

# Investment Policy Statement

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# Introduction

The Investment Policy Statement was adopted by the Hendricks County Community Foundation, Inc. (“HCCF”) to direct the prudent investment of its assets. The purpose of the Investment Policy Statement (the “IPS” or “Policy”) is to define the HCCF’s investment objectives in order to develop a strategy that will help meet investment goals. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical. HCCF is 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.

This IPS is intended to:

- Define the investment assets to be governed by the IPS and allocation of duties among the Board, Finance Committee, Investment Consultant(s), and others with respect to such assets;
- Establish reasonable objectives for return and risk expectations that incorporate the following constraints: current time horizon; liquidity constraints; and any other unique circumstances regarding the assets;
- Establish appropriate target allocations and parameters around security types and asset classes;
- Establish appropriate benchmarks for the evaluation of investment performance and risk management;
- Establish expectations for investment and money managers, securities guidelines, and for the monitoring of selected managers;
- Encourage effective communication between all parties involved in the oversight, management and operation of the investment; and,
- Establish expectations of communication and reporting by the Investment Consultant(s) to the Board and the Finance Committee.

It is not expected that the Policy will change frequently, but it should be reviewed periodically, typically annually, to ensure its continued appropriateness.

## **Fiduciary Duty**

In seeking to attain the investment objectives set forth in the policy, the members of the HCCF Board and Finance Committee must guide with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. All investment actions and decisions, executed by staff and guided by this IPS, must be based solely in the interest of the Foundation. Fiduciaries must provide full and fair disclosure to the Finance Committee of all material facts regarding any potential conflicts of interests. Any actual or potential conflicts of interest possessed by a member of the HCCF Board or Finance Committee must be disclosed and resolved pursuant to HCCF’s Conflict of Interest Policy.

## **Scope of Policy**

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

# Delegation of Authority and Responsibilities

## Board of Directors

The Board of Directors is ultimately responsible for the overall stewardship of HCCF's assets, ensuring the prudent investment and management of assets. 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 Board has the authority to approve or reject an Investment Policy Statement developed by the Finance Committee. Once the Investment Policy Statement has been approved by the Board, the Board shall authorize the Finance Committee to implement the Investment Policy Statement. At least annually, the Finance Committee, possibly with the help of the Investment Consultant, shall present to the Board a performance report.

## Finance Committee

The Finance Committee has several responsibilities, including developing and implementing the Investment Policy (see the current *Committee Charge – Finance Committee* for full responsibilities). This responsibility includes approving investment strategy, recommending to the Board the selection of the Investment Consultant(s), establishing the scope and terms of the delegation of the investment management of assets, and monitoring the Consultant's performance and compliance with the scope and terms of the delegation.

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

- Developing and recommending to the Board of Directors investment objectives that are consistent with the financial needs of HCCF;
- Developing and implementing a policy for asset allocation consistent with HCCF's investment objectives;
- Assessing and recommending to the Board the Investment Consultant(s);
- Providing the Investment Consultant all relevant information on financial condition, liability structure, risk tolerances and changes to the current business plan that would affect the investment portfolio; and
- Reviewing and evaluating investment results in the context of predetermined performance standards and benchmarks.

## President & CEO, Board Chair, Treasurer, or Secretary of HCCF

The Officers of HCCF shall sign all appropriate contracts, open accounts, and give any other authorizations needed to implement the terms of this Policy. The President & CEO has daily responsibility for administration of the portfolio and will consult with the Finance Committee and Board on all material matters relating to the investment of the portfolio. The President will serve as the primary contact for HCCF's Investment Consultant(s), Investment Managers, and Custodian (if any).

## **Investment Consultant(s)**

The Board of Directors, upon recommendation from the Finance Committee, shall engage one or more Investment Consultant(s) to assist with its responsibilities for the assets of HCCF. The Investment Consultant(s) is expected to be proactive in their recommendations with respect to investment strategy and asset allocation. The Investment Consultant's responsibilities will include, but are not limited to:

