The Community Foundation For Crawford County

Direction for the Future

APPROVED BY THE BOARD OF TRUSTEES, MARCH 19, 2015

The Community Foundation for Crawford County

Mason Investment Advisory Services

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I. Introduction

The purposes of this Investment Policy Statement are to:

A. establish an understanding of the philosophy and investment objectives for the Foundation's Board of Trustees ("Board"), Finance Committee ("Committee"), donors, grantees, and the Investment Consultant ("Consultant");
B. serve as requirements for the Consultant retained; and
C. serve as the basis for monitoring the ongoing performance of the Consultant and T~~t~~he ~~Bucyrus Area~~ Community Foundation for Crawford County ("~~BA~~CFCC") in total.

~~BA~~CFCC is a public charitable organization incorporated in the State of Ohio in 1984 by citizens of the Bucyrus area and with the help of the Timken Foundation. The charitable features of the ~~BA~~CFCC are designed to improve the quality of life in the Bucyrus area through support of nonprofit programs and services in the areas of health, economic development, basic human needs, education, cultural activities, environment, ~~and~~ community services, youth and recreational activities and the arts. The Foundation provides flexibility in responding to charitable requests and identifies changing needs within the community. The timely shifting of priorities is accomplished by a Board of Trustees, consisting of members selected for their experience in understanding the Crawford County community and awareness of a community foundation's role in addressing these concerns.

The investment funds of ~~BA~~CFCC are a vital source of grants to the community. The growth and enhancement of the assets entrusted to the Foundation's stewardship (measured in constant dollars adjusted for inflation) is necessary to provide funds to enable the Foundation to meet changing conditions and address community pressures and opportunities. For these reasons, superior management of these assets is critical to enable the ~~BA~~CFCC to maintain its long-term interest and involvement in the philanthropic needs of the community.

The Committee is responsible for making recommendations to the Board of the ~~BA~~CFCC concerning the investment policies of the Foundation including, but not limited to, establishing investment policies, selecting the Consultant, approving the investment strategies of the Consultant, selecting master record keepers and custodians, determining the asset allocation, and monitoring investment performance.

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

II. Investment Objectives

The primary investment objective of the ~~BA~~CFCC's investment portfolio (the "Portfolio") is to provide a relatively stable, inflation adjusted, annual payout to support the Foundation's defined spending rate, as well as provide capital appreciation to grow the Portfolio over time. There will be some inevitable volatility in principal value in this Portfolio, but it may offer the potential for a sustainable payout plus underlying growth over the long term.

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

Nominal Net of Fee Internal Rate of Return - CPI = Spending Rate (4%) + Admin fee (1%) plus underlying growth in capital.

The target return is measured based on a trailing five year annualized return. This is the time period used to gauge whether or not the portfolio is meeting its objective. Each individual period may be more or less than the target. The probability of success of achieving the minimum return goal increases as the length of the evaluation period increases. It is anticipated that there will be periods of time where the five year trailing calculation will be below the minimum return goal. There must be a tolerance for these periods in order to remain with the long term strategy and not change at inopportune times.

III. Spending Policy

The Foundation shall distribute 4% of the Portfolio's average market value over the prior 20 quarters to support the Foundation's charitable pursuits. This 20 quarter average was chosen to accommodate (smooth out) the payouts based on a more volatile, growth-oriented portfolio.

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 Portfolios' risk and liquidity posture are, in large part, a function of asset class mix. The 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. Considering the Portfolio's investment objective, time horizon, risk tolerances, performance expectations, and asset class preferences, an appropriate portfolio allocation was identified, as shown in the following "Asset Allocation Targets" chart. The targets shown in the chart will not be changed without Committee approval.

After the allocation strategy is implemented, the Consultant is responsible for rebalancing the portfolio, applying the methodology approved by the Consultant's Investment Committee. Any change in methodology will be communicated to the Foundation in writing contemporaneously.

Asset Allocation Targets - "D" Portfolio (Growth)

Asset Category	Portfolio Percentage Allocation
I. Safety Assets	1.0%
Total Safety Assets	**1.0%**
II. Income Assets	
Domestic Bonds:	
Short Term Maturities (1-5 yrs)	4.0%
Intermediate Term Maturities (5-10 yrs)	4.25%
Long Term Maturities (10+ yrs)	4.25%
Inflation Protected Bonds	4.0%
International Bonds	5.5%
Total Income Assets	**22.0%**
III. Growth Assets	
Large Cap U.S. Stocks - Value	17.0%
Large Cap U.S. Stocks - Growth	11.0%
International Stocks - Value	9.0%
International Stocks - Growth	6.0%
Growth Real Estate	7.0%
Total Growth Assets	**50.0%**
IV. Aggressive Assets	
Small Cap U.S. Stocks - Value	11.0%
Small Cap U.S. Stocks - Growth	5.0%
International Small Cap	3.0%
Energy/Natural Resources	4.0%
Commodities	4.0%
Total Aggressive Assets	**27.0%**
TOTAL PORTFOLIO	**100.0%**

V. Investment Restrictions

When selecting mutual funds and exchange-traded funds (ETFs), ~~*separate account managers,*~~ the Consultant will use due diligence criteria prescribed in this Investment Policy Statement (mutual funds and ETFs~~*separate account managers*~~ will be referred to as “managers” unless specifically referenced).

