



Community
FOUNDATION
OF THE NORTH STATE

Investment Policy Statement

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INTRODUCTION

The Community Foundation of the North State (“the Foundation”) is a Community Foundation that facilitates building of donor funds to provide a permanent resource for grant making and services to the communities in the North State region. The Board and staff seek to meet these current needs while fulfilling their fiduciary responsibility to preserve the assets of the Foundation for long-term purposes. To support these goals, the Foundation has developed an investment strategy based on fundamental financial principles that include prudent asset allocation, risk assessment and long-term planning.

PURPOSE

The purpose of this Investment Policy Statement is to establish clear investment goals and guidelines for the portfolios along with appropriate measurement benchmarks and periods. The guidelines will quantify the asset allocation limits as well as criteria for investment vehicles. Moreover, it reflects the fiduciary responsibilities with respect to each of its portfolios. This Investment Policy Statement is set forth by the Board of Directors of CFNS in order to:

- Establish the Foundation’s expectations, objectives and guidelines in the investment of the endowment funds, quasi-endowment funds, and long-term pooled funds of the Foundation (collectively, the “Portfolio”).
- Define the responsibilities of all involved parties and assign such responsibilities.
- Create the framework for a well-diversified asset mix that can be expected to generate acceptable long-term returns at a suitable level of risk.
- Establish a basis for evaluating investment results.
- Establish a spending policy with respect to the donor-restricted endowment funds within the Portfolio.
- Meet the fiduciary obligations of the Board of Directors, with respect to the management and investment of the Portfolio, according to prudent standards established in the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted in California on January 1, 2009.

PHILOSOPHY

The investment philosophy of CFNS creates a management process that is sufficiently specific to be meaningful, yet flexible enough to be practical.

CFNS seeks a return on investment consistent with levels of investment risk that are prudent and reasonable for long term capital market conditions and investment objectives of the Foundation. Risk refers to the unpredictability of future asset value, and specifically, the chance that assets may decrease, as well as increase, in value. The assumption of risk is necessary to meet CFNS’s objectives; that is, there are no “risk free” assets, which are sufficient to generate the return needed to support planned spending. Therefore, CFNS’s policy regarding investment risk, consistent with modern portfolio theory, is that risk cannot be eliminated but should be managed, and fiduciaries must use care in the balancing of risk and expected return.

DELEGATION OF AUTHORITY

Members of the Board are fiduciaries and are responsible for directing and monitoring the investment management of the Foundation's assets. Additionally, they are responsible for establishing policies used to administer the Foundation's investment activities. As such, the Board is authorized to delegate certain responsibilities and may employ or arrange for the services of such other persons, agents or assistants as in its opinion are necessary or desirable for the proper administration of the Foundation's investments, and to pay reasonable compensation for their services and expenses. The Board expects that any such parties associated with the Foundation will discharge their respective responsibilities in accordance with normal fiduciary standards.

The Board has delegated to an Investment Committee, the responsibility to set the framework for risk management through the investment policy and guidelines, asset allocation, and the benchmarks used for performance objectives. Investment oversight, risk management, and reporting regularly to the board are primary fiduciary duties of the Investment Committee. The investment advisor/consultant(s) and/or Investment Committee, within limits of prudent diversification and risk exposure may allocate the risk exposure within and between asset classes in order to optimize return. The investment advisor/consultant(s) shall report on risk exposures and the values of the several risk measures to the Investment Committee quarterly.

DUTIES AND RESPONSIBILITIES

The Board of Directors

The members of the Board of Directors are fiduciaries charged with the oversight of the management of the assets of the Portfolio. As such, the Board is authorized to delegate certain responsibilities to the Investment Committee, as well as professional experts in various fields.

The Investment Committee

The Investment Committee members shall discharge their duties solely in the interests of the Foundation, in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. The specific responsibilities of the Investment Committee include, but are not limited to:

- The general oversight of the Portfolio consistent with the Committee's interpretation of this IPS.
- Engaging qualified investment professionals, through a Request for Proposal (RFP) process, such as the Investment Advisor/consultant, Investment Manager(s), Custodian(s) and additional specialists as may be required.
- Evaluating on a regular basis the performance of any qualified investment professionals to assure adherence to this IPS.
- Recommending amendment to this IPS for consideration by the Board of Directors.
- Defining the investment objectives and policies of the Portfolio as outlined within this IPS.
- Approve or disapprove in a timely manner any recommendations made by the Investment Advisor/Consultant with regards to asset allocation, engagement or termination of investment managers, within the constraints of this policy.

