%	3.9%
Energy/Natural Resources	2.8%	4.0%	5.2%
Commodities	2.8%	4.0%	5.2%
Total Aggressive Assets		**27.0%**	
TOTAL PORTFOLIO		**100.0%**	

V. Investment Restrictions

When selecting mutual funds and *separate account managers*, the Consultant will use due diligence criteria prescribed in this IPS (mutual funds and *separate account managers* will be referred to as "managers" unless specifically referenced).

No "illiquid" investments may be purchased by a separate account manager or the Consultant, such as private placements, limited partnerships, and hedge fund vehicles, among others without the approval of the Committee.

VI. Due Diligence Policy

For an asset allocation strategy to be effective, each asset class must be represented by using a manager that will best represent the class objective. Otherwise, the results will most likely be different than anticipated. This is particularly true during times of adversity or crisis.

A qualifying manager must be a registered investment advisor under the Investment Advisors Act of 1940. The Consultant will decide which managers to use based upon their particular contribution to the Fund.

To identify managers who fit the implementation objectives, a rigorous research process is followed. The research process involves first an evaluation of fund families to identify superior families, followed by an analysis comparing the individual managers of the approved fund families in each asset class.

Fund Family Analysis
Each of the approved fund families will be reevaluated on a yearly basis. The analysis will include ranking a broad range of fund families as well as major ETF providers based on returns relative to peer universes. This performance ranking will focus on both open and terminated funds to get a full understanding of the success of the fund family as a whole over time, not just of the fund family's current offerings. We will compare performance ranking of each fund within each fund family amongst each particular fund's peer universe. These rankings will be averaged across each fund family's overall individual fund lineup. Only share classes which do not assess 12b-1 fees and only specific management mandates (not broad based fund-of-funds or target date funds) will be included. Fund share classes with 12b-1 fees will be eliminated to ensure comparisons of most competitively priced funds from each fund family being evaluated. Top fund families will then be compared based on their competitive cost structure, appropriate level of analytical talent, corporate culture, focus on long-term fundamentals, percentage of terminated/merged funds, and other intangibles.

Only when deemed necessary to obtain appropriate exposure to a desired asset class will we then look outside our list of identified superior fund families. For example where funds within superior fund families do not provide the appropriate exposure targeted it may be necessary to utilize the best available fund from another fund family.

Individual Manager Analysis

Individual funds are selected from the approved fund families mainly on the basis of the style of manager(s) which is most appropriate in terms of constructing the target model portfolio. The manager(s) selected within each asset class should provide the appropriate level of diversification and style purity with the best likelihood of providing optimal performance after the hire date. While analysis will vary by asset class, the goal is to utilize funds from the particular superior fund families which provide strengths most relevant to the asset class being evaluated. Funds will be regularly evaluated for style drift and competitive cost structure.

Benchmarks and Reference Points

Several evaluation benchmarks are required to measure both the success of the allocation strategy as well as the managers used to implement the allocation. To measure the success of the allocation strategy, the Committee will use both Domestic and Global Stock/Bond mixes, as well as a Growth Allocation Reference Point. These benchmarks are described below.

Domestic and Global Stock/Bond Mixes:

The Domestic and Global Stock/Bond Mixes are comprised of the same ratio of equity to fixed income as that of the Fund (77% equity and 23% fixed income). These mixes are derived from the indices described below. Monthly rebalancing is assumed. The performance of the equity/fixed income mixes is presented net of the average annual Exchange Traded Fund (ETF) and Index Fund expense ratio, prorated monthly.

77/23 Domestic Stock Domestic Taxable Bond Mix
77% Dow Jones Total Stock Index
23% Barclays Capital Aggregate Bond Index

77/23 Global Stock Global Taxable Bond Mix
77% S&P Global Broad Market Index
23% Barclays Capital Global Aggregate Index

The Dow Jones Total Stock Index represents all U.S. equity securities that have readily available prices. It covers approximately 99% of US publicly traded securities as measured by market cap.

The Barclays Capital Aggregate Bond Index represents the performance of the U.S. investment grade fixed-rate bond market, including both government and corporate bonds.