- Assisting in the development of investment policies, objectives, and guidelines;
- Preparing asset allocation analyses as necessary and recommending asset allocation strategies consistent with HCCF's objectives;
- Selecting, evaluating, monitoring, and terminating if necessary, investment managers;
- Preparing and presenting performance evaluation reports on a quarterly basis;
- Attending the Board and/or Finance Committee meetings as requested in the performance of their services;
- Providing independent and unbiased information;
- Notifying the Finance Committee of any conflicts of interest, or potential conflicts of interest;
- Providing research on specific issues and opportunities, and assisting the Finance Committee in special tasks;
- Rebalancing of the investment portfolio when policy guidelines are triggered;
- Communicating investment policies and objectives to the Investment Managers, monitoring their adherence to such policies, and reporting all violations;
- Notifying the Finance Committee of any significant changes in personnel or ownership of the Investment Consultant;
- Notifying the Finance Committee of any changes in Investment Managers, or in ownership of any Investment Manager, or significant changes of personnel;
- Notifying the Finance Committee of any known non-compliance of applicable laws, rules and/or regulations by the Investment Managers;
- Overall, being proactive with the Finance Committee in the management of the investment portfolio; and
- Any other responsibilities or services enumerated in a contract entered into between HCCF and the Investment Consultant.

The Consultant shall supervise and direct the investment of the Fund as specified in this Policy Statement. Supervision is continuous, with limited discretion. Limited discretion means that the Consultant is responsible for all decisions regarding strategic rebalancing, manager search and selection, and manager termination and replacement. The Consultant will report in a timely fashion any action taken in these areas to the Finance Committee.

## **Investment Managers**

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 Consultant'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 Description of Selected Styles in Appendix C 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.

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:

- Investing assets under their management in accordance with this Policy and any contractually agreed upon guidelines and restrictions;
- Exercising complete investment discretion over the assets entrusted to them, subject to this Policy and any contractually agreed upon guidelines and restrictions;
- Providing written documentation to the Investment Consultant 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;
- Providing other information in a timely manner relating to the account as requested by the Finance Committee or Investment Consultant;
- Voting proxies for the assets under management in the best interest of HCCF;
- Monitoring portfolio activity daily to minimize uninvested cash balances;
- Be and remain registered under the Investment Consultants Act of 1940, as amended, unless exempted from registration by the SEC;
- 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;
- 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
- Any other responsibilities or services enumerated in a contract entered into between HCCF and the Investment Manager.

## **Custodian (if applicable)**

If separate from the Investment Consultant(s), the Custodian is an integral part of managing and overseeing HCF's portfolio. Open communications with HCCF, its Investment Consultant(s) and Investment Managers (if needed) will ensure accurate and timely reporting, and may provide early detection of any unexpected compliance or reporting problems. In the absence of an outside Custodian, the Investment Consultant(s) shall fulfill these responsibilities.

The Custodian shall:

- Provide monthly transaction reports no later than the tenth business day following month end, and monthly asset reports no later than the tenth business day following month end.
- Provide the Foundation, its Investment Consultant(s) and Investment Managers (where applicable) special reports as reasonably requested; and
- Communicate immediately any concerns regarding portfolio transactions or valuation, or material changes in trustee personnel or procedures.
- Provide a copy of its SAS 70 report to the committee annually.
- Provide the Investment Committee with a consolidated performance report for the entire portfolio on a quarterly basis.

## **Outside Advisors**

HCCF allows investment advisors to manage investments outside the pooled investments of the organization for clients who wish to make endowed/permanent gifts for the benefit of the Foundation. The investment advisor is required to invest according to the Investment Policy Statement of the Foundation or a separate Investment Policy Statement approved by the Foundation specific to the outside portfolio. Further details can be found in Appendix D.

# Objectives and Policy Implementation

## General Investment Objectives

The primary objective is long-term growth of principal without undue exposure to risk, through capital appreciation, income, diversification, asset allocation, and donor development. 12-2022

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 that are sufficient to preserve and increase the real, inflation-adjusted value of the investments, to meet spending needs for grantmaking, and cover operating expenses through investment and HCCF Administrative Fees. 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.

## 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 B](#) 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 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 total portfolio assets may be invested in illiquid funds subject to Finance Committee 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 Rate, a percentage of the total portfolio market value in order to provide for grants. The Board will attempt to balance short-term grantmaking obligations with its goal to provide grants into perpetuity, and therefore, design a spending policy that is flexible. The general goal is to release up to 5% of the value of endowed funds for grantmaking in any year, with the recommendation on the Spending Rate subject to a look back of investment performance to inform the recommendation. The spending policy is detailed in the separate *Spending Policy for Endowment Funds*.

### **Policy Asset Allocation**

The asset allocation shall be approved by the Finance Committee from time to time. The Finance Committee shall review asset allocation at least annually. The Investment Consultant 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 Appendix B 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 Appendix B 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.