Foundation Staff

The Chief Executive Officer / Chief Financial Officer are authorized to deposit, withdraw and transfer funds for proper administration of accounts. Income and expenses associated with the pooled investment accounts will be allocated to the funds in a consistent and proportional manner.

The Chief Executive Officer / Chief Financial Officer will direct the Investment Advisor/Consultant to use the performance review guidelines to calculate and present a written report on investment performance to the Investment Committee. In addition, new investment options will be explored and evaluated and presented to the Investment Committee when appropriate.

The Investment Advisor/Consultant

The Investment Advisor/Consultant's role is that of a non-discretionary advisor/consultant to the Investment Committee. Investment advice concerning the investment management of the Portfolio will be offered by the Investment Advisor/Consultant and will be consistent with this IPS. Specific responsibilities of the Investment Advisor/Consultant include, but are not limited to:

- Monthly, each Investment Advisor/Consultant will provide a statement that includes all activity in the investment fund. The statement will include, but is not limited to, all interest, dividends and other earned income, all transaction and investment activity, and an itemized list of all assets held by initial investment and market value.
- Quarterly and annual reports are required with the same information as the monthly statement summarizing the investment activity for that time period. In addition, reports are required to show measurements against appropriate index, and an analysis of each portfolio's specific characteristics and fees charged.
- Investment Advisor/Consultants are required to inform the Foundation of any material change in fundamental investment policy, firm ownership, organizational structure, professional personnel, or account structure.
- Assisting in the development and periodic review of this IPS.
- Designing and implementing an appropriate asset allocation plan consistent with the asset allocation parameters set forth in this IPS. Assisting the Investment Committee with the periodic rebalancing of the Portfolio.
- Identifying Investment Managers within each asset class consistent with the asset allocation parameters set forth in this IPS, including such due diligence or research as the Investment Committee may require and comparative benchmarks for assessment of Investment Manager performance. Assisting the Investment Committee in the negotiation of fees with the Investment Manager(s). Recommending the termination and/or change of any Investment Manager(s).
- Monitoring the performance of the Investment Managers quarterly and reporting to the Investment Committee on the progress of the Managers relative to the investment objectives.
- Being available to meet with the Investment Committee quarterly. Reviewing the Portfolio's investment history, capital market performance and the contents of this IPS with any newly appointed Investment Committee member.

The Investment Manager(s)

Each Investment Manager will have full discretion to make all investment decisions for assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this IPS. Specific responsibilities of the Investment Manager(s) include:

- Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this IPS.
- Communicating any major changes to economic outlook, investment strategy, or any other factors, which affect implementation of investment process, or the investment objective of the Fund.
- Informing the Investment Advisor/Consultant regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment policy, etc.
- Voting proxies, if requested by the Investment Committee, on behalf of the Foundation.

Investment Manager Selection

The Investment Committee will have the authority and responsibility to select Investment Managers within each asset class consistent with the asset allocation parameters set forth in this IPS. The Investment Advisor/Consultant will be responsible for identifying and recommending Investment Managers to the committee, as well as providing such due diligence or research as the Investment Committee may require to properly evaluate prospective Investment Managers.

Performance Review

The Investment Committee will review the performance of the investment managers using the following guidelines and report to the Board of Directors.

Returns

- 1) The equity portion of the Portfolio is to meet the appropriate benchmark per annum, net of fees.
- 2) The fixed income portion of the Portfolio is to meet the appropriate benchmark, net of fees.
- 3) The performance will be measured against these indices on a quarterly and yearly basis (short-term), over a three to five-year period (long-term), and from inception.
- 4) Performance may be measured using any other standard index that provides comparative results.

Risk

Investments will achieve the targeted rate of return while at the same time experiencing a level of volatility – being the up/down movements of the value of the managed funds – that is in accordance with appropriate benchmark.