The S&P Global Broad Market Index (BMI) is a top-down, float capitalization-weighted index which measures the performance of the entire universe of institutionally investable equity securities.

The Barclays Capital Global Aggregate Bond Index provides a broad-based measure of the global investment-grade fixed income market, including government, credit and collateralized securities.

The Endowment Fund, which contains both domestic and global investments that are not intended to match the domestic and global weightings of these stock/bond mixes, may achieve returns that are greater or less than these mixes, depending upon the relative performance of the domestic and global investments.

Growth Allocation Reference Point:
This reference point, produced by Morningstar as "Moderate Allocation", invests in both stocks and bonds and maintains a relatively higher position in stocks. These funds typically have 50%-70% of assets in equities and the remainder in fixed income and cash.

The Committee agrees that this is a reference point. The performance of the Foundation's Endowment Fund may be greater or less, depending upon how aggressive the asset allocation strategy is relative to the reference point.

Benchmarks for Managers
To measure the success of the managers used to implement the allocation, each manager will be measured against its specific peer group, using a category average of mutual funds with the same asset class focus. Fund families whose performance has, in aggregate, tended to be superior when compared to relative performance of other fund families will be deemed acceptable and thus generally used.

Other Considerations
Although short term underperformance will be tolerated and closely monitored by the Consultant, managers are normally expected to perform at or above their peer group averages. Both qualitative and quantitative measures have been developed to determine when a manager termination is appropriate.

VII. Delegation of Authority and Responsibilities

The Board has delegated the responsibility for investment management to the Committee. As such, the Committee is authorized to delegate certain responsibilities.

President and CEO
Sign all appropriate contracts, open accounts, and give any other authorizations needed by the Consultant to affect the terms of this IPS, subject to the approval of the Board of Directors or the Investment Committee as defined in the Executive Limitation Policies.

Investment Consultant
The Consultant shall supervise and direct the investment of the Funds as specified in this IPS. Supervision is continuous, with limited discretion. Limited discretion means that the Consultant is responsible for assessing the appropriateness of asset allocation strategies but does not have discretion to change the strategy without the Committee's approval. The Consultant has discretion to rebalance the portfolio to maintain the asset allocation using the methodology approved by the Foundation's Committee. The Consultant also has discretion to change managers as required by the Due Diligence Policy described in this IPS.

The Consultant is responsible for a complete report to the Committee at regular Committee meetings, held at least four times per year. This report will measure performance of the portfolio and each manager within the portfolio, with comparisons to benchmarks and reference points as described in the Due Diligence Policy section (Section VI). Also, this report will illustrate actual asset allocations as compared to the targets set by this IPS.

Donor-Recommended Investment Advisor Guidelines

<u>Introduction:</u>

The Foundation recognizes that the pooling of invested assets reduces administrative and investment-related expenses and thereby contributes to the fulfillment of the Foundation's stated charitable mission. The Foundation also respects the relationship that each donor has developed with their preferred financial advisor, and values positive relationships with financial advisors throughout the community. For these reasons, the Foundation has established the following guidelines for placing assets with a specific donor-designated investment advisor (the "Investment Advisor").

1. A donor may recommend their preferred Investment Advisor to manage the contribution(s) they intend to make to the Foundation.
2. If the recommended Investment Advisor does not already hold Foundation assets, the Foundation will consider establishing that relationship if the donor is making a contribution, or commitment to be fulfilled within five years, of $500,000 or greater.
3. Prior to establishing a relationship with the recommended Investment Advisor, the Foundation will complete a thorough due diligence process with which the prospective Investment Advisor must cooperate fully.