### **Investment Rebalancing**

The asset allocation of HCCF's assets will be maintained within the target ranges set forth in Appendix B. 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 Consultant will be responsible for reviewing the asset allocation on an ongoing basis, and rebalancing the portfolio as necessary to conform to the Policy.

### **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 Consultant, and Investment Managers) shall promptly disclose a potential duality or conflict of interest which occurs subsequent to the creation of the relationship with HCCF.

### **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.

### **Cash Management Policy**

From time to time the Foundation 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 or cash alternatives such as bank deposit accounts 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 may be employed to further manage interest rate risk.

### **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 Consultant and the Finance Committee periodically, typically annually, 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.

# Investment Manager Selection, Ongoing Monitoring and Due Diligence

## Manager Selection

The Consultant has the responsibility for selecting investment managers. The Consultant's intent is to follow a process that embodies the principles of procedural due diligence. Accordingly, when selecting investment managers, the Consultant will:

- Retain a "prudent expert" (a bank, insurance company, or investment advisor as defined by the Registered Investment Advisors Act of 1940).
- Evaluate criteria specific to the mandate being sought. Such criteria may include, but is not limited to:
  - Investment manager strategy and approach
  - Organizational structure
  - Minimum and maximum assets under management
  - Client servicing capabilities
  - Performance criteria relative to an appropriate index and peer group, where appropriate
  - Sufficient length of track record
  - Capacity in the appropriate vehicle
  - Appropriate diversification (number of holdings, sector and industry weightings, etc.)
  - Initial lockup and redemption provisions, where appropriate
  - Fund transparency (confidentiality agreements may be necessary)
  - Fees and alignment of economic interests (including seeking funds with no front-end sales charges or 12b-1 charges)
- Follow a due-diligence process so as to avoid selecting investment managers on an ad-hoc basis. The due diligence process should involve analyzing investment manager candidates in terms of certain:
  - **Qualitative Characteristics**, such as key personnel, investment philosophy, investment strategy, research orientation, decision-making process, and risk controls.
  - **Quantitative Characteristics**, such as GIPS-compliant composite return data, investment performance over multiple time periods, performance volatility, risk-adjusted rates of return (e.g., Sharpe Ratios), and certain portfolio characteristics.

## Ongoing Monitoring

Monitoring of Investment Managers is a three-step process, outlined below:

### Step 1 – On-Going Monitoring

The Consultant will perform a constant and on-going analysis of all Fund Managers. In addition to reviewing quarterly investment performance, the Consultant will continually evaluate:

- The Manager's adherence to the IPS guidelines
- Material changes in the Manager's organization, investment philosophy and/or personnel

- The volatility of the investment rates of return of the Manager compared to the volatility of an appropriate market index and peer group (as listed in Appendix C)
- Comparisons of the Manager's results to appropriate indices and peer groups (as listed in Appendix C).

If appropriate market indices and/or peer groups are not available, the Consultant will evaluate factors such as the Manager's adherence to stated risk and return objectives and the Manager's portfolio exposures in relation to the market environment and stated philosophy and process.

## Step 2 – Formal Watchlist

If the Consultant determines that any of the above factors, or any other development regarding the Manager's performance or organization, warrants a more thorough examination, the Consultant will place the Manager on a formal "watchlist". Factors examined during the watchlist period include, but are not limited to, the following:

- Extraordinary Events (Organizational Issues)
  - Change in ownership (e.g., key people "cash out")
  - Change in professionals
  - Changes to a Manager's philosophy or the process it uses to implement the agreed upon strategy
  - Manager is involved in material litigation or fraud
  - Client-servicing problems
  - Significant account losses or significant account growth
  - Change in cost
  - Change in financial condition
  - Extreme performance volatility

- Long-Term Performance in Relation to Appropriate Market Index, Market Environment, or Stated Goals and Objectives

Long-term performance standards measure a Manager's performance over rolling five-year returns or since inception in relation to the appropriate market index.