Overall

The overall performance of the investment managers will be based on the following:

- 1) Comparison of returns between investment managers.
- 2) Fees charged.
- 3) Evaluation of results compared to other foundations of comparable size.
- 4) Working relationship between investment manager and the Foundation.
- 5) Consistency with investment philosophy, return relative to objectives, and investment risk as measured by asset concentration, exposure to extreme economic conditions, and market volatility.

GENERAL INVESTMENT PRINCIPLES

Management of the Portfolio will follow the general investment guidelines set forth below:

1. Investments shall be made solely in the interests of the Foundation.
2. The Portfolio shall be invested with the care an ordinarily prudent person in a like position would exercise under similar circumstances. Particularly in managing and investing the Portfolio, the following factors, if relevant, must be considered: general economic conditions; the possible effect of inflation or deflation; the expected tax consequences, if any, of investment decisions or strategies; the role that each investment or course of action plays within the overall investment assets of the Portfolio; the expected total return from income and the appreciation of investments; other resources of the Foundation; the needs of the Foundation and the Portfolio to make distributions and to preserve capital; and an asset's special relationship or special value, if any, to the purposes of the Portfolio.
3. Investment of the assets shall be so diversified as to minimize the risk of large losses.
4. The Investment Committee may employ investment professionals, such as an Investment Advisor/Consultant, Investment Manager(s), Custodian(s) and additional specialists as may be required to attain the objectives set forth in this IPS. Any person who has special skills or expertise or is selected in reliance upon that person's representation that the person has special skills or expertise, has a duty to use those skills or that expertise in managing and investing the Portfolio.

ENDOWMENT FUND SPENDING POLICY

Distributions from the Portfolio are made using the total return method. Under the total return method, distributions consist of interest, dividends and realized and unrealized gains. In its determination to appropriate or accumulate, the Investment Committee shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors: the duration and preservation of the Endowment Fund; the purposes of the Foundation and the Endowment Fund; general economic conditions; the possible effect of inflation or deflation; the expected total return from income and the appreciation of investments; other resources of the Foundation; where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the Endowment Fund, giving due consideration to the effect that such alternatives may have on the Foundation, and the investment policy of the Foundation for each determination to appropriate for expenditure, the Foundation shall keep a contemporaneous record describing the consideration that was given by the Investment Committee to each of the factors enumerated above.

The Investment Committee has established a spending rate as follows: up to 4% (four percent) annually based on a rolling 12 quarter average fair market value of the temporarily and permanently restricted investments. Net assets are released from restriction up to this spending rate approved by the Investment Committee. The Foundation has adopted this spending policy in order to preserve the historic dollar value of gifts, and meet fund and community needs currently and in the future. The Board will review this spending policy on an annual basis and has the authority to change the policy as necessary.

INVESTMENT OBJECTIVES

The Portfolio's aggregate investment objective is to achieve total investment returns that, over a term of ten years or more, provide sufficient revenue to support an average annual distribution rate of six percent (6%). This hypothetical distribution rate is calculated using a spending rate of 4%, plus the average administrative fee of 2%.

TIME HORIZON

The Foundation's objectives for the Portfolio are currently anticipated to continue without significant modification for a period of: More than 10 years.

RISK TOLERANCE

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of investment risk assumed and the level of return that can be expected. In general, in order to attain higher returns one must accept higher risk (e.g. volatility of return).

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Portfolio is the determination of the amount of risk the Investment Committee can tolerate.

The Investment Committee desires long-term investment performance sufficient to meet the objectives. The Investment Committee understands that to achieve such performance the Portfolio may experience periods of decline. The Investment Committee further understands that in a severe market, the potential recovery period could be extensive.

Although the Investment Committee prefers to limit the Portfolio's volatility, they are comfortable with moderate fluctuations in the Portfolio, and are willing to accept short-term loss, in order to seek to grow the Portfolio over time.

It should be recognized that the Portfolio will invest in a variety of securities and that the actual weighting of these securities can and will vary. It is also important to note that future returns of the securities within the Portfolio and the Portfolio itself can be expected to vary from the historical returns.

The Portfolio's historical rate of return is not a guarantee of future investment returns. Future returns could differ significantly and capital loss is possible. This IPS shall not be construed as offering a guarantee.

