



Community Foundation Alliance Inc.

Investment Policy

Adopted by the Board of Directors

May 16, 2006

Amended

May 15, 2007

February 19, 2008

June 17, 2008

August 18, 2009

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I. INTRODUCTION

Purpose of the Investment Policy

This policy outlines the goals and investment objectives of the Community Foundation Alliance Inc. (the “Alliance”). The Alliance is advised by Hammond Associates using investment managers selected by Hammond. This policy provides guidelines for the investment professionals responsible for managing Alliance assets and outlines specific investment policies that govern how those goals and objectives are expected to be achieved. This policy:

- Describes an appropriate risk posture for the investment of Alliance investments.
- Specifies the target asset allocation policy.
- Specifies criteria for evaluating the performance of Alliance assets.
- Defines the various responsibilities of the Board of Directors, Investment Committee and other parties involved in management of Alliance assets.

The investment policies described in this document should be considered dynamic, since they reflect the Alliance’s current status and the Alliance Board and Investment Committee’s duties and investment philosophy regarding the investment of assets. These policies will be reviewed at least annually and revised as necessary to ensure that they reflect changes related to the status of the Alliance, as well as fundamental changes in capital markets.

Investment Objective

Alliance assets are invested in accordance with sound investment practices that emphasize long-term investment fundamentals. In establishing investment objectives, the Alliance Board and Investment Committee have taken into account the time horizon available for investment, the potential for additional contributions, and other factors that affect the Alliance’s risk tolerance.

The investment objective is to achieve a total return equal to or in excess of the Alliance’s financial requirements. Specifically, the objective is to earn a total rate of return that will meet or exceed the sum of the Alliance’s distribution rate, anticipated inflation, investment management consulting fees, and administrative costs, and any growth factor, which the Committee may, from time to time, recommend to the Board.

In addition, the Alliance Board and Investment Committee have adopted a *total return* investment objective. This objective:

- Emphasizes long-term capital appreciation as a primary source of return. Current income is a supplementary source of gains.

- Recognizes that Alliance assets are exposed to risk and may be subject to fluctuations in market value from year to year. Such risk and fluctuations are acceptable, as long as Alliance assets are invested primarily for capital appreciation over the long term.
- Expects returns sufficient to grow the purchasing power of assets over the long term to provide sufficient income to meet grantmaking targets.
- Implies a long-term time horizon available for investment in order to benefit from total returns that would normally accrue to a patient investment strategy.
- Diversifies assets to reduce the risk of wide swings in market value from year to year or large losses that may result from concentrated positions.
- Expects to achieve investment results over the long term that compare favorably with those of other professionally managed portfolios and with appropriate market indexes.

It is expected that these objectives can be met through a well-diversified portfolio structure as outlined in this investment policy. This investment policy is intended to be a summary of an investment philosophy that provides guidance for the Alliance Board and Investment Committee and other parties interested in management of the Alliance. The guidance and limitations set forth in this policy are intended to provide the Investment Committee with a clear understanding of the investment policies and objectives of the Alliance. It is the intent of this investment policy to provide a meaningful framework for the investment objectives of the Alliance and that these policies will not be overly restrictive given changing economic, business, and capital market conditions. It is understood that there can be no guarantees about the attainment of the goals or investment objectives outlined in this policy.

II. ABOUT THE COMMUNITY FOUNDATION ALLIANCE

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Primary Contact: Chief Executive Officer

Description of the Alliance

The purpose of the Community Foundation Alliance is to be a vehicle for philanthropy and change in Southwestern Indiana. The mission of the Alliance is to provide leadership assistance and support for member foundations as they promote philanthropy and build endowment to serve their communities.

The Community Foundation Alliance, which was formed in 1991, is the legal organization made up of the community foundations serving the Indiana counties Daviess, Gibson, Knox, Perry, Pike, Posey, Spencer, Vanderburgh, and Warrick. The Alliance is a public charitable organization as defined in Internal Revenue Code Sections 501(a), 501(c)(3), 509(a)(1), and 170(b)(1)(A)(vi). It is not a private foundation.

The governing board is comprised of directors selected by each community foundation member, plus the Board chair, past chair, vice chair, and treasurer, who are responsible for ensuring the organization's compliance with all laws, regulations, and industry standards.

