



INVESTMENT POLICY STATEMENT

OVERVIEW

This document represents the Investment Policy Statement (IPS) of the Charlottesville Area Community Foundation ("CACF") endowment and donor advised investment pools, including investment objectives, asset allocation, investment restrictions and review procedures. The investment pool options covered by this policy are detailed in Appendix A. Because each pool has different objectives, this investment policy outlines them separately in the Appendices to this IPS. The purpose of this policy is to guide the Community Foundation Governing Board, Investment Committee, Investment Advisors and Director of Finance in effectively managing, monitoring and evaluating CACF's investment pools. The CACF also maintains a separate IPS relating to Separately Invested Funds ("SIFs"), as attached hereto as Appendix E. SIFs are held outside of the investment pools as described in this IPS and related Appendices A-D.

INVESTMENT RESPONSIBILITIES

Governing Board

The Governing Board appoints members of the Investment Committee and designates the Chairperson. The Chairperson of the Investment Committee will report periodically to the Governing Board on the status of the investment pools and on the policies and practices of the Committee.

Investment Committee

The Investment Committee is responsible and accountable, as delegated by the Governing Board, for the prudent management of the CACF's investment pools, including:

- 1) Establish the overall investment philosophy and guiding principles for the development of investment strategy and processes,
- 2) Oversee the process of Investment Advisor selection and ongoing monitoring of such Investment Advisor,
- 3) Develop and maintain the Foundation's investment policy,
- 4) Set risk tolerances and controls,
- 5) Establish the investment pool structure that will be offered to fund holders, including number of

- pools and associated risk of pools,
- 6) Establish strategies, oversee selection and evaluation of Investment Managers for Non-Traditional Asset Classes, Fixed Income, and Cash and Cash Equivalents,
 - 7) Conduct periodic reviews of selected Investment Managers to include a minimum of annual due diligence meetings with each Investment Manager by at least two Investment Committee members for any given Manager,
 - 8) Set asset allocation targets, ranges and re-balancing strategy for each pool,
 - 9) Establish performance benchmarks per asset class and metrics of success for each pool,
 - 10) Monitor investment performance using reports prepared by Investment Advisor and those as provided directly from Investment Managers,
 - 11) Monitor investment expenses,
 - 12) Report to the Board periodically the results of the investment program, and
 - 13) Conduct periodic evaluations of investments based on environmental, social, and governance factors to ensure that there are not misalignments with the CACF's mission.

The Committee will meet at least quarterly.

The Committee may be composed of both Governing and non-Governing Board members. A quorum of the Committee is defined as a majority of members of the Investment Committee.

Investment Advisor

The Investment Advisor is responsible for the Equities and Real Assets components of the Long-Term Pool as described in Appendix B. Investment Advisor assists in the attainment of the Foundation investment objectives while complying with all Investment Policy guidelines and standards. The Investment Advisor serves as the primary contact for all the underlying Equities and Real Asset Investment Managers and will consult with the Director of Finance on all changes made to the managers or asset classes. Investment Advisor responsibilities also include:

- 1) Adhere to the Investment Committee's asset allocation,
- 2) Oversee the process of Investment Manager Selection for Equities and Real Assets and ongoing monitoring of such Investment Managers,
- 3) Prepare and present appropriate performance and allocation reports in writing to the Investment Committee at least quarterly, incorporating the Non-Traditional, Fixed Income, and Cash and Cash Equivalent managers, and
- 4) Conduct periodic rebalancing of Equities and Real Asset asset classes.

Director of Finance Responsibilities

- 1) Implement the investment policy and decisions of the Investment Committee,
- 2) Ensure regular reporting of investment allocations and performance to Investment Committee,
- 3) Coordinate Investment Advisor and Manager selection and review processes, and
- 4) Communicate investment information and results to fund holders.

INVESTMENT PHILOSOPHY

The Foundation serves the investment needs of a variety of constituencies, including donor directed funds and the unrestricted funds of the Foundation. We seek investment excellence in order to deserve the confidence of our donors and to attract new donors to the Foundation. As such, we seek to provide outstanding, risk-adjusted returns recognizing an appropriate level of risk, diversification, and the long-term nature of the majority of the funds under our care.

We are largely long-term, fundamental investors. Given that time horizon, performance is measured over three to five-year periods. We are willing to tolerate short term volatility in order to achieve this longer-term goal.

We define risk as the permanent loss of capital. Therefore, risk management to us involves good judgment as well as some diversification. Our goal of excellence cannot be achieved if the portfolio is over-diversified. We do not need to own a bit of everything - just everything we own needs to be excellent.

Our investments rely on the funds of third-party investment managers as a conduit for owning attractively priced assets. In general, we believe that manager skill drives this process and we want to partner with managers whose judgment we trust and who have a temperament and background that we believe positions them to be successful in the future.