INVESTMENT MANAGEMENT GUIDELINES

The Investment Committee shall adhere to the guidelines stated in this policy and appendices. All policies, guidelines and objectives shall be in force until modified in writing by the Board of Directors. Investment performance shall be reviewed at least quarterly by the Investment Committee.

Asset Allocation

SHORT-TERM POOL

The primary Investment Objective for the Short-Term Pool is to maintain adequate liquidity without taking principal risk. The balance of the Short-Term Pool should equal 3-6 month's average of ABSW's current operating cash expenditures. The short term reserve would be maintained in a checking or money market account and be immediately accessible.

Asset Allocation

Asset Class	Minimum %	Maximum %
U. S. Equities	0	0
International Developed Countries	0	0
Emerging Markets Countries	0	0
Bonds	0	0
Alternatives	0	0
Cash & Cash Equivalents	100	100

MID-TERM POOL

Recognizing that cash needs will fluctuate during various economic cycles and strategic initiatives, the mid-term pool provides a buffer of available cash. This fund would be held in a brokerage account in cash, cash equivalents, or fixed income instruments seeking greater return than the short term reserve but maintaining immediate availability and minimal principal risk. The objective of these instruments shall be the preservation of capital. Fixed income instruments should be limited to Investment Grade Corporate and/or Government Bonds with a maximum average duration of three years to maintain financial flexibility.

Asset Allocation

Asset Class	Minimum %	Maximum %
U. S. Equities	0	20
International Developed Countries	0	10
Emerging Markets Countries	0	5
Bonds	0	100
Alternatives	0	0
Cash & Cash Equivalents	0	100

LONG-TERM POOL

The primary objective of the Long-Term Pool is to seek a total return adequate to support a spending policy set by the Board and to maintain the purchasing power of the assets, net after inflation. Liquidity is a secondary objective. Distributions will be made at the discretion of the Board and may be taken from principal or income so there is no requirement to generate a particular level of dividends or interest. The time horizon is perpetual and the Board is not concerned with intermediate volatility. The Long-Term Pool is nonetheless to be diversified with fixed income instruments in order to reduce the risk of substantial drops in principal value.

Asset Allocation

Asset Class	Minimum %	Maximum %
U. S. Equities	25	60
International Developed Countries	15	35
Emerging Markets Countries	0	15
Bonds	15	40
Cash & Cash Equivalents	0	10
Alternatives	Maximum of 20% allowed	

ESG LONG-TERM POOL

The primary objective of the ESG Long-Term Pool is to incorporate sensitivity to Environmental, Social, and Corporate Governance (ESG) issues, in conjunction with seeking total return. Liquidity is a secondary objective. The pool will adopt a “best-in-class” approach that seeks to include/overweight those companies that promote environmental, social, and corporate governance concerns, and avoid/underweight companies that neglect to prioritize these efforts. Distributions will be made at the discretion of the Board and may be taken from principal or income so there is no requirement to generate a particular level of dividends or interest. The time horizon is perpetual and the Board is not concerned with intermediate volatility. The ESG Long-Term Pool is nonetheless to be diversified with fixed income instruments in order to reduce the risk of substantial drops in principal value.

Asset Allocation

Asset Class	Minimum %	Maximum %
U. S. Equities	25	60
International Developed Countries	15	35
Emerging Markets Countries	0	15
Bonds	15	40
Cash & Cash Equivalents	0	10
Alternatives	Maximum of 10% allowed	

Within the asset allocation guidelines outlined above, the Investment Committee will be responsible for setting and monitoring the portfolio’s target asset allocation. While these guidelines are intended to offer the Investment Committee sufficient flexibility to navigate various market conditions, should the Investment Committee determine additional flexibility is required, they may recommend for Board approval changes to these ratios as needed. Such updates will be considered part of this IPS.

Rebalancing Guidelines

If the percentages within the total portfolio breach the above parameters, the Investment Committee will take corrective action. These parameters also apply to portfolios managed by Investment consultants in accordance with the IPS. The Investment consultant will proactively contact the Foundation CFO with rebalancing recommendations for the Investment Committee to consider. When necessary and/or available, cash inflows/outflows will be invested in a manner consistent with the portfolio’s target asset percentages. If there are no cash flows, the asset percentages of the Portfolio will be reviewed quarterly.

