



**Capital Region**  

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**community foundation**<sup>SM</sup>  

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*The Center for Charitable Giving*

Investment Policy Statement  
adopted June 2005

Exhibit A  
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# **Investment Policy Statement**

## **Capital Region Community Foundation**

### **Account Profile**

The long-term objective of the investment program is to preserve the account's purchasing power by producing a total return that at least equals the Foundation's spending policy plus the rate of inflation. Absolute performance shall be more important than relative performance in evaluating the account, although it is expected that the account will out-perform the Primary Benchmark ("PB"). Relative performance shall be more important in evaluating the individual money managers and mutual funds. It is anticipated that the account will track the PB closely. Although the account should be structured to preserve principal and minimize the likelihood of incurring a substantial loss, significant volatility is probable over the short-term, as the account's volatility is expected to approximate the Primary Benchmark. Subject to the established parameters, structuring the account to generate the targeted level of return over the long-term should take precedence over minimizing risk and volatility over the short-term.

## **Part I. INTRODUCTION**

### **(1) PREAMBLE**

#### **A) Purpose of Foundation**

The Capital Region Community Foundation ("CRCF") was founded in 1987 by a group of citizens interested in establishing a means by which contributions of individuals and other entities, might most efficiently benefit the Capital Region. The purpose of the Foundation is to receive philanthropic funds from public spirited donors, responsibly invest them, and make distributions to qualified individuals and organizations in order to enrich the quality of life of the people of the region.

#### **B) Scope of Document**

The objectives and parameters set forth in this Investment Policy Statement ("IPS") shall pertain only to the CRCF's long-term investable assets (the "account" or the "portfolio").

#### **C) Standards**

This IPS is intended to set standards for the direction, operation, management and oversight of the investments of the account. Specifically, this IPS is designed to establish formal yet flexible investment guidelines incorporating prudent asset allocation parameters and total return goals that are realistic based upon historical return patterns, and to establish a basis for the evaluation of the investment performance of the account and its designated managers and mutual funds.

## **(2) PRINCIPLES**

### **A) Prudence**

CRCF shall invest the account using the judgment and care under the circumstances then prevailing that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable return as well as the probable safety of their capital.

### **B) Portfolio**

While the preservation of the account assets is an important investment objective, this objective shall only apply to the portfolio as a whole. Thus, the objective of principal preservation need not be imposed on each component of the portfolio or each individual security. CRCF understands that losses may occur in individual securities, in the components of the portfolio, and in the portfolio in its entirety, from time to time.

### **C) Supervision**

The Finance Committee (the “Committee”) recognizes that its role in the investment management process is supervisory, not advisory, and that the determination of specific investment strategies and security selections is the duty of the designated money managers and mutual funds, subject to the parameters contained in this IPS and the individual money manager IPS documentation.

## **(3) MANAGEMENT**

### **A) Management Differences**

CRCF recognizes that the portions of the account managed by the designated money managers and mutual funds may have significantly different investment objectives and levels of risk, and that individually they may deviate substantially from the investment objectives and level of risk established for the total account.

### **B) Indexing**

CRCF recognizes that over the long-term actively managed portfolios usually entail additional costs, and often fail to consistently outperform indices associated with the particular asset class in which the actively managed portfolio is invested. Therefore, CRCF may elect to invest a portion of any new money added to the investment program in index funds. This decision will depend, in part, on how the portfolio’s active managers perform.

## **Part II. RESPONSIBILITIES**

### **(4) CRCF RESPONSIBILITIES**

#### **A) Committee**

The CRCF's Board of Trustees (the "Board") has delegated to the Committee the authority, subject to the final approval of the Board, to oversee its investment program. (Throughout this IPS, all references to the Board shall include the Executive Committee, as applicable, according to CRCF's by-laws.) As such, the Committee shall be responsible for making and implementing all financial and administrative decisions concerning the account, subject to periodic review by the Board. The Chief Financial Officer of CRCF is authorized to implement the decisions of the Committee, to serve as the Committee's primary liaison with the various service providers and to give specific instructions to the various service providers. The Committee and its agents, in carrying out their responsibilities, shall act in accordance with this IPS and all applicable laws and regulations.

