THE COMMUNITY FOUNDATION OF THE RAPPAHANNOCK RIVER REGION

INVESTMENT POLICY STATEMENT

Adopted by the
Board of Governors on

August 18, 2016

Community Foundation of the Rappahannock River Region
Investment Policy Statement

Contents

I. PURPOSE AND BACKGROUND

A. Purpose of Policy

The purpose of this investment policy statement (IPS) is to assist the Board of Governors (“Board”) of the Community Foundation of the Rappahannock River Region (“Foundation”) and its Investment Committee (“Committee”) in effectively managing the investment of the Foundation’s assets (“Assets”).

The Foundation investment program is defined in the various sections of the IPS by:

- Stating in a written document the Board’s philosophy, expectations, objectives and guidelines for the investment of all Foundation assets.
- Setting forth an investment structure for managing all Foundation assets. This structure includes various asset classes and acceptable asset allocation ranges that in total are expected to produce a sufficient level of overall diversification and total investment return over the long term.
- Encouraging effective communications among the Board, the Committee and the investment managers.
- Establishing criteria to select, monitor, evaluate and compare the performance results achieved by the investment managers on a regular basis.
- Complying with fiduciary, prudence and due diligence requirements that experienced investment professionals would use, and with all applicable laws, rules and regulations from various local, state and federal political entities that may impact Foundation assets.

B. Foundation Purpose and Objectives

The Foundation is a community endowment, supporting activities in areas such as: Child and Youth Development, Health, Education, Environmental, the Arts, and community improvement for the benefit of the citizens of the counties in Caroline, King George, Spotsylvania, Stafford and the City of Fredericksburg, Virginia.

The Foundation is a tax-exempt, not-for-profit, grant-making, publicly-supported charity. As a non-profit organization, it is our goal to match the charitable intentions of donors with the most appropriate community needs. Grants are made from funds in accordance with the terms established by the donor when the original gift was made.

Although many gifts are restricted in some manner or designated for one or more specific areas of activities, one of the long term objectives of the Foundation is to increase the assets held in unrestricted endowment funds.

II. STATEMENT OF INVESTMENT OBJECTIVES FOR ENDOWMENT FUNDS

A. General Statement

The Foundation's overall investment objective is to manage its endowment assets in such a way as to ensure long-term appreciation while allowing the Foundation to increase the level of grants to meet the charitable needs of the Rappahannock River region as those needs change over time. This means that the Foundation seeks a total rate of return that supports the Foundation's grantmaking, expenses, investment fees, and inflation.

In managing the portfolio, the Committee will incur only those costs that are appropriate and reasonable in relation to the portfolio or any specific institutional fund, the purposes of the Foundation, and the skills available to it and will use reasonable efforts to verify facts relevant to the management and investment of the portfolio or any specific institutional fund.

Except as a donor's gift instrument otherwise requires, and consistent with Virginia's adoption of the Uniform Prudent Management of Institutional Funds Act, the following factors must be considered, if relevant, in managing and investing the investment portfolio, including the requirements for any specific institutional funds:

- general economic conditions;
- the possible effect of inflation or deflation;
- the expected tax consequences, if any, of investment decisions or strategies;
- the role that each investment or course of action plays within the Foundation's overall investment portfolio;
- the expected total return from income and the appreciation of investments;
- other resources of the Foundation;
- the needs of the Foundation and a given institutional fund to make distributions and to preserve capital; and
- an asset's special relationship or special value, if any, to the purpose of the Foundation.

Growth in the value of endowment assets is the primary investment objective, complemented by a secondary consideration for current income and reduced volatility. The investment strategy must therefore balance the desire for long-term capital appreciation with a need for safety of investments.

B. Exceptions

The Foundation also maintains certain pass through donor-advised funds, combined funds, and administrative funds which are not of an endowment nature and which may specify or require an investment approach that differs from the guidelines in this IPS. In many cases these funds are maintained principally in cash equivalents or short-term fixed income instruments with relatively high liquidity and with minimal downside risk or opportunity for appreciation. The Committee may consider any donor's request to actively invest a portion of their pass through fund in accordance with the investment strategy applied by the Committee to endowed funds.

III. Authority of the Investment Committee and the Executive Director

A. General Statement

The Board of Governors of the Foundation will approve the overall investment policy for the Foundation based on recommendations by the Committee. The Board is ultimately accountable for the investments, but for purposes of efficiency has delegated oversight and management to the Investment Committee. As a result, the Board has delegated to the Investment Committee full power and authority to make decisions relative to the investments of the Foundation, consistent with the Investment Policy Statement approved and adopted by the Board. The Board of Governors must approve any deviations from the general Investment Policy Statement as outlined in this document.