Equities

The purpose of the equity portion of the Portfolio is to provide principal appreciation that exceeds inflation and to provide growth of capital in support of spending needs. It is recognized that equity investments carry greater market risk than other asset categories.

The specific Portfolio management decisions, including security selection, size and quality and number of holdings are left to the Investment Committee's discretion subject to standards of fiduciary practice.

Fixed Income/Cash Alternatives

The purpose of the fixed income/cash alternatives portion of the Portfolio is to provide a hedge against deflation; to produce current income in support of spending needs; to minimize the overall volatility of the portfolio; and to provide liquidity in adverse market conditions. Funds shall be invested in short-term, intermediate and long-term maturity fixed income vehicles. Portions of the Portfolio may be held from time to time in short-term fixed income or cash equivalent securities for expenses and grant payments.

TYPES OF APPROVED ASSETS

Cash and Cash Equivalents

The Portfolio can include cash and cash equivalents. The fraction of the Portfolio's aggregate market value invested in cash and cash equivalents will remain within the limits specified in the asset allocation guidelines, above. Qualified cash equivalents investments are:

- Treasury Bills
- Money Market Funds
- Commercial Paper
- Repurchase Agreements
- Certificates of Deposit
- Government Agency Discount Notes

Fixed Income Investments

The Portfolio can include fixed income securities. The fraction of the Portfolio's aggregate market value invested in fixed income securities will remain within the limits specified in the asset allocation guidelines, above. Qualifying fixed income securities are:

- U.S. Government and Agency Securities
- Corporate Notes and Bonds
- Mortgage Backed Bonds
- Preferred Stock

Direct investments in U.S. Corporate debt shall be limited to an amount per issuer not to exceed 5% of the aggregate market value of the Portfolio, and upon initial purchase must be of investment grade as rated by Moody's and/or Standard and Poor's rating services. Individual treasury securities may represent 10% of the total fund, while the total allocation to treasury bonds and notes may represent up to 100% of the Fund's aggregate bond position. Should any bond rating of an individually held bond subsequently be reduced below investment grade, the Portfolio shall immediately be reviewed to determine if investment considerations warrant it being discharged. The maximum maturity of an individual bond shall not exceed thirty years and the average duration shall not exceed fifteen years.

Equity Securities

The Portfolio may include equity securities of U.S. Corporations and International Corporations. The fraction of the Portfolio's aggregate market value invested in equity securities will remain within the limits specified in the Asset Allocation Guidelines, above. Individual equities held in the Portfolio are to be traded on one of the national or regional securities exchanges or in the national Over the Counter Market (OTC). Direct individual equity investments portions shall not exceed five percent (5%) at cost or ten percent (10%) at Market Value of the Portfolio's aggregate market value. Qualified Equity Securities are:

- Common Stocks
- Convertible Notes and Bonds
- Convertible Preferred Stocks
- American Depository Receipts (ADRs) of Non-U.S. Companies
- Stocks of Non-U.S. Companies (Ordinary Shares)
- REITS – Real Estate Investment Trusts

Alternative Assets

The Long-Term Pool may include alternative investments as specified below. The structure of the allowable investments may be in the form of mutual funds, pooled trusts and/or limited partnerships. The fraction of the Portfolio's aggregate market value invested in alternatives will remain within the limits specified in the asset allocation guidelines, above.

The Foundation has a long-term investment horizon with relatively low liquidity needs. For this reason, the portfolio can tolerate short- and intermediate-term volatility, provided that long-term returns meet or exceed its investment objective. Consequently, the Foundation may take advantage of less liquid investments, such as real estate, private equity, hedge funds, and other vehicles, which may offer higher risk-adjusted return potential as compensation for forfeiture of liquidity. Consideration should be given to the size that such allocations may comprise in times of market stress to ensure that the allocation to such categories does not exceed the intent of this policy and negatively impact the Foundation's ability to meet ongoing cash flow needs.