Designed as a regional "umbrella" structure, the Alliance provides centralized and economical administration, technical assistance, and governance to its member community foundations, freeing member trustees to focus on the needs of their communities and wishes of local donors through charitable grantmaking and community leadership.

Named endowed funds established with the Alliance are pooled for investment but are accounted for separately, receiving their pro rata share of investment growth, income, and expense.

Cash Flows

The distribution rate is based on a modified total return approach that authorizes both income and net capital appreciation to be withdrawn for spending. The maximum allowable spending amount for the Alliance is 4.5% of the previous 20-quarter rolling average of each endowment's fair market value, subject to the additional spending limits set forth below. The formula is applied to the most recent 20 quarters ending on the last day of each fiscal year (July 1 – June 30), and withdrawals are made no earlier than August 15 following each June 30 calculation.

The Alliance maintains a record of the historic gift value of each endowment (which may be the allocated portion of several commingled endowments). *Historic gift value* is defined as the aggregate fair market value in dollars of an endowment at the time it was established, subsequent contributions to the endowment at the time they are made, and each accumulation made pursuant to a direction in the applicable gift instrument at the time of the accumulation is added to the endowment. Only amounts in an endowment from July 1 through June 30 are included in calculating its fair market value for a given fiscal year.

The maximum allowable spending from an endowment:

1. 4.5% of the previous 20-quarter average of the endowment's market value *if the historic gift value is preserved after granting.*

2. The balance of ordinary income (minus investment and administrative fees) earned on the endowment during the previous fiscal year *when the historic gift value would not be preserved after granting*.

In applying this policy, if an endowment has been established for less than 20 quarters as of June 30, the actual number of quarters that the endowment has existed will be substituted for the 20-quarter period.

Tax Status/Regulatory Environment

The Community Foundation Alliance is organized as a not-for-profit corporation in the state of Indiana and recognized by Section 501(c)(3) of Internal Revenue Service Regulations. Accordingly, the Alliance's income and earnings are exempt from State and Federal taxes.

III. RESPONSIBILITIES OF ALLIANCE REPRESENTATIVES

Alliance Board of Directors

The Alliance Board of Directors is comprised of members selected by each of the nine counties, plus the Board chair, past chair, vice chair, and treasurer (approximately 22 total members). The Board has delegated to the Investment Committee the responsibility to oversee the Alliance's investment activities on the Board's behalf. The Board is responsible for:

- Providing overall stewardship of the investment pool.
- Monitoring the conduct of all parties responsible for management of the investment pool.
- Appointing consultants and Investment Committee members to assist in management of Alliance assets and managing and overseeing required distributions from the investment pool.
- Assuming other duties as described in this policy or required by applicable laws and regulations.

Alliance Investment Committee

The Alliance Investment Committee has the responsibility to ensure that the assets of the Foundation are managed in a manner that is consistent with the policies and objectives of the Alliance. In so doing, the Committee will comply with all applicable laws.

The Committee members are required to discharge their duties solely in the interest of the Alliance and for the exclusive purpose of meeting the financial needs of the Alliance. The Committee is authorized to engage the services of an Investment Consultant that possesses the necessary

specialized research capabilities and skill to meet the investment objectives and guidelines of the Alliance.

The Committee's responsibilities include:

1. Developing and recommending to the Board investment objectives that are consistent with the financial needs of the Foundation, and the policy asset allocation consistent with meeting those objectives;
2. Reviewing and evaluating investment results and implementing corrective action as needed; and
3. Recommending Distribution Policy guidelines to the Board.

Investment Consultant

The Investment Consultant retained by the Alliance is responsible for:

- Assisting the Investment Committee in strategic investment planning for the Alliance, including providing assistance in developing an investment policy, asset allocation strategy, Investment Manager structure, and performance measurements.
- Acting as a liaison between Investment Managers and the Alliance and facilitating the communication of important information in the management of the Alliance.
- Providing initial and ongoing due diligence on Investment Managers for the Alliance.
- Providing strategic advice regarding allocation of Alliance assets and selection of investment managers.
- Carrying out rebalancing according to the guidelines set forth in this document.
- Providing monthly account balances.
- Providing the Investment Committee with quarterly performance measurement reports for each of the Investment Managers and assisting the Committee in interpreting the results.
- Providing investment research and advice to the Investment Committee and answering questions as needed.
- Providing the Investment Committee with fiduciary education and information related to not-for-profit organizations.
- Performing other duties as may be mutually agreed to.

