Where Local Good Grows
Hendricks County Community Foundation

Investment Policy Statement

Statement of Purpose

The purpose of the Investment Policy Statement ("Policy") is to define the Hendricks County Community Foundation's investment objectives in order to develop a strategy that will help meet investment goals. This statement is meant to clarify risk factors in order to establish guidelines consistent with the investment profile of the Hendricks County Community Foundation, Inc. ("HCCF"). Through open communication among HCCF, Investment Advisers, and Investment Managers, continuity of investment direction will be more effectively achieved.

In general, the purpose of this Policy is to outline a philosophy and attitude, which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical. It is not expected that the Policy will change frequently, but it should be reviewed no less than every three years to ensure its continued appropriateness.

HCCF will be entrusted with the investment management of its funds received from donors and with carrying out the wishes of the donors in the best interest of the community.

Scope of Policy

This Policy applies only to those assets for which the Investment Adviser and/or the Finance Committee have discretionary authority.

Investment Policies and Objectives

General Investment Philosophy

The primary objective is long-term growth of principal without undue exposure to risk, through capital appreciation, income, diversification, asset allocation, and donor development.

The focus is on consistent long-term capital appreciation, with income generation as a secondary consideration. Emphasis shall be placed on maintaining "real" growth of assets, net of inflation, spending, and fees, so that HCCF's assets will continue to grow in real dollars after meeting spending requirements.

HCCF also recognizes that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values) and the potential loss in purchasing power due to inflation are present to some degree with all types of investment vehicles. The assumption of a level of risk that is commensurate with HCCF's objectives is warranted and encouraged in order to allow the investment portfolio the opportunity to achieve satisfactory results consistent with the objectives and characteristics of the portfolio.

Return Need

HCCF seeks returns over the time horizon that are sufficient to meet spending needs, preserve and enhance the real, inflation-adjusted purchasing power of the investments, and cover operating expenses. While there cannot be complete assurance that the investment objective will be realized, it is believed that the likelihood of realization is enhanced by diversifying the investments among multiple asset classes and by selecting active investment managers that have shown an ability to outperform an applicable benchmark over the long-term time horizon.

With a goal of an annual spending rate of 5.0% of HCCF investment portfolio's market value, as well as HCCF's Administrative fees and investment expense, the long-term target return goal is at least the rate of inflation as measured by the Consumer Price Index ("CPI") plus 5.0%.

Volatility and Risk

HCCF recognizes that prudent investing requires the assumption of reasonable risk in order to increase the likelihood of achieving the desired investment performance. HCCF believes the asset allocation targets and ranges listed in Appendix A best suit its current diversification and risk requirements. It is understood that this strategy could produce an after-fee loss in a given year. It is generally understood that diversification across asset classes and within asset classes is critical to achieve a diversified portfolio.

General Investment Considerations and Constraints

- **Risk:** The Board of Directors ("Board") seeks to limit the overall level of risk commensurate with the chosen policy asset allocation.
- **Liquidity:** HCCF's investments will be primarily invested in marketable, liquid securities. Therefore, an explicit allocation to cash or cash equivalents is not needed. Up to 10% of HCCF's assets may be invested in illiquid funds subject to Finance Committee and Board approval.
- **Time Horizon:** HCCF has a long-term time horizon for investments (at least ten years). The endowment is intended to be perpetual.
- **Taxes:** HCCF is an IRS Section 501(c) 3 organization and is not subject to federal income taxes. HCCF may be subject to unrelated business income tax ("UBIT"). Consideration will be given to UBIT, but the existence of taxes will not preclude an asset class from inclusion in permissible asset classes.

Spending Policy

The Finance Committee will recommend to the Board an annual spending target percentage of the total portfolio market value in order to provide for grants and to cover operating expenses. The Board will attempt to balance short-term grant making obligations with its goal to provide grants into perpetuity, and therefore, design a spending policy that is flexible. The spending policy is detailed in the separate "Spending Policy for Endowment Funds."