- Commodity Funds
- Hedge Funds or Fund of Funds
- Private Equity Funds or Fund of Funds
- Private Debt
- Real Estate
- Real Assets
- Structured Products or Notes
- Impact or Mission-Related Investments

Mutual Funds and ETFs

Assets may include stocks, bonds, alternatives, cash equivalents or some combination of securities which are allowed in this statement. The investments of such funds in the asset classes (cash and cash equivalents, fixed income securities, equity securities, alternative assets) will be included when determining the aggregate amounts of the Foundation portfolio invested in these asset classes.

NON CASH ADDITIONS TO INVESTMENT FUNDS

The Investment Advisors/Consultants are responsible to acknowledge receipt of additional assets that have been transferred to the Foundation. Acknowledgements should be made within two business days of receipt. Typically, any additions to the investment funds in the form of securities shall be sold as soon as it is administratively feasible to do so and reinvested in accordance with this policy.

PROHIBITED TRANSACTIONS

Prohibited transactions include: single position commodity trading (including all individual futures contracts), purchasing of restricted stock or other non-marketable securities, selling short and margin purchases, derivatives, option swaps, and uncovered options. The Foundation acknowledges that these transactions may offer professional Investment Managers important risk management benefits, and the intent is not to restrict their use for this purpose, but to avoid taking on undue risk, which could negatively impact the Foundation.

INVESTMENT MANAGER CRITERIA

The Investment Committee, is authorized to engage the services of one or more investment manager(s) who possess the necessary specialized research facilities and skills to meet the Foundation's investment guidelines and objectives. The investment manager(s) shall have, at least 10 years of experience in investment management. CFNS assets under management should not be more than 5% of the investment manager total responsibility and should manage at a minimum \$50 million in assets. The Investment Committee shall perform reasonable due diligence in evaluating prospective manager(s).

Investment managers hired by the Foundation shall have a minimum five-year performance record for the investment style proposed and shall have outperformed their benchmarks over at least three of the past five years at a commensurate level of risk. The Foundation requires any investment manager(s) to be registered under the Investment Advisors' Act of 1940.

It is expected that, as a minimum requirement, investment managers will comply with The Code of Ethics and the Standards of Professional Conduct as established by the CFA Institute and should have one of the following four credentials:

- **Chartered Financial Analyst**

This globally recognized standard, awarded by the CFA Institute, demonstrates fluency with an advanced investment management and analysis curriculum, including the application of ethical principles needed to uphold high standards of accountability and integrity. Requirements include passing three examination levels, having at least 4 years of acceptable professional experience working in investment decision making processes, signing and agreeing to professional code of conduct, and a member's agreement and continuous exhibition of a high degree of ethical and professional conduct.

- **SEC Registration/Form ADV**
Any investment manager who provides advice about securities must be registered with the Securities and Exchange Commission and/or the state securities agency, depending on the total value of assets under management. Most managers are required to file Form ADV with regulators.
- **Certified Financial Planner (CFP)**
CFP practitioners are certified by the CFP Board of Standards as competent and ethical financial planning service professionals. They voluntarily submit to the rigorous CFP certification process that includes significant education and experience requirements, a comprehensive examination on personal financial planning knowledge and skills, continuous education and agreement to the CFO Board's Code of Ethics and Professional Responsibility and Financial Planning Practice Standards.
- **Certified Investment Management Analyst (CIMA)**
The CIMA certification signifies that an individual has met initial and on-going experience, ethical, education, and examination requirements for investment management consulting, including advanced investment management theory and application. Prerequisites for the CIMA certification are three years of financial services experience and an acceptable regulatory history.

Fees

All expenses for such managers must be customary and reasonable. ***Fees will be reviewed for all investment managers and advisor/consultants, including those managing one or more donor advised funds, on at least an annual basis.***

ADVISOR/CONSULTANT CRITERIA

The Investment Committee will review the investment advisor/consultant(s) using the following criteria:

- Shall have at least 10 years of experience as an investment advisor/consultant
- Should have at least one of the following three credentials:
 - Chartered Financial Analyst
 - Certified Financial Planner
 - Certified Investment Management Analyst
- Ability to meet the performance objectives stated in this Investment Policy Statement.
- Adherence to the philosophy and style that were provided by the investment advisor/consultant to the Investment Committee when the investment advisor/consultant was retained.
- Continuity of personnel and practices at the firm.
- Compliance with Investment Policy requirements.