#### **B) Investment Policy**

The Committee, subject to Board approval, shall be responsible for establishing and reviewing investment objectives; determining spending policies; selecting an appropriate strategic allocation for the account's assets; and developing sound and consistent investment policy guidelines that the designated money managers can use in formulating investment decisions.

#### **C) Money Managers and Mutual Funds**

The Committee is authorized to select one or more money management organizations, including mutual fund companies, and to select replacements for such organizations as needed, to make the day to day decisions regarding the investment of CRCF's investable assets, according to this IPS. The Committee shall have the right to terminate and replace such money managers and mutual funds whenever it determines that it is in the best interest of CRCF to do so.

#### **D) Revisions and Exceptions**

The Board reserves to itself the exclusive right to revise the policies set forth in this IPS (including the asset allocation parameters set forth on Exhibit "A") at any time, and to grant exceptions to the investment policies when it determines that it is in the best interest of CRCF to do so.

### **(5) CUSTODIAN RESPONSIBILITIES**

Any entity, whether bank or brokerage firm, serving in the capacity of a custodian for any portion of CRCF assets, shall assume responsibility for providing a full range of custodial services. Those services shall include, but shall not be limited to:

#### **A) Safekeeping**

Providing for the safekeeping, in either physical or electronic format, of all of CRCF's assets assigned to the custodian.

**B) Income**

Providing for the receipt and prompt crediting of all dividend and interest payments received as a result of CRCF's account holdings.

**C) Reporting**

Providing CRCF with monthly or quarterly reports, as applicable, that show all individual asset holdings and all transaction activity.

**D) Settlement**

Arranging for the timely and business-like settlement of all purchases and sales. All transactions shall be on a delivery versus payment basis unless specifically authorized by CRCF.

**E) Cash Transfers**

Transferring, on a timely basis, all excess cash into an interest bearing account featuring a high degree of safety of principal and liquidity.

**F) Asset Transfers**

Transferring funds and assets into and out of specified accounts, and creating new accounts, on an expeditious basis, at the direction of CRCF.

**G) Auditing Standards**

Providing CRCF with current information as to the custodian's auditing standards, specifically, a copy of their Statement on Auditing Standards #70 (the custodian's internal controls verification).

**(6) MONEY MANAGER RESPONSIBILITIES**

Each money manager selected by CRCF shall assume responsibility for providing a full range of money management services. Those services shall include, but shall not be limited to:

**A) Exercising Authority**

Exercising discretionary authority with respect to all investment decisions, including voting proxies, for all cash and securities placed under their management, subject to the parameters contained in their specific investment management agreement.

**B) Making Recommendations**

Making recommendations to the Committee as to changes in the money manager's specific investment management agreements should circumstances occur that cause a money manager to believe that its investment management agreement needs to be modified because it represents an impediment to the firm's ability to manage the account in the best interests of CRCF.

**C) Monitoring Personnel**

Ensuring that no change in the professionals assigned to this account shall be made without providing prior notice to the Committee.

## **(7) INVESTMENT CONSULTANT RESPONSIBILITIES**

Any entity serving in the capacity of an investment consultant to CRCF shall assume responsibility for providing a full range of investment consulting services. Those services shall include, but shall not be limited to:

### **A) Primary Function**

Serving as an advisor to the Committee and helping to educate the Committee with respect to all aspects of the investment process, as well as functioning as an investment information resource. Any investment advice provided by the investment consultant will be consistent with the objectives and parameters set forth in this IPS.

### **B) Investment Policy**

Assisting in the development and periodic review of investment policy. Recommending, when deemed necessary by either CRCF or the consultant, changes in the objectives or parameters set forth in this IPS.

### **C) Asset Allocation**

Making recommendations to CRCF, supported with appropriate materials, as to the proper weighting among the various major asset classes, investment styles and the account's money managers and mutual funds, in light of CRCF's investment objectives and risk profile.