The current policy states:

1. "At the December meeting of the Board of Directors, the total investment return for the Endowment Pool of assets will be reviewed for the five most recent one-year periods ending September 30th. The high and low annual rates of return will be eliminated and the remaining three years will be averaged for the adjusted 5-year average total return. This adjusted 5-year average total return will be used to compare to the maximum spending rate of 5% as follows:
    a. If the investment return is <u>more</u> than 9%, the annual spending rate will be 5%. This allows for a minimum 3% cushion for our current 2% administrative fee and 2-3% for inflation protection.
    b. If the investment return is less than 8%, the annual spending rate will be determined by the Board of Directors using various factors, including those provided by UPMIFA (Uniform Prudent Management of Institutional Funds Act). The actual amount received for interest and dividends for the most recent one-year period ending September 30th will be used as a guide when determining the actual spending rate.
    c. If the total value of the fund is less than 70% of the Principal Fund Balance (cumulative value of gifts made to the fund), there will be no grant distributions from the fund until the balance recovers to at least more than 70% of the Principal Fund Balance.
    d. Funds that have been held for less than one calendar year will be limited to no more than interest and dividends earned during the pro-rated period ending September 30th.
    e. Unusual market conditions during the 4th quarter of any given year (after September 30th) may cause the Board of Directors to make adjustments to the Spending Rate, as deemed prudent and responsible at the time the decision is made.
2. The base period market value used for each fund to determine the amount of grant distributions will be the 12-quarter moving average as of September 30th which will help to smooth distributions over time."

Policy Asset Allocation

The asset allocation shall be determined by the Finance Committee from time to time. The Finance Committee shall review asset allocation at least annually. The Investment Adviser will provide a report to the Finance Committee on a quarterly basis, which will include a summary of the asset allocation. Asset allocation targets in effect at the time of adoption of this Policy are shown in <u>Appendix A</u> attached hereto.

The Board of Directors has delegated to the Finance Committee authority to establish and adjust from time to time the asset allocation targets for various categories of investments. Following any adjustment of the targets, an updated version of <u>Appendix A</u> shall be attached to this Policy.

The Finance Committee shall report, as practicable, adjustments in asset allocation targets to the Board of Directors at the Board meeting following any adjustment. Minutes of meetings of the Finance Committee shall be included, as practicable, with other meeting materials. Such distribution of minutes shall suffice as a means of reporting any adjustments reflected in the minutes.

In the event the Finance Committee believes the investment allocation should not be maintained within the approved policy ranges, the Finance Committee will notify the Board to request approval to deviate from the asset allocation adopted as part of this Policy.

Permissible Asset Classes

The Policy allows a wide range of asset classes, including equities, fixed income, cash and cash equivalents, real assets (mutual funds that invest in commodities, natural resources, and real estate, among others), and asset allocation funds (liquid funds that may allocate among various asset classes, including hedge funds).

Permitted investments may include mutual funds, exchange traded funds, and separately managed accounts.

A direct investment in hedge funds, fund of hedge funds, or private equity funds is not permitted without prior approval by the Board of Directors.

The use of real estate (excluding REITs), unlisted partnerships, and venture capital are not permitted.

Derivatives are permitted investments only for mutual fund investment managers if the Investment Adviser finds the mutual fund investment manager has demonstrated skill in effectively utilizing these instruments. Derivatives can only be used to replicate an approved investment strategy or to hedge risk. Derivatives may not be used for speculative purposes.

An Investment Adviser or a member of the Board or Finance Committee may not enter into any derivative contracts.

Investment Manager Guidelines

General: In addition to being diversified across asset classes, HCCF's assets managed by any single fund or separately managed account should not exceed 15% of the market value of the investment portfolio, except for an asset allocation fund that is diversified across various funds, asset classes, and securities, which shall be limited to 25% of the investment portfolio.

HCCF recognizes the difficulty in placing limitations on outside Investment Managers for socially responsible investment purposes. This Policy does not expressly prohibit investments in specific companies, industries, economic sectors, or geographies due to social responsibility or moral beliefs.

The Board recognizes that guidelines and constraints on portfolio management cannot be placed on certain investments, such as mutual funds and partnerships (i.e., pooled investments). It is the Investment Adviser's responsibility to recommend investments and Investment Managers that have a philosophy that is consistent with this Policy. It is understood that mutual funds are managed subject to their prospectus.

The following subsections represent the broad investment guidelines that are expected to be in place for all separately managed assets within the investment portfolio. It is expected that the individual Investment

Managers used within each asset class will comply with these guidelines. The Finance Committee may, at its discretion, approve Investment Manager guidelines for individual managers that differ from the asset class guidelines depending on the Investment Manager's investment strategy and the role that the strategy is expected to play within the broader investment portfolio.