The Foundation will not pay any investment professional or any other party for referring a donor to the Foundation and no existing funds of the Foundation will be transferred to such a person as compensation for a referral.

Investment managers will advise the Foundation promptly of any event that is likely to adversely affect the management, professionalism, integrity or financial position of the manager's firm or its progress toward the goals and objectives of this policy.

Investment managers shall not invest any part of the Foundation's assets through transactions that involve self-dealing or an actual or perceived conflict of interest.

B. The Investment Committee shall:

1. Establish the specific investment guidelines
2. Review the investment strategy proposed by an investment manager.
3. Select, monitor and replace investment managers as outlined in Sections V and VI.
4. Meet as necessary, but not less than two times per year.

5. Review the Investment Policy Statement at least annually.

C. Executive Director

The Executive Director is authorized to transact business with any investment manager or broker retained by the Foundation. All instructions to an investment manager must be confirmed in writing by the Executive Director or by the Chairman of the Committee.

The Executive Director of the Foundation is authorized to transfer funds for the purpose of investment within the guidelines established by the Investment Policy Statement.

D. Treasurer

The Treasurer of the Foundation is responsible for accounting for all funds. The Investment Committee Chair will render quarterly reports to the Board of Governors regarding the investment performance of the Foundation assets.

IV. INVESTMENT GUIDELINES

A. Time Horizon

The investment guidelines for the Foundation's endowment assets are based on an investment horizon greater than three years. Interim fluctuations should be viewed with appropriate perspective.

B. Risk Tolerances

The Board recognizes that risk (i.e. the uncertainty of future events), volatility (i.e. the potential for variability of asset values including a loss of value when the market declines), and the possible loss of purchasing power (due to inflation) are present to some degree in all types of investment vehicles. The Endowment is to be invested in marketable securities or cash equivalents at all times. Exposing the Foundation's Endowment to undue risk is to be avoided; however, the assumption of a moderate level of risk is warranted and encouraged in order to allow the investment managers the opportunity to achieve satisfactory results consistent with the objectives of the Foundation. Short-term fluctuations in value shall be considered secondary to longer term results as defined by a full market cycle.

C. Total Return Expectations

The total return expectation of the Foundation is to meet or exceed the rate of return relative to the broad equity and fixed income markets across the full business cycle. Benchmarks will be employed to judge performance consistent with the asset allocation employed by the investment managers, including the S&P 500 Index, MSCI World Index and Barclays Capital Aggregate Bond Index. The Foundation expects to achieve a total return at least equal to the appropriate benchmarks over the course of three (3) years.

D. Asset Allocation

It is a fundamental tenet of the Foundation that endowment assets must be adequately diversified in order to reduce the risk associated with undue exposure to any single economic or industry sector or individual security.

It shall be the responsibility of each of the Investment Managers to allocate the Foundation's endowment assets for which it has responsibility (a "Portfolio") among common and preferred stocks, fixed income securities, convertible securities, mutual or pooled funds investing in eligible securities, and cash equivalents within the following parameters:

ASSET CLASS	MINIMUM ALLOCATION	MAXIMUM ALLOCATION
U.S. Common & Preferred Equities	30%	75%
International Equities	10%	40%
Fixed Income Securities	20%	50%
Alternative Investments	0%	20%
Cash and Cash Equivalents	0%	25%

It is understood that a Portfolio's asset allocation may vary from time to time in accordance with changing economic and market conditions including inflation rates, business cycle trends, business regulations and tax law impacts on the investment markets.

Cash inflows/outflows will be deployed in a manner consistent with the target asset allocation for the Foundation. The allocation of the Foundation's assets will be reviewed annually by the Committee.

E. General Securities Guidelines

All assets must have a readily ascertainable market value and be readily marketable.

Permitted Security Types:

1. Mutual funds (including Alternative Investments through Mutual Funds)
2. Index funds
3. Individual stocks traded on the major stock exchanges
4. Individual bonds
5. Closed-end funds
6. Unit investment trusts
7. ETFs or other exchange traded funds
8. Bank certificates of deposit

Categories Excluded from Investment: (other than via a mutual fund and index fund)

1. Commodities
2. Short sales
3. Purchases of letter stock, private placements, or direct payments
4. Leveraged transactions
5. Foreign currency positions
6. Real Estate

The Investment Committee has determined that investment managers should avoid unnecessary risk in investing the Foundation's assets. To achieve that goal, investment managers will observe the following limits:

- For fixed income investments, maintain an overall weighted average credit rating of "A" or better by Moody's or Standard and Poor's and hold not more than 15% of the portfolio in investments rated below investment grade. Split rated securities will be governed by the lower rating.
- Hold no more than 10% of market value in the securities of a single issuer and do not allow exposure to any one industry group to exceed 25% of the market value of the portfolio;
- Not lend any Foundation securities;
- Not purposely use derivative securities.