Custodian

1. Providing timely reports detailing investment holdings and investment pool transactions monthly to the Alliance and Consultant.
2. Providing an annual summary report to the Alliance and the Consultant within 30 days following each fiscal year end. The report will include the following:
 - a. Statement of all property on hand;
 - b. Statement of all property received representing contributions to the investment pool;
 - c. Statement of all sales, redemptions, and principal payments;
 - d. Statement of all Distribution from the investment pool;
 - e. Statement of all expenses paid;
 - f. Statement of all purchases; and
 - g. Statement of all income.
3. Providing all normal custodial functions including security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, daily investment of cash, etc.
4. Preparing additional Alliance reports as requested by the Board, Committee, or Consultant.

IV. RESPONSIBILITIES OF INVESTMENT MANAGERS

Investment Managers are expected to pursue their own investment strategies within the guidelines created for the manager in accordance with the Alliance's asset allocation strategy and manager selection criteria. Coordination of the guidelines for the individual managers assures the combined efforts of the managers will be consistent with the overall investment objectives of the Alliance.

The Investment Managers' responsibilities are as follows:

1. Investing assets under their management in accordance with agreed upon guidelines and restrictions;
2. Exercising discretionary authority over the assets entrusted to them, subject to these guidelines and restrictions;
3. Providing written documentation of portfolio activity, portfolio valuations, performance data and portfolio characteristics on a monthly basis in addition to other information as requested by the Committee or Consultant.

4. Voting proxies for the assets under management (companies held within the portfolio) in the best interest of the Alliance; and
5. Annually providing to the Alliance either a copy of the investment advisor's form ADV Part II (SEC required disclosure document), a copy of the investment company's annual report, and/or a copy of the fund's updated prospectus (SEC requirement at the end of the fiscal year).

V. INVESTMENT POLICIES AND OBJECTIVES

General Investment Philosophy

Objective: The primary investment objective of the Alliance is to provide a real rate of return over inflation sufficient to support in perpetuity the mission of the Alliance. It is particularly important to preserve the value of the assets in real terms to enable the Alliance to maintain the purchasing power of the Distribution on programs and administration without eroding the principal corpus of the Investment pool.

To achieve the Alliance Objective, the Alliance's assets will be invested to generate appreciation and / or dividend and interest income.

While there cannot be complete assurance that the defined objectives will be realized, it is believed that likelihood of realization is enhanced by diversifying the Investment pool.

Over time, the Committee will aim to achieve the Alliance Objective while maintaining acceptable risk levels. To accomplish this goal, the Alliance will diversify assets among several asset classes.

The following objectives are designed to support achievement of the Alliance Objective and are net of (after) investment expense.

1. Total Alliance assets should achieve an annualized nominal rate of return equal to or greater than that of the Objective.
2. Total Alliance assets should return, over trailing twelve month periods, a nominal rate of return greater than or equal to a composite index created by combining various indices in the same proportion as the Alliance's target allocation (as described in the Asset Allocation section of this document).
3. In general, active managers will be expected to provide returns greater than their appropriate benchmark, net after fees, while utilizing acceptable risk levels, over moving thirty-six-month periods. In contrast, index, or passive managers will be expected to provide returns nearly identical to the appropriate benchmark, before reasonable fees, with no more volatility than the benchmark.

Volatility and Risk

The Committee believes that the Objective can be achieved while assuming acceptable risk levels commensurate with “market” volatility. “Market” volatility is defined as the trailing three-year standard deviation of investment returns (based on monthly data) of the benchmark indices.

The Committee further believes that the greatest investment risk the Alliance faces is the probability of failing to meet the Alliance’s Objective over the Time Horizon. Therefore, to minimize the probability of failure, and thereby minimize risk, the following variables should be considered by the Committee in all aspects of the decision-making process with regard to the Alliance’s investable assets:

- Probability of missing the objective
- Impact of inflation on the Alliance
- Asset/style allocation as the primary determinant of long-term performance

Alliance Objectives and Guidelines

Objective: The Alliance Objective is to provide a real rate of return over inflation sufficient to support in perpetuity the mission of the Alliance. It is particularly important to preserve the value of the assets in real terms to enable the Alliance to maintain the purchasing power of the Distribution on programs and administration without eroding the real value of the principal corpus of the Alliance.