The following guidelines do not apply to assets invested in mutual funds, or pooled funds, where the Investment Manager is not able to construct a separate, discretionary account on behalf of HCCF.

U.S. Equity: The purpose of the U. S. equity allocation is to provide for capital appreciation over the long-term. Investment Guidelines:

- The equities allocation shall be readily marketable and well diversified across securities, industries, sectors, capitalization and styles.
- There shall be no short-selling.
- Derivatives may not be used.
- If the equity holding in any one company exceeds 10% of the market value of the portfolio value being managed, then the Investment Adviser must provide written communication to the Finance Committee.

Non-U.S. Equity: The purpose of the non-U.S. equity allocation is to provide for capital appreciation over the long-term.

Investment Guidelines:

- The non-U.S. equity allocation shall be readily marketable and well diversified among developed and emerging market countries, geographic regions, industries and currencies.
- There shall be no short-selling.
- Derivatives may not be used.
- If the equity holding in any one company exceeds 10% of the market value of the portfolio value being managed, then the Investment Adviser must provide written communication to the Finance Committee.

Fixed Income: The purpose of the fixed income allocation is to provide stable current income and diversification of equity risk.

Investment Guidelines:

- For fixed income separate accounts, an investment-grade (or core) fixed income manager's portfolio must have an overall weighted average credit rating of "A3" or better by Moody's and "A-" by Standard & Poor's rating services and shall not acquire any bond investment below investment-grade (Baa3/BBB-). In the event that an investment-grade fixed income manager's bond instrument is downgraded below investment-grade, the Investment Adviser shall be notified as soon as possible, but no later than three business days. The Investment Adviser shall notify the Finance Committee in writing within two business days of notification from the fixed income manager with a recommendation to continue to hold the security or sell the security.
- Except for fixed income securities issued by the U.S. government and its agencies, the maximum exposure to any one fixed income issuer shall not exceed 5.0% of the investment portfolio being managed by a separate account fixed income manager.

- This Policy permits investments in below investment grade fixed income securities, and Investment Managers that invest in below investment-grade income securities, as approved by the Finance Committee. Exposure to below investment-grade fixed income securities may not exceed 5% of the total investment portfolio.
- Investments in certificates of deposit are permitted, and exposure to a single issuer must be below the FDIC-insured limit, which is currently $250,000.
- Derivatives may not be used.

Investment Rebalancing

The asset allocation of HCCF's assets will be maintained within the target ranges set forth in Appendix A. Rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the policy ranges. Cash additions and withdrawals shall be allocated across portfolios to bring the asset mix within the target allocation ranges. If the asset allocation cannot be maintained within the policy limits through cash additions or withdrawals, assets shall be shifted across investment management portfolios to restore the portfolio to approved policy target ranges. In the event the Finance Committee believes the investment allocation should not be maintained within the approved policy ranges, the Finance Committee will notify the Board to request approval to deviate from the asset allocation adopted as part of this Policy.

The Investment Adviser will be responsible for reviewing the asset allocation on an ongoing basis, and alerting the Finance Committee when it is necessary to rebalance the portfolio as necessary to conform to the Policy. Rebalancing will be considered by the Investment Adviser on a quarterly basis with the completion of the performance evaluation reports.

Investment Manager Selection and Ongoing Monitoring

Manager Selection

The Board of Directors has delegated to the Finance Committee the responsibility to select Investment Managers upon the recommendation of the Investment Adviser. In selecting an Investment Manager, the Investment Adviser will make assessments of how the Investment Manager will fit into the existing investment portfolio and in a particular asset class or sub-asset class. This assessment is based on many factors, including but not limited to the following:

- Demonstrated ability to meet investment objectives;
- Sufficient organizational depth and continuity of investment professionals;
- Consistency of investment strategy and risk adjusted results;
- Historical up and down capture ratios;
- Confidence that past track record can be repeated in the future;
- Adequate reporting, administration and back-office support; and
- Fee structure.

Ongoing Monitoring

All Investment Managers will be evaluated based on a number of quantitative and qualitative factors. Such factors include, but will not be limited to: total return over time versus appropriate benchmarks and peer managers or investment universe; volatility (standard deviation); consistency and predictability of investment style; stability of key personnel; and overall performance over a market cycle.