4. The Foundation retains the right to accept or decline the donor's recommendation at its discretion.
5. A donor making a contribution of any amount, including a contribution of less than $500,000, may also recommend an Investment Advisor that already holds Foundation assets as long as that Investment Advisor can manage the donor's contribution under an existing Foundation account and under the same fee schedule.
6. The Foundation must have fiscal control over all monies held by an Investment Advisor in accordance with its Articles of Incorporation, By-Laws, and corresponding fiduciary responsibility.
7. The Investment Advisor must be, at a minimum:
    a. Actively registered with FINRA and affiliated with a Member Firm with a minimum of $500 million of assets under management;
    b. A Registered Investment Advisor under the Investment Advisors Act of 1940 with fiduciary responsibilities and oversight by the Securities and Exchange Commission; and
    c. Utilizing an investment analysis system.
8. The Investment Advisor must abide by the donor's wishes and intent as documented in the Foundation's fund agreement.
9. The donor may not have a family relationship with their recommended Investment Advisor or with the employees or owners of the advisor's investment firm.

<u>Investment Guidelines:</u>

1. Unless a separate investment contract is agreed upon by the Board and put in place, the Investment Advisor must abide by the Foundation's Investment Policy Statement, and will be under contract with the Foundation. This includes:
    a. Employing an investment strategy designed to achieve the Foundation's primary investment objective as documented under Section II of this Investment Policy Statement.
    b. Performing favorably to benchmarks proposed by the Investment Advisor and approved by the Investment Committee.
2. The Investment Advisor must secure the approval of the Investment Committee to allocate the Foundation's assets in a manner that does not align with this Investment Policy Statement, as outlined in Section IV. (The Foundation recognizes that the balance and/or purpose of the account administered by the Investment Advisor, as well as the Investment Advisor's professional strengths, may justify variances from the asset allocation prescribed in Section IV of this Investment Policy Statement.)
3. The Investment Advisor must manage the Foundation's assets in a separate account belonging to the Foundation, and the donor may not exercise control over that account.

4. The Investment Advisor must be willing to share their observations of the investment market upon request, to provide their rationale for their management of Foundation assets, and to discuss their performance as it relates to agreed-upon benchmarks. The Foundation shall record these details in the minutes of Investment Committee proceedings.
5. The Investment Advisor shall emphasize quality in asset selection. They shall also avoid greater-than-average risk of large loss by maintaining diversification within the Foundation's portfolio.

<u>Accounting and Reporting:</u>

1. The accounting of assets managed by the Investment Advisor will be separate from the accounting of other Foundation assets in order to accurately track the performance of all Investment Advisors.
2. The Investment Advisor must report to the Foundation in accordance with the Foundation's normal administrative needs. In addition, they will provide the Foundation and its primary investment advisor with their performance reports, including three-year annualized numbers where appropriate, contrasted with the agreed-upon benchmarks on a quarterly basis.

<u>Other Considerations:</u>

1. Should the Investment Advisor cease operations, they are to transfer the assets owned by the Foundation to the Foundation's chosen investment advisor. If the Investment Advisor's company is purchased by or merges with another company, the Foundation's Board may, at its discretion, require the transfer of those assets to the Foundation's chosen investment advisor.
2. If the donor recommends a specific individual at the company to serve as the Investment Advisor of the assets they have contributed to the Foundation, and that individual is no longer able to manage those investments for any reason, including their retirement, departure from the profession, incapacity, or death, the Foundation's Board may, at its discretion, require the transfer of those assets to the Foundation's chosen investment advisor.
3. The Foundation's Board may provide written notice to the Investment Advisor if activities are undertaken by that advisor which appear to be materially adverse to the interests of the Foundation. Such circumstances will include, but are not limited to, a determination made in the sole discretion of the Foundation that the advisor has failed to perform favorably to the agreed-upon benchmarks, including any amendments that may be made from time to time, has charged fees that are incommensurate with services provided, or has otherwise failed to perform as requested by the Foundation. If the Foundation's Board then determines, in good faith, that the advisor is continuing to engage in adverse activities, or for any other reason the Foundation's Board determines to be in the best interest of the Foundation at its sole discretion, the Foundation's Board

reserves the right to exercise its fiscal control and require the transfer of the assets held by that advisor to the Foundation's chosen investment advisor.

VIII. Definitions

Separate Account Manager: An investment firm, registered with the SEC, that manages a portfolio of stocks or bonds that is held in a separate account in the name of the Foundation. In brokerage and consulting language, these arrangements are often called "Separately Managed Accounts" (SMAs).