General Investment Considerations and Constraints:

- **Risk:** The Committee will seek to limit the overall level of risk commensurate with the chosen Policy Asset Allocation.
- **Liquidity:** At times, cash may be required to satisfy the needs of the Alliance. The Alliance should have sufficient liquid assets to meet such foreseeable requirements.
- **Time Horizon:** The Investment pool has an infinite life. An investment Time Horizon of twenty years is appropriate.
- **Taxes:** The Alliance is tax-exempt.

Return Need

The long-term net compound return need shall be established as the goal rate of return for the Alliance over the Time Horizon. The Return Goal shall consist of a Distribution rate, an assumed rate of inflation, investment management fees, and any desired real portfolio growth. These items and their function in the overall return need are established below:

Components of Return Need

Distribution Rate	4.5%
Inflation Rate	2.5%
Investment Management Fees	1.0%
Real Portfolio Growth	1.0%
Long-Term Return Need (<i>Net of Fees</i>)	9.0%

Asset Allocation

The single most important decision made by the Committee is the Policy Asset Allocation decision. Investment research has determined that a significant portion of a portfolio's investment behavior can be attributed to: (1) the asset classes/styles which are employed by the Alliance; and (2) the weighting of each asset class/style. It is the responsibility of the Committee to identify the Policy Asset Allocation that offers the highest probability of achieving the Alliance's investment objectives. The Committee, with guidance and recommendations from their Consultant, shall review the asset mix on an ongoing basis and recommend revisions as necessary.

The Policy Asset Allocation shall be determined based on a comprehensive asset allocation study completed by the Consultant and reviewed from time to time by the Committee. The Policy Asset Allocation of the Alliance, as presented in **Appendix A**, is designed to give balance to the overall structure of the Alliance's investment program over the Time Horizon. However, many factors over time may necessitate an asset allocation review and possible rebalancing. These factors include an ongoing assessment by the Consultant and the Committee of the comparative intermediate or long-term outlook for all available types of asset classes and styles.

Permissible Investments

The Policy Asset Allocation of the Alliance is expected to include a wide range of asset classes. The Alliance is permitted to hold any asset class except those prohibited in this document.

Portfolio Rebalancing

Since asset allocation is the most critical component of the Alliance's returns, it is desirable to rebalance the Investment pool periodically to minimize deviations from the Policy Asset Allocation mix.

The Committee may rebalance the Investment pool to achieve the Policy Asset Allocation at any time. However, the Investment pool shall be rebalanced in the event any individual marketable asset class differs from policy ranges (minimum or maximum) by more than 20% of the target weight, but with a minimum deviation threshold of 2% of the total portfolio value.

The Consultant will inform the Administration at the close of any month in which rebalancing the Investment pool is necessary. The Consultant, together with the Administration, will complete the rebalancing process and notify the Committee. The Consultant will assist the Administration as needed in implementing such rebalancing.

Investment Policies for Investment Managers

The following are performance goals and constraint guidelines placed on individual managers within specific asset classes:

All Traditional Managers

1. Index managers shall be terminated if performance or volatility significantly differs from that of the benchmark.
2. Active managers may be terminated due to philosophical changes, management turnover, poor long-term investment performance, or other material changes.

Alternative Investments

1. Alternative investment managers typically must have significant latitude in the strategies and investments they make and the leverage they introduce into a portfolio. As a result, it is generally not feasible to impose guidelines and restrictions on such managers. Instead, the Committee may choose to terminate a manager, subject to the manager's liquidation policy, if they are dissatisfied with the manager and/or his strategy.

Other

1. *Active vs. Passive Management:* The Committee shall continue to review the relative advantages of passive versus active investment management in the context of reduced management expenses, stable performance and constant, complete exposure to the particular asset class with regard to the excess return provided by the individual manager.
2. *Related Party Transaction:* The Alliance will not loan funds to related parties, defined as an officer, Committee member, employee, or donor, either current or prospective.

Procedure for Revising the Statement of Investment Policy

This Statement of Investment Policy will be reviewed at least annually by the Committee. The Board must approve material changes to the Statement. Any deviation from the Policy Asset Allocation of the combined asset sectors (i.e., total growth assets, total risk reduction assets and total inflation protection assets) would represent a material change and shall be approved by the Board.