Additional review will be performed by the Investment Adviser with consideration for possible termination of the Investment Manager for the following:

- Investment Managers with negative alpha for 3 and/or 5 year time periods;
- Investment Managers which perform below the median (50th percentile) of their peer group/investment universe over a 3-year period;
- Investment Managers that consistently perform below their applicable benchmark over multiple annual periods; and
- Investment Managers that undergo material organizational changes, including change in ownership, change in professionals, or evidence of wrongdoing.

The performance of the Investment Managers will be monitored on an ongoing basis by the Investment Adviser, and analysis and/or recommendations will be provided to the Finance Committee as deemed appropriate. The Finance Committee and Investment Adviser shall agree on appropriate benchmarks for each Investment Manager and/or asset class.

Delegation of Responsibilities

Board of Directors and Delegation to Finance Committee

The Board of Directors is ultimately responsible for the overall stewardship of HCCF's assets, having ultimate responsibility for the preservation of assets and returns. It is responsible for establishing appropriate investment policies and for seeing that those policies are effectively implemented. The Board shall discharge its duties solely in the interest of HCCF, with the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent man, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Under the current system of governance, the Board has delegated to the Finance Committee the authority to develop the Policy and to oversee HCCF's investments on their behalf.

The Finance Committee has authority to select and terminate Investment Managers and adjust the asset allocation targets for various categories of investments (subject to the approved allowable ranges within this Policy).

The Finance Committee shall report all significant findings, actions and recommendations to the Board at the next scheduled Board Meeting.

In the event the Finance Committee believes the investment allocation should not be maintained within the approved policy ranges, the Finance Committee will notify the Board to request approval to modify the desired asset allocation.

Finance Committee

The Finance Committee has the authority to ensure that the investment portfolio is managed in a manner that is consistent with the policies and objectives of HCCF.

The Finance Committee is authorized to engage the services of Investment Managers who possess the necessary specialized capabilities and skill to meet the investment objectives and guidelines of HCCF, as well as terminate the services of Investment Managers.

The Finance Committee may engage the services of Investment Advisers, and terminate the services of Investment Advisers, subject to approval by the Board.

The Finance Committee's responsibilities for the investment portfolio include, but are not limited to:

1. Developing and recommending to the Board of Directors investment objectives that are consistent with the financial needs of HCCF;
2. Developing and implementing a policy for asset allocation consistent with HCCF’s investment objectives;
3. Selecting, and terminating if necessary, Investment Managers;
4. Providing the Investment Adviser all relevant information on financial condition, liability structure, risk tolerances and changes to the current business plan that would affect the investment portfolio; and
5. Reviewing and evaluating investment results in the context of predetermined performance standards and benchmarks.

Investment Adviser

The Board of Directors and/or Finance Committee shall engage an Investment Adviser to assist them with its responsibilities for the assets of HCCF. The Investment Adviser is expected to be proactive in their recommendations with respect to investment strategy, asset allocation, and investment managers. The Investment Adviser's responsibilities will include:

1. Assisting in the development of investment policies, objectives, and guidelines;
2. Preparing asset allocation analyses as necessary and recommending asset allocation strategies consistent with HCCF’s objectives;
3. Recommending, evaluating, and monitoring investment managers (including manager search and selection);
4. Preparing and presenting performance evaluation reports on a quarterly basis;
5. Attending the Board and/or Finance Committee meetings as requested in the performance of their services;

6. Providing independent and unbiased information;
7. Notifying the Finance Committee of any conflicts of interest, or potential conflicts of interest;
8. Providing research on specific issues and opportunities, and assisting the Finance Committee in special tasks;
9. Assisting in the rebalancing of the investment portfolio;
10. Communicating investment policies and objectives to the Investment Managers, monitoring their adherence to such policies, and reporting all violations;
11. Notifying the Finance Committee of any significant changes in personnel or ownership of the Investment Adviser;
12. Notifying the Finance Committee of any changes in Investment Managers, or in ownership of any Investment Manager, or significant changes of personnel;
13. Notifying the Finance Committee of any known non-compliance of applicable laws, rules and/or regulations by the Investment Managers;
14. Overall, being proactive with the Finance Committee in the management of the investment portfolio; and
15. Any other responsibilities or services enumerated in a contract entered into between HCCF and the Investment Adviser.