### **D) Searches and Evaluations**

Conducting money manager and mutual fund searches and evaluations when requested to do so by CRCF, identifying and screening candidates for appropriate characteristics, and helping to quantify the trade-offs between historical returns and risks among the various alternatives.

### **E) Monitoring**

Monitoring the performance of each of the account's money managers and mutual funds in order to provide the Committee with the ability to assess each entity's contribution to the investment program.

### **F) Reporting**

Providing CRCF with a set of reports, following the close of each quarter, that contain a comprehensive evaluation of the investment program. The reports should analyze the account in its entirety as well as its components, and address issues related to return, risk and diversification.

### **G) Meetings**

Meeting with the Committee to review the investment program according to a pre-determined schedule, as well as whenever conditions warrant. The review should encompass the consultant's commentary on the account's investment results in light of the market environment and the account's objectives, as well as a discussion of any issues that either the consultant or CRCF feel need to be addressed.

## Part III. OBJECTIVES

### (8) SPENDING POLICY

CRCF understands that its spending policy will have a significant impact on its return objectives, risk objectives and the account's asset allocation. The spending policy should allow for predictability of spendable funds for budgeting purposes and for steady growth in distributions in support of operations at least equal to the rate of inflation, without endangering the capital value of the fund. Specifically, the spending policy shall allow for maximum annual distributions equal to 5% of the rolling average of the preceding 12 quarterly market values. All aspects of CRCF's spending policy shall be interpreted in conformity with the relevant definitions set forth in the State of Michigan version of the Uniform Management of Institutional Funds Act (UMIFA), M.C.L. 451.1201, et seq.

### (9) RETURN

#### A) Introduction

CRCF has established both "absolute" and "relative" return objectives for this account.

#### Overall Account

As far as the overall account is concerned, both absolute performance and relative performance can impact strategic decisions. Absolute performance can help CRCF to evaluate whether the account's current structure, i.e., its asset allocation and style diversification, have been successful in generating the performance that meets CRCF's annual return targets. Relative performance, in turn, can help CRCF to determine whether the account's particular allocation and style diversification, in the aggregate, have produced results that are significantly different than the performance of the broad markets (e.g., in the case of domestic stocks, the Russell 3000). As such, both absolute performance and relative performance can help CRCF to determine whether any changes in the account's asset allocation or style diversification are in order.

#### Sub-Accounts

In the case of the sub-accounts, relative performance measures the value added by the account's designated money managers and mutual funds, in relation to an appropriate style specific benchmark, regardless of the investment environment. This information is critical in helping CRCF to decide, on an ongoing basis, whether to retain the designated money managers and mutual funds or to seek replacements.

In many instances, the performance of the overall account and the performance of one or more of the individual sub-accounts may be quite different. In such situations, CRCF understands the importance of focusing on whichever issue, account structure or manager performance warrants attention. Over the long run, the absolute performance of the overall account is most important. For it is absolute performance, not relative performance, that will determine whether CRCF will be able to continue to meet its financial obligations.

## **B) Absolute Return**

To generate, on average, over the next five years (and on five year rolling periods thereafter), an annual Gross Total Return (i.e., principal growth plus dividends and interest) as set forth on Exhibit “A”.

To generate, on average, over the next five years (and on five year rolling periods thereafter), an annual Gross Total Return as set forth on Exhibit “A”.

Absolute return is best measured according to a dollar-weighted calculation (i.e., the Account’s internal rate of return) rather than a time weighted calculation.

As CRCF utilizes a total return approach with respect to its spending policy, the designated money managers should attempt to maximize the total return of their portfolios, rather than be particularly concerned with either the income or capital gains components of that return.

## **C) Relative Return**

### **Total Account**

#### **Primary Benchmark**

To generate, on average, over the next five years (and on five year rolling periods thereafter), an annual Gross Total Return at least equal to a customized benchmark comprised of a weighted average of the primary benchmarks for the individual components of the account, as set forth on Exhibit “A”.

#### **Reference Benchmark**

To generate, on average, over the next five years (and on five year rolling periods thereafter), an annual Gross Total Return at least equal to a customized benchmark comprised of equity securities as measured by the Russell 3000 Index (70%) and fixed income securities as measured by the Lehman Universal Index (30%).