- Shorter-Term Performance in Relation to Appropriate "Style Group," Market Environment, or Stated Goals and Objectives

Shorter-term performance standards incorporate a time period of at least three years. Each Manager is expected to consistently perform in the top 50th percentile versus an appropriate peer group of investment managers with similar investment styles. Additionally, each Manager is expected to demonstrate favorable cumulative and rolling three-year risk-adjusted performance compared to its peer group. If appropriate peer groups are not available, the money manager's adherence to stated risk and return objectives and the money manager's portfolio exposures in relation to the market environment and stated philosophy and process will be evaluated. Risk-adjusted performance measures will vary, but may include: Sharpe Ratio, Downside Risk, Information Ratio, and/or Relative Standard Deviation.

## Step 3 – Replace or Retain

The watchlist period will generally be four quarters, but the time period can be shorter or longer depending on the factors causing the watchlist.

As a result of the watchlisting examination of the Manager, a recommendation to either replace or retain the Manager will be made.

It is at the Consultant's discretion to take corrective action by replacing a Manager, if it deems it appropriate, at any time. The watchlist is not the only route for removing an existing Manager. The aforementioned events, or any other events of concern, may prompt the immediate removal of a Manager without it being watchlisted.

### **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. These benchmarks are described in Appendix C.

The foregoing Investment Policy Statement has been approved:

Signatures:

Hendricks County Community Foundation, Inc.:

By: \_\_\_\_\_  
Board Chair

\_\_\_\_\_  
Date

By: \_\_\_\_\_  
Treasurer

\_\_\_\_\_  
Date

By: \_\_\_\_\_  
President & CEO

\_\_\_\_\_  
Date

Investment Advisor:

By: \_\_\_\_\_  
Name and title

\_\_\_\_\_  
Date

## **Appendix A: Key Information**

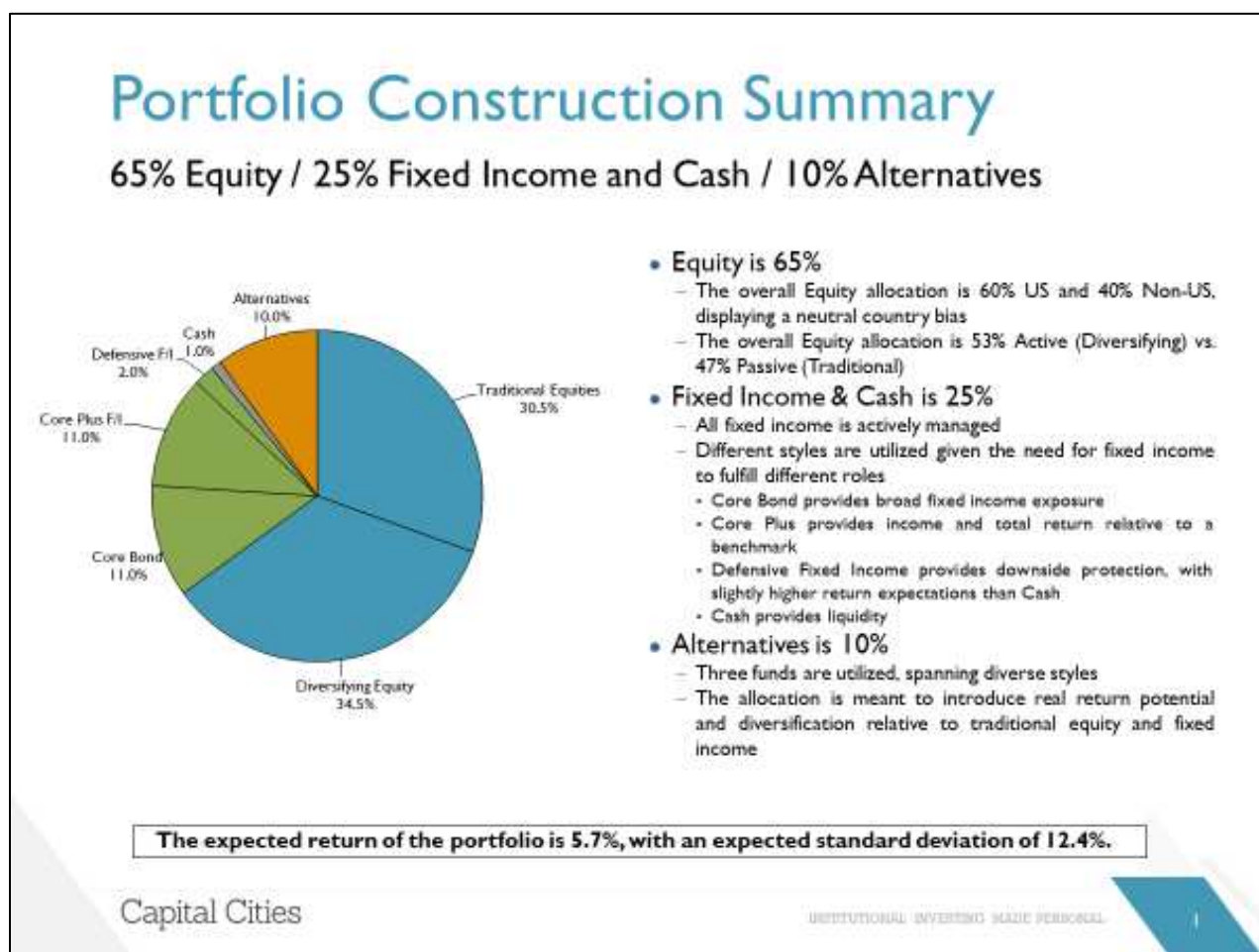
### **Key Information:**

<b>Name of Fund:</b>	Hendricks County Community Foundation, Inc.	
<b>Type of Fund/Tax Status:</b>	Foundation/Tax-Exempt Organization	
<b>EIN:</b>	35-1878973	
<b>Endowment pool of invested assets:</b>	\$12,736,961 (as of September 30, 2022)	
<b>Planning Time Horizon:</b>	Greater than 5 years	
<b>Custodian:</b>	Charles Schwab	(800)-515-2157
<b>Investment Consultant:</b>	Capital Cities	(317) 475-4500

## Appendix B: Asset Allocation Study / Spending Study

During the December 17, 2020 meeting, the Board reviewed the Fund’s strategic asset allocation. The discussion centered on the long-term objectives and risk tolerance of the Foundation, in light of the current market environment. Given the Foundation’s long-term perspective, the Board is willing to experience shorter-term periods of underperformance and volatility, with the goal that longer-term periods will offer real returns in excess of the Foundation’s needs. In addition, the Board recognizes the need for diversification; therefore, the Board has elected to utilize a mix of Equity, Fixed Income and Alternatives investments. Through this review and discussion, the Board arrived at the asset allocation below. The Board will continue to review the portfolio construction and make adjustments as deemed necessary.

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%. This return shall be assessed with an average of returns over twenty rolling quarters.



**Appendix B (cont.):  
Manager Structure Analysis and Rebalancing Guidelines**

<u>Permissible Style Parameters</u>	<u>Target Percentage</u>	<u>Rebalancing vs. Target Asset Class</u>
<b>Equities:</b> Broad US Equity Global ex-US Equity	<b>65%</b> 39% 26%	<b>+/- 5%</b>
<b>Fixed Income:</b> Broad Fixed Income Defensive Fixed Income Cash	<b>25%</b> 22% 2% 1%	<b>+/- 5%</b>
<b>Alternatives</b> Diversifying Assets	<b>10%</b> 10%	<b>+/- 5%</b>
<b>100%</b>		

## **Appendix C: Description of Selected Styles:**

**Total Domestic Equity Index:** Total Domestic Equity Index Style managers hold portfolios with characteristics similar to those of the broader U.S. market.

**Total International Equity Index:** Total International Equity Index Style managers hold portfolios with characteristics similar to those of the broader Non-U.S. market.

**Diversifying Equity:** Diversifying equity managers have the ability to capitalize on their views of the stock market as they relate to capitalization, style and sector/industry without the constraints of a benchmark, thus allowing for added diversification and return, though with a focus on downside protection and/or alpha generation.

**Diversifying Fixed Income:** Diversifying fixed income managers do not construct portfolios based on a given benchmark, thus have the ultimate flexibility to adjust the exposures of the funds (duration/yield curve, quality, country and currency positioning, sector allocations) to reflect their views on the market's opportunities and risks.

**Core Bond:** Core Bond managers construct portfolios to approximate the investment results of the Government/Credit Bond Index or the Bloomberg Aggregate Bond Index with a modest amount of variability in duration around the index. The objective is to achieve value added from sector and/or issue selection.

**Core Plus Fixed Income:** Core Plus Fixed Income managers construct portfolios to approximate the investment results of the Bloomberg Aggregate Bond Index with a modest amount of variability in duration around the index. The objective is to achieve value added from sector and/or issue selection.

**Defensive Fixed Income:** Defensive Fixed Income managers construct portfolios to approximate the investment results of the Bloomberg 1-3 year Government/Credit Index with a modest amount of variability in duration around the index. The objective is to achieve value added from sector and/or issue selection.