Investment Managers

For separately managed assets (i.e., excluding mutual funds and pooled investment funds), the Investment Managers' responsibilities with respect to assets under their management will include:

1. Investing assets under their management in accordance with this Policy and any contractually agreed upon guidelines and restrictions;
2. Exercising complete investment discretion over the assets entrusted to them, subject to this Policy and any contractually agreed upon guidelines and restrictions;
3. Providing written documentation to the Investment Adviser of activity, valuations, performance data, and asset characteristics for assets under their management, within a timely manner customary for their asset class, including the timely delivery of K-1's or other documentation as required by IRS Regulations;
4. Providing other information in a timely manner relating to the account as requested by the Finance Committee or Investment Adviser;
5. Voting proxies for the assets under management in the best interest of HCCF;
6. Monitoring portfolio activity daily to minimize uninvested cash balances;
7. Be and remain registered under the Investment Advisers Act of 1940, as amended, unless exempted from registration by the SEC;
8. Use the same care, skill, prudence and due diligence under the circumstances then prevailing that experienced professionals acting in a like capacity and fully familiar with such matters would use in like activities, for like organizations, with like aims, in accordance and in compliance with all applicable laws, rules and regulations, including those of the State of Indiana;
9. Communicating all significant changes pertaining to the Investment Manager, including, but not limited to, changes in financial condition, ownership, or professional staff responsible for performing services for HCCF or commencement of any material litigation; and

10. Any other responsibilities or services enumerated in a contract entered into between HCCF and the Investment Manager.

Other

Conflicts of Interest

All persons responsible for investment decisions or who are involved in the management of HCCF's assets or who are consulting to, or providing any advice whatsoever to the Finance Committee, shall disclose at the beginning of any discussion or consideration by the Finance 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 Finance Committee may require such persons to remove themselves from the decision-making process. The intent of this provision is to eliminate conflicts of interest between the Finance Committee and the investment objectives for HCCF. In addition, all persons responsible for investment decisions (i.e., Board, Finance Committee, Investment Adviser, and Investment Managers) shall promptly disclose a potential duality or conflict of interest which occurs subsequent to the creation of the relationship with HCCF.

Amendment

This Policy may be amended, supplemented or rescinded at any time upon the approval of the Board of Directors. This Policy shall be reviewed by the Investment Adviser and the Finance Committee at least once every three years for potential modifications and enhancements.

Execution of Security Trades

The Board of Directors expects the purchase and sale of its securities to be made in a manner designed to receive the combination of best price and execution. HCCF recognizes that mutual fund shares are purchased and sold at the net asset value next determined after receipt of the order, and that accordingly, best price and execution may not be applicable to such transactions.

Appendix A:
Policy Asset Allocation

Asset Class	Target Allocation	Allowable Ranges
Equity:		
U.S. Equity	**30.0%**	**20.0% - 50.0%**
Non-U.S. Equity	**20.0%**	**5.0% - 40.0%**
Total Equity	**50.0%**	**25.0% - 60.0%**
Real Assets	**10.0%**	**0.0% - 20.0%**
Asset Allocation	**15.0%**	**0.0% - 30.0%**
Fixed Income	**25.0%**	**15.0% - 50.0%**

Cash and cash equivalent levels may be maintained as deemed appropriate by the Board of Directors and/or Finance Committee to meet liquidity and spending requirements.

Asset Class Summary

U.S. Equity – Portfolios are expected to focus on investments in the U.S. equity market.

Non-U.S. Equity – Portfolios are expected to focus on the world's developed and developing/emerging markets.

Real Assets – Investments include, but are not limited to, liquid funds that invest in real estate, oil & gas, timber, commodities, and natural resources.

Asset Allocation – Strategies may include investments in balanced funds (i.e., funds that invest in equities, fixed income, and other asset classes). Investments in liquid funds that allocate among various asset classes including hedge funds are permitted, subject to approval by the Finance Committee.

Fixed Income – Investments in both U.S. and non-U.S. fixed income securities are included in fixed income (including investment-grade and below investment-grade fixed income securities). Treasury Inflation Protected Securities ("TIPS") are included in the Fixed Income category.