### **Equity Securities**

#### **Primary Benchmark**

To generate, on average, over the next five years (and on five year rolling periods thereafter), an annual Gross Total Return at least equal to the weighted average of the primary benchmarks of the equity components of the account, as set forth on Exhibit “A”.

#### **Reference Benchmark**

To generate, on average, over the next five years (and on five year rolling periods thereafter), an annual Gross Total Return at least equal to the Russell 3000 Index.

## **Fixed Income Securities**

### **Primary Benchmark**

To generate, on average, over the next five years (and on five year rolling periods thereafter), an annual Gross Total Return at least equal to the weighted average of the primary benchmarks of the fixed income components of the account, as set forth on Exhibit "A".

### **Reference Benchmark**

To generate, on average, over the next five years (and on five year rolling periods thereafter), an annual Gross Total Return at least equal to the Lehman Universal Index.

## **(10) RISK**

### **A) Introduction**

Numerous risk variables will be measured for the purpose of assessing the relative risk that the account (as well as the individual money managers and mutual funds) has experienced. In general, all of the risk variables set forth below will be measured against the Primary Benchmark (for evaluation purposes) and against the Reference Benchmark (for informational purposes). CRCF anticipates that the overall account's risk measurements will be in line with the Primary Benchmark.

Alternatively, if the account experiences excessive risk, it is expected that the return will be proportionately higher. In addition, in some cases specific targets or ranges have been established for some of the variables. All of the risk measurements will be based on month-to-month changes in the account. Most of these variables will not be calculated until there is sufficient data available (a minimum of two years).

### **B) Volatility**

The volatility of the account will be measured by Standard Deviation. CRCF anticipates that the account's annualized Standard Deviation will not exceed 125% of the volatility of the Primary Benchmark.

Standard Deviation – The most commonly used definition of risk. Standard deviation measures total volatility. The more a portfolio's individual returns vary from its average returns, the higher the portfolio's Standard Deviation. Higher than average returns increase the Standard Deviation in the same manner as lower than average returns. In general, the lower the Standard Deviation the better.

### **C) Market Sensitivity**

The market sensitivity of the account will be measured by Beta. CRCF anticipates that the account's Beta will not exceed 1.25 in relation to the Primary Benchmark.

Beta – A relative measure of risk. An indication of a portfolio's sensitivity to fluctuations in a particular market. Beta does not distinguish between positive and negative fluctuations. Portfolios with a Beta greater than one have in the past been more volatile than the market. A lower Beta is normally considered less risky.

#### **D) Benchmark Correlation**

The correlation of the account to its Benchmarks will be measured by Tracking Error. CRCF anticipates that the account's Tracking Error will not exceed 5% with respect to the Primary Benchmark.

Tracking Error – A measure of correlation. Tracking Error indicates how closely an account's or manager's returns are following or "tracking" the benchmark's returns, i.e., are the variances from the benchmark consistent. Managers or funds that deviate significantly from their benchmarks are assuming more "active" risk. Generally, especially for style specific portfolios, a low Tracking Error is desirable.

#### **E) Maximum Annual Loss**

While CRCF understands that negative market environments will occur, it is CRCF's expectation that the account will not incur a market value loss, from investment, which would exceed -12% over any 12 month period, i.e., there is approximately a 95% likelihood that this account's maximum one year loss will not exceed -12%. This figure is based upon the historical performance of the account's target allocation and generally accepted statistical calculations. CRCF understands that this figure is simply a guideline to be used in assessing various "worst case scenarios", and that it will not have a direct impact on the management of the account.

#### **F) Risk / Return Ratios**

CRCF understands that neither return nor risk, in and of themselves, present a complete picture of an account's performance. As such, CRCF will measure the account's risk-adjusted returns according to the following six ratios: Consistency Ratio, Information Ratio, Return / Standard Deviation Ratio, Sharpe Ratio, Sortino Ratio and Treynor Ratio. CRCF anticipates that the account's performance will at least equal the performance of its Primary Benchmark, according to these measurements of risk-adjusted return. CRCF will examine all six of these ratios, in total, in order to draw appropriate conclusions about the account's risk-adjusted performance.