V. SELECTION OF INVESTMENT MANAGERS

The Committee will select appropriate investment managers to manage the Foundation's assets. At a minimum it will consider the following:

A. the manager will be a bank, insurance company, investment management company, or a registered investment advisor

B. the manager's corporate history, its key personnel and its fee structure,
C. whether any legal judgments or regulatory enforcement actions have been rendered against the manager

VI. CONTROL PROCEDURES

A. Duties and Responsibilities of Investment Managers

1. Exercising investment discretion (including holding cash equivalents as an alternative) within the IPS objectives and guidelines set forth herein.

2. Utilizing the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like community foundations and all applicable laws, rules, and regulations from local, state and federal political entities as they pertain to fiduciary duties and responsibilities.

3. Each manager must sign a copy of the Investment Policy Statement acknowledging receipt thereof and its responsibility to comply with the Investment Guidelines and Control Procedures as set forth herein and as modified periodically.

4. Providing the Committee with accurate monthly statements of activity and portfolio holdings and quarterly investment performance reports calculating investment returns on a total return basis for the Portfolio within15 days from the end of the statement period. The Investment Manager should also be available to meet with the Committee upon request, make presentations to the Committee and/or to the Board and provide additional reports upon request.

B. Monitoring of Investment Managers

1. **Periodic Evaluation**

   Investment Managers retained by the Foundation will report to the Investment Committee. The Committee will periodically evaluate the performance of managers. 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 managers employing similar styles.

2. Review for Sub-Par Performance

Termination of an Investment Manager will be considered if:

- A manager fails to provide timely and accurate reports or to respond to requests for information.
- A manager has underperformed the total return expectations for a 3 year period

3. Replacement of a Manager

The Committee will notify the Board in writing of it reasons to recommend replacement of a manager for final decision and action by the Board.

VII. Conflicts of Interest

An individual investment manager or broker retained by the Foundation to manage assets may not serve on the Board of Governors or the Investment Committee. Board Members who are affiliated with an investment manager retained by the Foundation but who are not directly involved in the management of the Foundation's assets may serve on the Committee but may not vote on any matters involving said investment manager.

The Foundation will not pay any investment professional or any other party for referring a donor to the Foundation and no existing funds of the Foundation will be transferred to such a person as compensation for a referral.

Investment managers shall not invest any part of the Foundation's assets through transactions that involve self-dealing or an actual or perceived conflict of interest.

VIII. SPENDING POLICY

The Foundation sets its annual spending rate for permanent funds by applying a percentage, determined annually by the Board of Governors based on the recommendation of the Investment Committee, to a fund's average net balance. Average net balance is based on a rolling 12 quarter market value as determined by the Investment Committee. In determining the applicable percentage, the Investment Committee considers the Foundation's history, spending policies in place at other community foundations, and the foundation's responsibility to preserve the purchasing power of its permanent funds over time.

IX. EXCESS BUSINESS HOLDINGS

The Pension Protection Act of 2006 amended section 4943 of the Internal Revenue Code to limit ownership of closely-held business interests in a donor advised fund. A fund's holdings, together with the holdings of disqualified persons (donor, advisor, members of their families and businesses they control) may not exceed any of the following:

- 20% of the voting stock of an incorporated business;
- 20% of the profits interest of a partnership, joint venture, or the beneficial interest in a trust or similar entity;
- Any interest in a sole proprietorship.

These limitations do not apply if the donor-advised fund holds an interest that does not exceed two percent of the voting stock and two percent of the value of the business.

Donor-advised funds receiving gifts of interests in a business enterprise have five years from the receipt of the interest to divest holdings that are above the permitted amount, with the possibility of an additional five years if approved by the Secretary of the Treasury. To prevent a violation of these rules, it is the Foundation's policy is to divest itself of such holdings within five years from the date the Foundation acquired the asset. If that is not possible, the asset will be transferred to a new or existing fund that is not an advised fund.

Because they are not "business enterprises," the rule will not apply to most gifts of real property, although undeveloped land may become a business enterprise under some circumstances. Interests in investment partnerships and LLCs—including family partnerships, hedge funds, REITs, and so forth—are excluded from the definition of business enterprise as long as 95 percent or more of the entity's income is from passive sources. Examples of other property gifts that are excluded because they are not business enterprises include: oil and gas interests (non-working); life insurance; tangible personal property (as long as it is not inventory); and remainder interests in personal residences and farms.