Conflicts of Interest

All persons responsible for investment decisions or who are involved in the management of the Alliance or who are consulting to, or providing any advice whatsoever to the Committee, shall disclose in writing at the beginning of any discussion or consideration by the committee, any relationships, material beneficial ownership, or other material interest(s) which the person has or may reasonably be expected to have, with respect to any investment issue under consideration. The Committee may require such persons to remove themselves from the decision-making process.

Any members of the Committee responsible for investment decisions or who are involved in the management of the Alliance shall refuse any remuneration, commission, gift, favor, service or benefit that might reasonably tend to influence them in the discharge of their duties, except as disclosed in writing to and agreed upon in writing by the Committee. The intent of this provision is to eliminate conflicts of interest between committee membership and the Alliance. Failure to disclose any material benefit shall be grounds for immediate removal from the committee. This provision shall not preclude the payment of ordinary fees and expenses to the Alliance's custodian(s), Investment Managers, or Consultant in the course of their services on behalf of the Alliance.

VI. PERFORMANCE EVALUATION

Evaluation

The Investment Committee will monitor, with the assistance of the Investment Consultant, the Alliance's investment performance on a quarterly basis. The Committee will evaluate, with the assistance of the Investment Consultant, the Alliance's success in achieving the investment objectives outlined in this document over at least a three- to five-year time horizon. The Committee realizes that most investments go through cycles; therefore, there will be periods of time in which the investment objectives are not met or when some Investment Managers fail to meet their expected performance targets.

The Investment Managers' performance will be reported in terms of rate of return and changes in dollar value. The returns will be compared to appropriate market indexes for the most recent quarter and for annual and cumulative prior time periods.

VII. EVALUATION OF THE INVESTMENT CONSULTANT

The Investment Committee will retain an independent Investment Consultant to assist the Committee in managing Alliance investments. The Investment Consultant is responsible for:

- Preparing quarterly reports of Investment Manager performance.
- Presenting quarterly reviews of the Alliance's asset allocation.
- Making quarterly educational presentations to the Investment Committee.
- Completing quarterly, in person performance reports.
- Responding promptly and appropriately to Investment Committee questions.
- Selecting Investment Managers.

- Conducting objective and thorough searches for new Investment Managers as appropriate.
- Serving as the liaison between individual Investment Managers and the Alliance.
- Disclosing all directed commissions.
- Refusing to accept compensation from Investment Managers.
- Behaving in an ethical and professional manner at all times.
- Performing other duties as may be mutually agreed to.

The Investment Committee will review annually the Investment Consultant's performance (in a closed session) in meeting the aforementioned performance expectations. The Committee will provide the Investment Consultant with feedback at the completion of each annual review.

VIII. APPROVAL

The Investment Policy and any revisions to the policy must be approved by an affirmative vote of 66% of the Investment Committee members and confirmed by a majority vote of the Alliance Board of Directors present at a duly constituted Alliance Board meeting.

This Investment Policy is predicated on the position that consistency of approach is an important part of investment success. Consequently, the Investment Committee will give thoughtful deliberation to revising this policy.

The Investment Committee will formally review this policy on an annual basis. The Investment Consultant, on behalf of an Investment Manager, may propose review of this policy at any time if it is felt that circumstances require such a review.

Authorized By:
Title:

Date

This investment policy was approved by the Community Foundation Alliance Board of Directors May 16, 2006 and amended on May 15, 2007, February 19, 2008, June 17, 2008, and August 18, 2009.

APPENDIX A

Asset Class	Asset Ranges*	Target Policy
	A	B
Growth Assets		
US Large Stocks		6%
US Large-Cap Growth Stocks		4%
US Large-Cap Quality Stocks		5%
<i>US Equity</i>		<i>15%</i>
Int'l Large-Cap Stocks		15%
Int'l Emerging Market Stocks		5%
<i>Int'l Equity</i>		<i>20%</i>
Private Equity		15%
Total Growth Assets	35% - 65%	50%
Risk Reduction Assets		
US Fixed Income		7%
Global Fixed Income		5%
Hedge Funds		20%
Total Risk Reduction Assets	22% - 42%	32%
Inflation Protection Assets		
US Inflation Protected Fixed		13%
Natural Resources		5%
Total Inflation Protection Assets	10% - 30%	18%
Total		100%

* Allocation will be made so that growth assets plus risk reduction assets plus inflation protection assets total 100%