### **(11) RETENTION REQUIREMENTS**

#### **A) Time Horizon**

While CRCF anticipates that the full evaluation period for the designated money managers and mutual funds shall be five years, CRCF does not guarantee that all money managers and mutual funds will be given a five year time horizon, and reserves the right to evaluate their performance over a shorter time frame. Specifically, performance will be monitored on a continuous basis to ensure that the designated money managers and mutual funds meet certain minimum retention requirements at all times. A failure on the part of any money manager or mutual fund to meet any of the performance criteria set forth below shall trigger a review of that firm's risk-adjusted returns over the relevant time period, in order to ascertain the true nature of its performance, and may result in CRCF reconsidering that firm's continued role as a money manager or mutual fund for the account.

#### **B) Performance Criteria**

The following quantitative criteria shall be used to determine whether the designated money managers and mutual funds are making appropriate progress toward their five year performance objectives.

The account's gross total return over any rolling two-year period is at least equal to 70% of the total return of its Primary Benchmark.

The account's gross total return over any rolling three-year period is at least equal to 80% of the total return of its Primary Benchmark.

The account's gross total return over any rolling four-year period is at least equal to 90% of the total return of its Primary Benchmark.

The account's gross total return over any rolling five-year period is at least equal to 100% of the total return of its Primary Benchmark.

**C) Non-Performance Criteria**

In addition, a repeated failure by any money manager or mutual fund to comply with the account's investment parameters or to adhere to the firm's historical investment style; as well as a significant change in the firm's personnel, business practices, organizational structure or asset base, or level of service provided to CRCF, may also result in CRCF reconsidering that firm's continued role as a money manager or mutual fund for the account.

**Part IV. PARAMETERS**

The parameters set forth in this Part were established for the primary purpose of reducing risk (both volatility and negative performance) to levels consistent with CRCF's tolerance. Accordingly, those sections contained in this Part should be considered from that standpoint. The rationale for this approach is that an effective way to address risk is to properly define it, in advance, by establishing appropriate parameters for the structure and composition of the account. To the best of its ability CRCF shall attempt to apply all of the provisions contained in this Part to all of the managed assets, regardless of whether those assets are managed by individual money managers or through some type of commingled fund.

**(12) PERMITTED ASSETS**

The designated money managers may invest their portfolios only in the types of securities listed as permitted on their individual investment policy statements.

**(13) ASSET ALLOCATION**

**A) Introduction**

Subject to Board approval, it is the Committee's responsibility to set long-term asset allocation ranges and to review them from time to time. The Committee recognizes that these decisions are expected to be the single most important factor determining portfolio risk and return. In discharging this responsibility the Committee has determined that a "multi-manager", multi-asset class approach is an appropriate strategy for the account. The purpose of dividing the account in this way is to try and ensure: 1) that the account will be diversified both by asset class and within each asset class; and 2) that the account will achieve its optimal long-term return.

## **B) Multiple Parameters**

When multiple managers (and mutual funds) are utilized, there are two separate issues with respect to asset allocation. One issue concerns the allocation of an account's assets among the multiple managers. A second issue concerns the allocation of an account's assets among the various asset classes, e.g. equity and fixed income. It is for this reason that two different sets of asset allocation parameters - one that addresses asset allocation with respect to the managers and one that addresses asset allocation with respect to the asset classes - are set forth for the account. Those parameters, including both targets and ranges, are set forth on Exhibit "A".

## **C) Targets**

The target or strategic asset allocation represents the allocation that will exist at the inception of the investment program, and the allocation that (ideally) should be maintained to maximize the account's long-term investment returns, on a risk-adjusted basis. It is understood, however, that the account will deviate from the target, based upon the performance of the designated money managers, mutual funds and asset classes.

## **D) Re-Allocation**

As the performance of the various money managers, mutual funds and asset classes is likely to differ significantly over short periods of time, it is advisable to establish procedures and parameters for re-allocating the assets among the various money managers, mutual funds and asset classes, as set forth below. Such discipline ensures that the account, in its entirety, will continue to be positioned in a manner consistent with CRCF's objectives, regardless of the performance of the individual money managers, mutual funds and asset classes.