We have hired gatekeepers to select these fund managers for us and we expect them to have the same judgment as the managers they select. We want to be sure that our gatekeepers are diligent in the process of selecting managers and in monitoring them. We would be willing to add assets to a manager in the face of negative short-term results, assuming nothing else had changed about the fund and that the long-term outlook for that manager was still positive.

Asset allocation can be flexible as long as it is adjusted consistent with our long-term investment horizon. We should not engage in short-term asset allocation.

INVESTMENT OBJECTIVES

CACF's investments are grouped by time horizon, and the associated return objectives, risk tolerances, and liquidity requirements are set accordingly. The primary objective of each duration pool is to earn a return commensurate with its time horizon. A secondary objective of CACF's investment program is to provide a first-class investment program that is attractive to and meets the needs of the donor groups so that CACF is viewed as the program of choice in the community.

CACF has a long-term horizon for most investments. The guiding principles of the investment process reflect a well-diversified asset allocation strategy, selective investment managers and a long-term point of view. The primary investment objective is to maintain the purchasing power of the endowment assets (i.e. grow the assets so that the purchasing power of future dollars is at least as great as current dollars), to provide a predictable stream of funding to programs supported by endowment.

The long-term investments are managed to support the Spending Policy, attached hereto as Appendix D. The long-term investment objectives and the Spending policy work together to support a predictable stream of funding for grant making in perpetuity. The Spending Policy is reviewed and approved annually by the Board.

The short-term investments are managed to preserve capital, with a provision of liquidity for planned and unplanned disbursements. The short-term investments are suitable for risk-averse investors seeking to protect principal and/or meet short-term withdrawal requirements.

CACF's investment pools are constructed to achieve return objectives while maintaining acceptable levels of volatility. The asset allocation strategies, including targets and acceptable ranges for each investment pool are outlined in Appendices B - C.

PROXY VOTING POLICY

All proxies are voted by the individual managers within the Equities and Real Assets classes with the sole purpose of maximizing shareholder value.

POLICY CHANGES

The Investment Committee will review this policy at least annually and recommend changes, if any, to the Governing Board, as necessary.

IPS RECORD

2011

2014

2015

REVISED, AMENDED, APPROVED May 27, 2020 - Investment Committee

APPROVED September 14, 2020 - Governing Board

APPENDIX A

INVESTMENT POOL OPTIONS

AS OF 6/1/2020

Two current investment pool options are designed to meet specific philanthropic goals and time horizons. Additional pools may be added as appropriate.

- I. **Long-Term Pool** - The Long-Term Investment Pool is managed under a long-term time horizon of 10 years or more. See Appendix B.
- II. **Short-Term Pool** - The Short-Term Pool is managed under a time horizon of less than 3 years for capital preservation. See Appendix C.

APPENDIX B

LONG-TERM INVESTMENT POOL

I. TIME HORIZON

The Long-Term Investment Pool will be managed under a long-term time horizon, to maximize annualized returns net of all costs over rolling 7-10+ years while adhering to CACF's stated risk parameters.

II. RETURN REQUIREMENTS

CACF endowment funds invested in the Long-Term Investment Pool seek to earn a rate of return that is at least the rate of inflation plus the spending rate, as defined in the Spending Policy, attached hereto as Exhibit D. The Spending Policy is reviewed and approved annually by the Governing Board.

III. ASSET CLASSES AND ALLOCATION RANGES

The long-term horizon of the Long-Term Investment Pool allows for a large allocation to equity-oriented strategies where the potential for long-term capital appreciation exists. Other assets, including but not limited to fixed income and non-traditional assets, will also be used to reduce the risk and overall portfolio volatility. The Fund will be diversified across asset classes and managers.

The Asset Allocation Ranges may change from time to time but do not affect the overall Investment Policy Statement and, therefore, are included here.

Asset Class	Range
GLOBAL EQUITIES	50-85%
FIXED INCOME* & CASH	5-25%
REAL ASSETS/INFLATION HEDGE	0-10%
NON-TRADITIONAL ASSETS*	5-30%

Equities include both domestic (small-cap, mid-cap and large-cap) and international (developed and emerging market) equities. Fixed income is generally limited to domestic short and intermediate term investment grade bonds. Real assets include, but are not limited to, REITs. Non-Traditional Assets currently include a single hedge fund (fund of funds).

**Allocation to Fixed Income and Non-Traditional assets is determined by the Investment Committee, not by the Investment Advisor.*

IV. RISK TOLERANCES

CACF recognizes that higher returns involve higher volatility and is willing to tolerate volatility (similar to its passive benchmark of 75% equity and 25% bonds) in order to optimize the financial objective of the fund.