**Diversifying Assets/Alternatives:** Diversifying Assets/Alternative investing strategies provide managers the flexibility to dynamically allocate across asset classes, geographies, and exposures to potentially produce the best absolute return possible regardless of market direction.

**Cash and Equivalents/Liquidity:** This style generally consists of open-end mutual funds or short-term investment funds that invest in low-risk, highly liquid, short-term financial instruments and whose net asset value is kept stable. The average portfolio maturity is 30 to 60 days.

## Appendix C (cont.): Selected Managers and Relevant Benchmarks/Peer Groups

Style	Manager	Benchmark	Peer Group
Passive Domestic Equity	Schwab S&P 500 Index	S&P 500 Index	
Diversifying Equity - Domestic	GMO Quality	Russell 1000 Index	Large Cap Mutual Funds
Diversifying Equity - Domestic	Prospector Opportunity	Russell 2500 Value Index	SMID Cap Value Mutual Funds
Diversifying Equity - Domestic	Wasatch Ultra Growth	Russell 2000 Growth Index	Small Cap Growth Mutual Funds
Passive International	iShares MSCI EAFE International Index	MSCI EAFE Index (Net)	
Diversifying Equity - Int'l	AQR International Defensive Style	MSCI ACWI ex USA Index (Net)	Non-US Equity Mutual Funds
Diversifying Equity - Int'l	Grandeur Peak International Opportunities	MSCI ACWI Ex USA SMID Index (Net)	Non-US Small Cap Mutual Funds
Diversifying Equity - Int'l	GQG Partners Emerging Markets Equity	MSCI Emerging Markets Index (Net)	Emerging Markets Mutual Funds
Core Bond	Johnson Core Bond	BB Aggregate Bond Index	Core Bond Mutual Funds
Core Plus Bond	I209 Diversified Bond (Brandywine Subadvised)	BB Aggregate Bond Index	Core Plus Bond Mutual Funds
Short-Term Bond	Baird Short-Term Bond	BB 1-3 yr Gov/Credit Bond Index	Short-Term Bond Mutual Funds
Cash	Schwab Gov Money Market	90 Day T-Bill	Cash Mutual Funds
Alternatives	Lazard Global Listed Infrastructure	MSCI World Core Infrastructure Index	
Alternatives	Lighthouse North Rock Fund	HFRX Equity Hedge Index	Absolute Return Funds
Alternatives	Cliffwater Corporate Lending Fund	Morningstar LSTA US Leveraged Loan 100 B/BB	

### Evaluation Benchmark:

Total Return to be compared to the performance of a weighted index of:

- 39% Russell 3000 Index
- 26% MSCI ACWI ex USA IMI Index (Net)
- 22% BB Aggregate Bond Index
- 2% BB Gov't/Credit Index
- 1% 90 Day T-Bill
- 3.3% MSCI World Core Infrastructure Index
- 3.3% HFRX Equity Hedge Index
- 3.3% Morningstar LSTA US Leveraged Loan 100 B/BB

## **Appendix D: Outside Advised Funds**

As stated in HCCF's current Gift Acceptance Policies and Procedures, the Community Foundation allows separate investment for some specific assets. Policy 19 from the document states;

"All right, title, and interest to the assets of donations are irrevocably relinquished by donors. As such, gifts may contain no material restriction that would prevent the funds from being considered as component funds of HCCF pursuant to federal law. HCCF has ownership and control of all assets. In certain cases approved by HCCF such as donor advised funds, donors may advise on investments of their gifts but otherwise relinquish the right to choose investments and investment advisors. HCCF will endeavor to accommodate requests from donors for separate investment management of fund assets or for use of a particular investment broker or agent when the initial gift to establish the fund exceeds \$500,000. HCCF will be the account owner and investments must follow our Investment Policy Statement as approved by the Board of Directors. HCCF's Board must approve the addition of any new investment manager. HCCF may apply additional administrative fees to separately-invested fund assets to cover the additional expenses associated with such investments. Investment results will be reviewed by the HCCF Finance Committee for adequate investment performance. If performance is found to be inadequate or not within the Investment Policy, the manager may be terminated at the sole discretion of HCCF, followed by notification to the donor(s)."

Other Board approved policies and standards may apply, and this policy is subject to change by the Board of Directors without prior notice.