## **E) Maximum and Minimum Re-Allocation Points**

The maximum and minimum re-allocation points will be monitored on an ongoing basis, based upon each money manager's, mutual fund's and asset classes' current market value. Specifically, the current market values will be compared to the maximum and minimum re-allocation points on a quarterly basis, as well as immediately before any significant contributions and distributions. In the event that any of the managers, funds or asset classes reach any of the re-allocation points, it is an indication that the account's current overall asset allocation is significantly different than the target. At such CRCF shall re-allocate the account's assets, so that they more closely reflect the target allocation. In the event that assets are re-allocated, CRCF shall transfer sufficient assets to bring the market value of the various managers, funds and asset classes at least half way back from their maximum or minimum toward their target allocation.

## **(14) DIVERSIFICATION**

The purpose of diversification is to provide CRCF with reasonable assurance that no single security or sector will have a disproportionate impact on the total account and to reduce the overall volatility of the entire portfolio. Therefore, the portfolio should be broadly diversified by security and sector, as well as other investment characteristics. However, it is not necessary or desirable that the securities held in the account represent a perfect cross-section of the economy. Consequently, the designated money managers will be allowed to choose the degree of concentration in any entity or sector, subject only to the parameters contained in their individual Investment Policy Statements.

## **(15) EQUITY CHARACTERISTICS**

### **A) Capitalization**

While CRCF realizes that there are many different ways of defining large, medium and small cap stocks, and that all money managers have their own cut-off points for assessing capitalization, in order to evaluate all of its equity portfolios on a uniform basis, CRCF utilizes the Morningstar market capitalization classification system. Classifications are based on a flexible system, which ties market cap to the relative movements of the market, and therefore are not adversely affected by overall movements in the market. Large cap stocks are defined as the group that accounts for the top 70% of the capitalization of the Morningstar domestic stock universe; mid-cap stocks represent the next 20%; and small cap stocks represent the balance. The Morningstar stock universe represents approximately 99% of the U.S. market for actively traded stocks. CRCF will establish specific capitalization parameters for each designated money manager. These parameters shall be considered guidelines, for purposes of determining whether the designated managers have positioned their portfolios in line with CRCF's expectations for their accounts.

### **B) Style**

Stocks are traditionally classified as "Growth", "Core" or "Value". Although there are no universally accepted definitions of these terms, and as a consequence the terms can vary (sometimes substantially) from one financial institution to another, the following definitions are normally considered useful. Value stocks are stocks of companies selling at low prices in relation to company assets, sales and earnings. Growth stocks are stocks of companies prized for expected fast sales and earnings growth; often selling at high prices in relation to current company characteristics. Core stocks are stocks of companies whose characteristics fall in the middle ground between value and growth.

While CRCF realizes that "style" is a rather ambiguous concept, and that all money managers will have their distinct approaches for analyzing and categorizing securities, in order to evaluate all of its equity portfolios on a uniform basis, CRCF utilizes the Morningstar style classification system, for determining whether a stock should be classified as value, core or growth. Morningstar classifies a stock as Value, Core or Growth based upon 10 fundamental characteristics, in relation to all other stocks in its capitalization group.

Specific style parameters will be established for each designated money manager. These parameters shall be considered guidelines, for purposes of determining whether the designated money managers have positioned their portfolios in line with CRCF's expectations for their accounts.

## **(16) ACCOUNT COMPOSITION**

### **A) General**

With the exception of the portion of the portfolio that may be invested from time to time in various "alternative investments" of one form or another, all assets selected for the account shall have a readily ascertainable market value, shall be readily marketable, shall have adequate liquidity and shall be capable of being cost effectively traded. In addition, all assets selected for the account shall be publicly issued and SEC registered, as applicable.

**B) Cash**

The cash portion of the account shall be invested in the custodian's money market fund.

