community foundation℠
Greater Rochester

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COMMUNITY FOUNDATION OF GREATER ROCHESTER
INVESTMENT POLICY

GENERAL INVESTMENT PHILOSOPHY

In recognition of its fiduciary responsibility, the Community Foundation of Greater Rochester (CFGR) implemented the following investment management and asset allocation policies for its investable funds, which is defined to include the following principal categories: permanently restricted, temporarily restricted, and unrestricted.

Investments will be made only in those organizations and instruments which follow policies consistent with those of CFGR and which meet the standards of a prudent trustee investor.

I. INVESTMENT OBJECTIVE

The investment objectives for the management of Foundation assets are to preserve and grow the assets, to manage contributions in a manner that will maximize the benefit intended by the donor, to produce current income based on total rate of return, and to support the objectives of the Foundation and donor's philosophies. Since the Foundation is committed to make the Greater Rochester area a better place to live and work for generations to come, the investment policy of the CFGR is constructed to invest and manage all CFGR funds in perpetuity.

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ROLE OF INVESTMENT COMMITTEE OF CFGR

The Investment Committee:

a. Shall be responsible for the review of policies relating to the administration of the Foundation's investment portfolio and, when appropriate, shall make recommendations to the Board of Trustees.

b. Shall, in consultation with the investment consultant, the investment manager(s) and the Foundation administration, at least annually review the investment objectives of the portfolio of the Endowment.

c. Shall, in consultation with the Foundation administration, recommend to the Board of Trustees an investment manager(s) and, if appropriate, an investment custodians) for the Endowment.

d. May, in consultation with the Foundation administration, recommend to the Board of Trustees an investment consultant to advise and assist the Investment Committee.

e. Shall receive periodic reports on the investment status of the portfolio(s) and shall transmit relevant information to the Board of Trustees.

f. Shall meet with the investment consultant and investment manager(s) at least quarterly and shall periodically evaluate the performance of the investment manager(s) in consultation with the Foundation administration.

Shall consider other investment related matters.

ROLE OF BOARD OF TRUSTEES OF CFGR

The Foundation Board of Trustees:

Shall exercise its endowment investment responsibilities with the assistance of its Investment Committee.

Shall, upon the recommendation of its Investment Committee, establish investment policies relating to the administration of its investment portfolio.

Shall, upon the recommendation of its Investment Committee, establish investment objectives.

Shall, upon the recommendation of its Investment Committee, appoint an investment consultant if deemed necessary, investment manager(s), and an investment custodian(s), and specify any investment restrictions deemed appropriate.

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The Foundation Board of Trustees:

Shall, upon the recommendation of its Investment Committee, establish the conditions and parameters under which the Foundation may directly invest in and own securities independent of investment managers and/or advisors and may authorize such investment. The Board will, at its discretion, allow initial gifts in excess of $500,000 to remain on deposit with the donor's current investment manager, provided that the investment manager or advisor complies with the Foundation's current Investment Policy, and that the investment manager or advisor's fee is acceptable to the Foundation Board.

Shall receive periodic reports on investment results through its Investment Committee.

IV. INVESTMENT TIME HORIZON

The performance objectives described in this document are to be achieved by the investment managers over a *moving three-year period*, **net of investment management fees.** The Investment Committee of CFGR reserves the right to evaluate and make any necessary changes regarding the investment managers over a shorter term using the criteria established in the "Evaluation of Investment Managers" section of this Statement.

V. ASSET ALLOCATION, DIVERSIFICATION, AND PERFORMANCE STANDARDS

The general policy shall be to allocate investments between asset classes so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

The asset allocation shall be monitored on an ongoing basis, and reviewed and rebalanced as deemed appropriate. An "overlap" analysis will be made semiannually to assure not more than twenty percent of the Foundation's assets are invested in any single equity position. The asset allocation for the Foundation's total funds should be in compliance with the charts that follow.

Funds required to meet cash flow requirements for a rolling 36-month period will be held in certificates of deposit or other appropriate short-term investment instruments. These funds will be excluded from funds subject to asset allocation, diversification and performance guidelines.

As described in Section II, the Foundation Board reserves the right to evaluate and recommend any necessary changes regarding the investment managers at any point in time. Asset allocation and performance standards are as follows:

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ASSET ALLOCATION, DIVERSIFICATION, AND PERFORMANCE STANDARDS:

ASSET CLASS RANGES AND PERFORMANCE BENCHMARKS

	TARGET RANGE	PERFORMANCE BENCHMARK
Equity	>60% - <60%	
Large Cap	>15 - <40	
S&P 500		**25%**
Mid Cap	0 - <25	
S&P 400		**7.5**
Small Cap	0 - <25	
Russell 2000		**7.5**
International	0 - <30	
EAFE		**15**
Bonds	>15 - <30	
Barclays Aggregate Bond		**20**
Alternatives	0 - <30	
50%HFRI/50% DJ/AIG Commodities		**20**
Cash	>5 - <10	
3 Month T-Bill		**5**
Portfolio Beta		**≤1.1**
Portfolio Alpha		**≥1.0**

VI. INVESTMENT MANAGER AND/OR ADVISOR GUIDELINES

Each investment manager must satisfy the performance objectives. Exceptions to this guideline may occur under certain circumstances at the discretion of the Investment Committee.

Each investment manager shall have the full investment discretion to implement investment strategies that are consistent with this Investment Policy Statement.