The overall performance of the investment advisor/consultant(s) will be based on the following:

- Risk adjusted rate of return, as measured by [Alpha, Jensen's Alpha, Sharpe Ratio, Treynor Ratio, Information Ratio, etc.]
- Evaluation of results compared to other Foundations of comparable size and circumstances (e.g., asset allocation).

Conflicts of Interest

It is the policy of the Board to avoid conflicts of interest in its operations and in the selection of investment advisor/consultant/managers or funds. Therefore, the Foundation Board, Staff or Volunteers, including Investment Committee members, shall not have a material financial relationship in any advisor/consultant/manager or fund being considered. No independent investment consultant retained by CFNS, or any entity, in which such consultant may have an interest, shall be a part to any transaction with, or have a financial or other interest in, any investment advisor/consultant/manager providing services to CFNS or any fund in which CFNS has an investment.

DONOR RECOMMENDATION OF INVESTMENT ADVISOR/CONSULTANTS

A donor to a donor advised fund, an organization that has established an organizational endowment or the advisor(s) of a donor advised fund may recommend that the Foundation engage a specific qualified investment manager to invest the assets of the fund if the fund has a fund balance of at least \$500,000. For donors establishing Charitable Remainder Trusts, the minimum amount is \$100,000. If the Investment Committee finds that the recommended manager meets the licensing, experience and other qualifications which the Foundation has established for investment managers, the Committee may recommend to the Board for approval the appointment of the recommended manager to invest the assets in the fund. The recommended manager must maintain the qualifications set by the Foundation for investment managers. The investment manager must agree to follow CFNS Investment Policies and manage the assets in accordance with the asset allocation targets set by the committee. Furthermore, the investment manager must ensure the donor advised fund accounts are added to the electronic feeds for IPS compliance and reporting purposes. An appendix will be created for each donor advised fund investment manager to outline their specific guidelines.

The Investment Committee will evaluate the recommended manager's investment performance on the same basis as is applied to other investment managers employed by the Foundation. The Foundation retains full authority to appoint or remove any one or more investment managers, whether appointed upon the recommendation of a donor or fund advisor or appointed upon the recommendation of the Investment Committee after approval by the Board.

DISCLAIMER

This statement is to be used only as a guideline to formulate and monitor the investment practices of the Community Foundation of the North State's assets. It is not a contractual statement. It is to be used as a flexible document to assist the Investment Committee in the management of its fiduciary duties.

APPENDIX A

INVESTMENT POLICY FOR CHARITABLE GIFT ANNUITIES

I. CHARITABLE GIFT ANNUITY DEFINITION

A charitable gift annuity (CGA) is a contract between a donor and a charitable organization. The donor irrevocably transfers cash, stock or other approved assets to the charity in exchange for guaranteed fixed payments for the life or lives of the annuitant(s). The amount of each annuity payment is determined by the age(s) of the annuitant(s) and the annuity rate, as determined by the American Council on Gift Annuities (ACGA). The ACGA rates presume that the charity will ultimately benefit from about half of the original gift; the other half plus earnings/appreciation is expected to be returned to the beneficiary in the form of annuity payments. The remainder is retained and/or distributed by Community Foundation of the North State (CFNS) for the charitable purposes intended by the donor. All CFNS CGA contracts are issued subject to Board approval.

II. CALIFORNIA DEPARTMENT OF INSURANCE (DOI) REQUIRED RESERVE

The contributed property (the gift), becomes a part of the charity's assets, and the payments are a general obligation of the charity. The annuity is backed by the charity's entire assets, not just by the property contributed. Unlike a trust, annuity payments continue for the life/lives of the annuitant(s), regardless of funds remaining in the annuity. To safeguard the annuity, CGAs are invested according to the Charitable Gift Annuity Reserve Investment Policy and Guidelines of the State of California. As required by the DOI regulations, all CGA contracts are initially issued with a calculated Required Reserve. The Required Reserve must be invested by the charity to provide for the annuity payments. Assets constituting the Required Reserve under the California Insurance Code (Section 11520-11524) are to be segregated from the other assets of the charity in a separate account, and all reserve assets must be held in the name of the charity. Upon the death of the annuitant(s), the remainder, if any, for that CGA is severed from the reserve account for charitable purposes.