**C) Commingled Funds**

Although CRCF cannot dictate policy to commingled funds, it is CRCF's intent that the account should only include commingled funds that have investment policies that are substantially similar to the policies set forth in this IPS. In addition, any commingled funds purchased for the account shall be no-load (or in the event that the fund does carry a load, the load be waived) and preferably carry no 12B-1 fees.

**D) Trading Techniques**

With the exception of the portion of the portfolio that may be invested from time to time in various "alternative investments" of one form or another, the account shall be managed without the lending of any securities, the use of any short sales transactions, the use of margin or leverage in the purchase of any securities, or any other form of lending or borrowing money to increase the account's assets. These techniques may only be used with the prior written approval of CRCF.

**E) Unmanaged Assets**

While all of the designated money managers are prohibited from investing in non-marketable securities, assets not otherwise publicly traded can be received from donors and held by CRCF with the prior written approval of the Committee. Such assets include, but are not limited to, shares of stock in closely held corporations and real estate, which CRCF may sell at its discretion.

**F) Miscellaneous Restrictions**

CRCF has not established any specific restrictions other than those outlined above.

## **Part V. ADMINISTRATION**

### **(17) MONEY MANAGER COMMUNICATIONS**

**A) Meetings**

CRCF shall meet annually with representatives of each of the designated money managers, as well as whenever market conditions may warrant.

**B) Tele-Conferences**

Tele-conferences with representatives of the designated money managers, a representative of IPEX, and a representative of CRCF shall be conducted whenever deemed advisable by CRCF, IPEX or the designated money managers.

**C) Investment Reports**

The designated money managers shall simultaneously provide quarterly investment reports to both CRCF and to IPEX. These reports shall indicate the total return net of all commissions and fees; portfolio asset class weightings; current individual security positions at both cost and market value; contributions to the account and distributions from the account; and all cash transactions, including the name and quantity of each security purchased or sold during the quarter, with the price, commission and transaction date.

#### **D) Correspondence**

All mailings from the designated money managers should be sent to both CRCF and to IPEX. In addition, the money managers should copy CRCF and IPEX on all correspondence sent to the custodian or to any third party concerning the account.

### **(18) CASH FLOW**

#### **A) Liquidity**

To minimize the possibility of a loss occasioned by the forced sale of a security to meet a required payment, CRCF will periodically provide the money managers with an estimate of expected net cash flow. Specifically, CRCF should notify the money managers in a timely manner to allow sufficient time to build up the necessary liquid reserves. The managers shall be responsible for providing adequate liquidity to meet CRCF's cash flow requirements, while minimizing any adverse impact on investment performance. Other than the liquidity needed to meet the distributions designated by CRCF, the account shall have no liquidity requirement.

#### **B) Distributions**

Distributions are normally taken from the cash flow coming into the CRCF, and as such do not normally have a direct impact on invested assets.

#### **C) Contributions**

Contributions to the account are generally made on an annual basis, toward year-end, and are normally an insignificant amount in relation to the account's market value. The contributions are used to re-balance the account, and as such are allocated among the various money managers and mutual funds.

#### **D) Expenses**

Operational expenses, such as custody and money management fees, are normally paid directly out of the applicable individual sub-account. Consultant fees are paid out of the master operating account.

### **(19) BROKERAGE**

CRCF has not specified how the brokerage arrangements for this account are to be handled. As such, the designated money managers shall make the determination. It is anticipated that the designated money managers will utilize a number of different brokerage firms, based upon the quality of these firms' services, their ability to provide "best execution" and their competitive commission rate structure for accounts of this size. It shall be considered the responsibility of the designated money managers to obtain brokerage services resulting in the best execution of trades. In processing transactions for the account, the designated money managers shall comply with the "Trade Management Guidelines" issued by the CFA Institute. The designated money managers will provide CRCF and IPEX with brokerage transaction summaries outlining all transactions and the cost per transaction on a quarterly basis.