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

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 periodic 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. Managers will be regularly evaluated for style drift and competitive cost structure.

~~In most instances, the Consultant will use money managers and mutual funds that have established track records of at least five years. A ten year track record is preferred, if possible. The Consultant will decide which managers to use based upon their particular contribution to the Portfolio. This~~

~~often results in having more than one manager for the same asset class, each with a different bias and approach.~~

~~To identify managers who fit the implementation objectives, a rigorous research process is followed. The research process involves both a quantitative and qualitative review.~~

~~Quantitative Analysis~~
~~The quantitative analysis attempts to distill a large universe of managers into a small group of strong performers. Managers who pass this phase of the research process have a history of delivering above-average risk adjusted returns, as measured against their peers who fit the same asset class. Performance during multiple market cycles is observed. The goal is not to chase returns, but to look for consistent, long-term track records of at least five and preferably ten years. Also, a *returns based style analysis* and a *holdings based analysis* is performed to assure accurate asset class fit.~~

~~Qualitative Analysis~~
~~The qualitative analysis involves an in-depth review of the management company and its history. Several years of all published reports are reviewed for consistency of management style and stability of professional staff. A review of historical portfolios is performed for clues about the true style and risk posture of the manager over time. Personal interviews and on-site office visits are made, wherever possible. Managers are continuously monitored, and new managers are reviewed in an attempt to find the best managers possible in the judgment of the Committee and the Consultant.~~

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 Portfolio (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 <u>Dow Jones Total Stock Index</u> 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 Portfolio, 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.

~~As of 7/31/12 this reference point was comprised of 264 mutual funds.~~

The Committee agrees that this is a reference point. The performance of the ~~BA~~CFCC's Portfolio 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
~~In all cases, performance evaluations will focus more on trailing three, five, and ten-year performance measures (including risk adjusted measures), rather than short-term variances from the benchmarks.~~ 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. Short Term Reserve Management Policy

From time to time the ~~BA~~CFCC may maintain large cash balances in reserve for future needs and contingencies. The Consultant is authorized to manage these reserves for enhanced yields consistent with a conservative cash management policy. To manage credit risk, instruments used for cash management will be limited to the following:

- Money Market Mutual Funds and "ultrashort bond funds"
- 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, 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, of 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.

VIII. Delegation of Authority and Responsibilities

Finance Committee

The Finance Committee is responsible for the development and implementation of the investment policy. This responsibility includes determining investment strategy, selecting the Investment Consultant, establishing the scope and terms of the delegation of the investment management of the Portfolio, and monitoring the Consultant's performance and compliance with the scope and terms of the delegation.

Board of Trustees

The Board shall have final responsibility for ensuring the prudent investment and management of assets comprising the Portfolio. The Board shall have the authority to approve or reject the Investment Policy Statement developed by the Committee. Once the Investment Policy Statement has been approved by the Board, the Board shall authorize the Committee to implement the Investment Policy Statement. At least annually, the Committee, possibly with the help of the Consultant, shall present to the Board a performance report and review of the Investment Policy.

President, Chairman, Treasurer, or Secretary of the Foundation

Sign all appropriate contracts, open accounts, and give any other authorizations needed by the Consultant to affect the terms of this Policy Statement.

Investment Consultant

The consultant is the primary source of investment education and investment manager information. On an ongoing basis the consultant will:

1. Provide the Committee with quarterly performance reports. 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 Policy Statement;

2. Report to the Committee quarterly;

3. Monitor the activities of each investment manager or investment fund;

4. Provide the Committee with an annual review of this Policy Statement, including an assessment of the BACF's current asset allocation, spending policy, and investment objectives; and

5. Supply the Committee with other reports or information as reasonably requested.

The Consultant shall supervise and direct the investment of the Portfolio as specified in this Policy Statement. 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 and is required to rebalance the Portfolio to maintain the asset allocation using the methodology approved by the Consultant's Investment Committee. The Consultant also has discretion to change managers as required by the Due Diligence Policy described in this Policy Statement.

Custodian

Custodians are responsible for the safekeeping of the portfolio's assets. The specific duties and responsibilities of the custodian are:

1. Value the holdings.
2. Collect all income and dividends owed to the portfolio.
3. Settle all transactions (buy-sell orders).

~~**IX. 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 client. In brokerage and consulting language, these arrangements are often called "Separately Managed Accounts" (SMAs).~~

~~**Returns Based Style Analysis (RBSA):** RBSA is a quantitative approach to determining a manager's investment style and evaluating its consistency. The effective asset mix can be determined by comparing actual portfolio returns to the returns of indices (given a sufficient length of portfolio history and a robust mathematical technique).~~

~~**Holdings Based Style Analysis:** Holdings-based style analysis is a "bottom-up" approach in which the characteristics of a portfolio over a period of time are derived from the characteristics of the securities it contains at various points in time over the period. The choice of characteristics depends on the purpose of the analysis. For example, if the purpose is to describe a portfolio in terms of a set of quantitative style characteristics such as size and value/growth orientation, the prescribed characteristics of each security need to be calculated and then aggregated to the portfolio level.~~

~~**Approved by the Board of Trustees, September 21, 2012**~~