The DOI [calculated Required Reserve amount](#) must be invested in the reserve account. However, in keeping with best practices, it is the policy of CFNS to invest 100% of the gift in the reserve account, which has been established as the CFNS CGA Reserve Fund ("the Fund"). Exception to this policy is permitted with approval from the Board, whereby a deposit of only the Required Reserve as calculated is necessary and the excess can be used for the charitable purpose intended by the donor.

III. CALIFORNIA DOI REQUIRED RESERVE INVESTMENT GUIDELINES

The calculated Required Reserve must be invested as specified in the applicable guidelines of the State of California, DOI and the California Insurance Code, Sections 1170 through 1182, as amended by Section 11521.2. These guidelines generally permit the following categories of investments in the Required Reserve portfolio:

- Up to 100% of the portfolio may be invested in U. S. Treasury and agency fixed income securities, and certain other government and municipal fixed income securities of any maturity.
- Up to 50% may be invested in securities traded on the New York and American Stock Exchanges, regional exchanges, and NASDAQ, and may include mutual funds and other securities or pooled funds that are registered under the Federal Investment Company Act of 1940.
- Other investments may be permitted, subject to the written consent of the DOI.

Only the following investment alternatives are allowed, subject to restrictions in the most recently approved CFNS Investment Policy Statement:

- Obligations of the United States of America, the Dominion of Canada, the Commonwealth of Puerto Rico and the United States Postal Service.
- Bonds, of any State of the United States and any County, County Water District, Municipality and School District within the State of California.
- Veteran Loans as prescribed in California Insurance Code Section 1176.5 and 1176.6.
- Insured mortgages as permitted in California Insurance Code Section 1177.
- Farm Loan Bonds in California Insurance Code Section 1179.
- Home Loan Bonds in California Insurance Code Section 1180.
- State of California Warrants.
- Accounts in banks or savings and loan associations insured by an agency of the federal government.

IV. CFNS CGA RESERVE FUND INVESTMENT OBJECTIVE

The primary investment objectives of the CFNS CGA Reserve Fund ("the Fund") are 1) to fulfill the requirements as set by the DOI for reserve balances and allowable reserve investments; 2) to provide for growth of the reserves to enhance the overall performance of the CGA pool; and 3) ensure that the required annuity payments are met by using a combination of investment yield, appreciation, and a portion of principal.

The Fund consists of both the "Required Reserve" and the "Excess Reserve." They will be held in the same account for purposes of efficiency and protection.

V. CFNS CGA REQUIRED RESERVE INVESTMENT POLICY

In keeping with the guidelines referenced in Section III, CFNS has adopted the following policy for its Required Reserve:

- Up to 50% of the portfolio may be invested in equity securities as described in the authorized DOI investments;
- At least 50% of the portfolio will be invested in US and US government agency fixed income securities as described in the authorized DOI investments;
- Money market/cash equivalent funds will be maintained at an amount necessary to meet projected annuity payment requirements in the very near term (three months or less).

Following these guidelines, the actual asset allocation of the Required Reserve will be determined by the Investment Consultant in consideration with recommendations from the Investment Committee and/or CFNS's external CGA administrator. Staff will implement policy and ensure rebalancing as new contracts are issued and maturities occur.

VI. CFNS CGA EXCESS RESERVE INVESTMENT POLICY

The Excess Reserve is not subject to DOI guidelines and will be invested in up to 100% equity securities, funds, or products. The actual asset allocation of the Excess Reserve will be determined annually by the Investment Consultant in keeping with the most recently approved CFNS Investment Policy Statement. Staff will implement policy and ensure rebalancing as new contracts are issued and maturities occur.

VII. INVESTMENT MANAGER/CONSULTANT SELECTION

Selection criteria for the Investment Manager and/or Consultant for the reserve account will follow the same criteria as outlined in the most recently approved CFNS Investment Policy Statement. Donor Recommended Investment Managers cannot be utilized for CGA investments.

VIII. INVESTMENT PERFORMANCE EVALUATION AND REPORTING

It is expected that investment performance will approximate a Balanced Income & Growth investment objective benchmark. The portfolio should have comparable risk to that of the market. Investment results, portfolio mix, and growth in the Fund will be reported to the Board at least annually.