**(20) PROXIES AND REORGANIZATIONS**

The designated money managers shall be responsible for voting the proxies and for advising the custodian as to the resolution of any reorganization issues that affect any securities held in the account. The designated money managers shall vote such proxies and resolve any reorganization issues according to what they determine to be in the best interest of the account. In handling proxies all designated money managers shall act in compliance with Rule 206(4) – 6 of the Investment Advisors Act of 1940. The designated money managers shall not be required to consult with CRCF in making such decisions, and CRCF shall not otherwise be involved in this process. The managers shall keep detailed records of their proxy votes and reorganization elections and shall comply with all related regulatory obligations. The money managers shall make all records of proxy votes and reorganization elections available to CRCF upon request.

**(21) MISCELLANEOUS**

**A) Statutes and Regulations**

The account is subject to the Michigan version of the Uniform Management of Institutional Funds Act, M.C.L. 451.1201, et seq.

**B) Custodian**

Standard Federal shall serve as the custodian.

**C) Fiscal Year**

The fiscal year-end of the Foundation is December 31st.

**D) Tax Status**

CRCF is tax exempt under Section 501(c)(3) of the Internal Revenue Code.

**E) Performance Evaluation**

For purposes of performance evaluation, the account inception date shall be May 31, 2005.

**F) Amendments**

To ensure continued relevance of the objectives and parameters set forth in this IPS, CRCF plans to review this document annually. Based upon this review, changes in the investment objectives and the investment parameters may be made. Any such changes will be incorporated in a formal amendment to this IPS.

**(22) ADOPTION**

This document amends and supersedes any previous version of the Investment Policy Statement.

The following signatures affirm that this IPS has been read, understood and adopted by CRCF on the date set forth below.

ADOPTED ON THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 2005.

Capital Region Community Foundation

\_\_\_\_\_

\_\_\_\_\_

**Capital Region Community Foundation**  
**Investment Policy Statement - Exhibit "A"**

**Absolute Return Targets**

To generate, on average, over the next five years (and on five year rolling periods thereafter), an annual Gross Total Return (i.e., principal growth plus dividends and interest) of at least 8.00%.

To generate, on average, over the next five years (and on five year rolling periods thereafter), an annual Gross Total Return at least equal to 5.00% in excess of the rate of inflation, as measured by the CPI.

**Asset Class Parameters**

Asset Class	Reference Benchmark	Minimum Re-Allocation Point	Target (Strategic) Asset Allocation	Maximum Re-Allocation Point
<b>Equities</b>		65.0%	70.0%	75.0%
<b>Domestic</b>	Russell 3000 Index	42.5%		
<b>International</b>	MSCI AC World Ex US	17.5%		
<b>Alternative</b>	HFRI Fund of Funds Idx	10.0%		
<b>Fixed Income</b>	Lehman Bros. Universal	30.0%	30.0%	35.0%

**Investment Vehicle / Investment Style Parameters**

Sub-Account Investment Style	Vehicle	Primary Benchmark	Minimum Re-Allocation Point	Target (Strategic) Fund Allocation	Maximum Re-Allocation Point
<b>Equity</b>					
Large Cap	Allegiant	S&P 500 Index	17.5%	20.0%	25.0%
Large Cap	Vanguard 500 Index	S&P 500 Index	7.5%	10.0%	12.5%
Small / Mid Cap	Merrill	Russell 2500 Index	NA	10.0%	NA
Small / Mid Cap	Vanguard Ex Mkt Index	Russell 2500 Index	NA	2.5%	NA
Int. Large Cap	Julius Baer Int. Equity	MSCI EAFE Index	10.0%	12.5%	15.0%
Int. Small Cap	DFA International Sm Co	MSCI EAFE Small Cap	3.5%	5.0%	6.5%
Alternatives	Basket of Mutual Funds	HFRI Fund of Funds Index	7.5%	10.0%	12.5%
<b>Fixed Income</b>					
Invment. Grade Bonds	Munder	Lehman Bros. Aggregate	20.0%	24.0%	30.0%
High Yield Bonds	American Funds HI	Merrill Lynch High Yield Index	1.5%	3.0%	5.0%
International Bonds	Loomis Sayles Gbl Bd	Citigroup Non US World Bonds	1.5%	3.0%	5.0%

Capital Region Community Foundation

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Signature

\_\_\_\_\_  
Date