The investment managers shall be evaluated on a quarterly basis and should be prepared to meet with the Investment Committee at least quarterly.

The investment manager shall within five business days notify the financial officer in writing of any material changes in its investment outlook, strategy, portfolio structure, ownership, or senior personnel.

e. The investment manager shall maintain compliance with the Asset Allocation specifications. Exceptions to this guideline may occur under certain circumstances at the discretion of and with the prior approval of the Investment Committee.

f. There shall be no new investments in non-marketable securities.

g. Private equity, hedge funds, and venture capital investments are currently not permitted except as a component of a highly diversified liquid equity pool.

h. Investments are permitted in commodities, real estate, or interests therein through the use of securities that are marketable and trade on a regular basis, through real estate investment trusts, or asset-class specific mutual funds.

There should be no purchase that would cause a position in the portfolio to exceed five percent of the issue outstanding.

Equity Guidelines

a. Each investment manager must assure that no position of any one company shall exceed eight percent of the manager's total portfolio as measured at market value or five percent as measured at cost.

b. The equity manager(s) shall handle the voting of proxies and tendering of shares in a manner that is in the best interest of the Foundation and consistent with the investment objectives contained herein.

c. For diversification purposes, each manager's equity portfolio should have in excess of 20 positions.

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Fixed Income and Cash Equivalent Guidelines

a. Each manager's portfolio must have an overall weighted average credit rating of "A" or better by Moody's and by Standard & Poor's rating services.

b. The duration of the fixed income portfolio must be within ± 20 percent of the duration of the Lehman Brothers Aggregate Bond Index.

c. Each investment manager must assure that no position of any one issuer shall exceed eight percent of the manager's total portfolio as measured at market value or five percent as measured at cost, except for securities issued by the U.S. government and its agencies.

d. No more than five percent of an investment manager's portfolio at market value shall be invested in commercial paper and not more than two percent in any one issuer. All commercial paper must have a rating of A1/P1.

Certificates of deposit shall have the highest credit quality rating from a nationally recognized rating service (e.g., Duff and Phelps, IBCA or Thompson Bank Watch).

Derivative Investment Guidelines

Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. The Fiduciary is concerned that many derivative securities have not been observed over multiple economic cycles. Due to this uncertainty, the Fiduciary will take a conservative posture on derivative securities in order to maintain its risk adverse nature. **The Investment Manager(s) must present detailed information quarterly to the Investment Committee on all derivative holdings, and to the expected return and risk characteristics of such investment vehicles.**

Real Estate Guidelines

Equity investment may also include equity real estate investments in professionally managed, income-producing commercial property. Such investments, however, shall not exceed seven percent of total endowment assets. Such investments should be made through professionally managed pooled real estate funds offered by leading real estate managers with proven records of superior performance over time, or through the use of liquid vehicles that track a recognized real estate index.

Gifts of income-producing real estate may be included in the equity portfolio provided they are consistent with these management policies. If such gifts of real estate represent more than seven percent of endowment assets to this asset class, or would constitute a negative cash flow, or would be deemed by professional management counsel to constitute undue market risk, such gifts will be sold and the proceeds directed to the general endowment pool for the benefit of programs consistent with the donor's interest.

VII. RESTRICTED INVESTMENTS

Certain funds are obtained by the Foundation through donations wherein the donor has placed restrictions on the form of investment to which these amounts may be applied, either directly by specifying qualifying investment vehicles or indirectly by stipulating a higher-than-normal spending rate. Such funds will be invested according to the donor's requirement and will be excluded from the total pool of available funds subject to the asset allocation policy.

VIII. SPENDING POLICY

In order to provide for stability in income growth together with preservation of purchasing power, endowment funds, term endowments and funds functioning as endowment shall have funds made available for spending according to the following rule except as the terms of a specific gift instrument or a specific Board action shall otherwise require:

> Endowment Fund distributions shall be targeted at an annual rate of four percent based upon the twelve quarter moving average market value of the fund's value at the beginning of each quarter, with a one-quarter lag. If the market value of any individual endowment is at or below its historic dollar value, distributions with respect to that endowment shall be limited to current yield (such as interest, dividends, and rent). All earnings in excess of distributions shall be reinvested in the corpus of the fund.

The Investment Committee shall periodically review the spending policy against actual returns and may propose changes in the spending policy to the Board as appropriate to preserve the purchasing power of the Endowment.

IX. ROLE OF THE FOUNDATION ADMINISTRATION

The Foundation administration:

Shall maintain communications, as appropriate, between the Board of Trustees, the Investment Committee, the investment consultant, the investment custodian and the investment manager(s).

Shall periodically invest available additional funds in consultation with the investment consultant, if any, and within the allocation parameters established by this policy.

Shall receive and account for remitted accumulated income.

X. INVESTMENT POLICY REVIEW

This statement of investment policy shall be reviewed annually. The investment performance will be provided by an independent third party and will be reviewed on a quarterly basis. The investment managers may provide any suggestions regarding appropriate adjustments in this statement or the manner in which investment performance is reviewed. The investment committee will submit any recommended changes in this policy to the executive committee for their approval. In the event that an unforeseen investment or policy issue not specifically addressed in this document should arise, the Investment Committee shall exercise its discretion to act on the matter within the philosophy of the accepted investment policy and such actions will be subject to ratification of the Executive Committee.