V. BENCHMARK

The Investment Committee maintains a broad view of the CACF portfolio, focusing on risk tolerance and return expectations by setting the asset allocation percentages and reviewing returns versus their respective benchmarks. Currently, the portfolio will be measured against three benchmarks:

- 1) Inflation (CPI) plus 5%
- 2) Passive benchmark of 75% MSCI All Country World Index and 25% Merrill Lynch US Treasury 7-10 Year Index
- 3) Dynamically weighted composite benchmark based on asset class. The Dynamic benchmark will be based on the following asset class composites and related benchmarks:
 - 3.1) Equities: MSCI All Country World Index
 - 3.2) Fixed Income: Bloomberg Barclays Intermediate Gov't/Credit Index
 - 3.3) Cash and Equivalents: Lipper Money Market Index
 - 3.4) Non-traditional assets: HFRI Fund of Funds Composite Index

VI. APPROVED INVESTMENT ADVISOR AND MANAGERS

Investment Advisor:

- 1) Wells Fargo: Public Equities and Real Assets, and selection of related underlying Investment Managers

Investment Managers:

- 1) Bluestem Partners, LP: Non-Traditional Assets
- 2) Agincourt Capital Management, LLC: Fixed Income

APPENDIX C

SHORT-TERM POOL

I. TIME HORIZON

The Short-Term Pool is managed under a time horizon of less than 3 years for capital preservation.

II. RETURN REQUIREMENT

The Short-term Pool assets are the source of CACF's near-term funding needs and accordingly, managed to earn a return at least commensurate with inflation (CPI).

III. ASSET CLASSES AND ALLOCATION RANGES

Due to the short-term time horizon of the Short-Term Pool, the asset class will be limited to highly rated securities with liquidity within 3 years.

IV. LIQUIDITY

Daily

V. RISK TOLERANCE

Conservative risk tolerance to protect capital.

VI. BENCHMARKS

Currently, the portfolio will be measured against the Lipper Money Market Index.

VII. APPROVED INVESTMENT MANAGER

1) Wells Fargo: Cash and Cash Equivalents

SPENDING POLICY

APPROVED December 9, 2019 – Governing Board

APPROVED September 14, 2020 – Governing Board

Purpose

The Foundation's Spending Policy and investment strategy are designed to work together to provide a predictable stream of dollars for annual grantmaking to the region's non-profits while also prioritizing the preservation of the inflation-adjusted value of the funds so that the impact of future grantmaking can be as effective as it is today.

The Community Foundation sets a sustainable annual payout recommendation. For funds deemed to be held in perpetuity, the annual payout recommendation determines the portion of the fund balance available for grantmaking and other fund expenses in the coming year.

Spending rate and Calculation Method

The spending policy rate generally ranges from 4 to 5 percent of the rolling 3-year semi-annual average of the market value of each fund balance (calculated based on three years ending either December or June for budget purposes). In January, the annual payout budget (spending policy amount) for individual funds adhering to the Board-approved spending rate is calculated and communicated for the calendar year.

The Governing Board sets and approves an annual Spending Rate upon recommendation of the Finance Committee.

The 2021 Spending Rate has been set by the Board at 4.5%.

Donors whose funds are not specifically endowment funds (allow for invasion of principal) are not limited to the spending policy amount.

APPENDIX E

INVESTMENT POLICY FOR SEPARATELY INVESTED FUNDS

OVERVIEW

The purpose of this policy statement is to guide the Charlottesville Area Community Foundation ("CACF") Governing Board, Investment Committee, Investment Managers and Director of Finance in effectively managing, monitoring, and evaluating CACF's investment portfolios ("Fund").

INVESTMENT RESPONSIBILITIES

Governing Board

The Governing Board appoints members of the Investment Committee and designates the Chairperson. The Chairperson of the Investment Committee will report periodically to the Governing Board on the status of CACF's Fund, and on the policies and practices of the Committee.

Investment Committee

The Investment Committee is responsible and accountable, as delegated by the Governing Board, for the prudent management of the CACF's Fund, including:

- 1) Developing and maintaining the Foundation's investment policies,
- 2) Setting risk tolerances and controls,
- 3) Setting asset allocation guidelines and determining which asset classes will be used,
- 4) Appointing and evaluating the Investment Managers, and
- 5) Reporting to the Board periodically on Fund performance.

The Committee will meet at least quarterly. A quorum of the Committee is defined as a majority of members of the Investment Committee.

Investment Managers

The Investment Manager is charged with the responsibility for:

- 1) Implementing the Investment Committee's asset allocation guidelines,
- 2) Manager selection and monitoring of underlying investment managers within each asset class,
- 3) Rebalancing asset classes and allocating assets, and
- 4) Periodically reviewing the appropriateness of the investments and underlying investment managers.

In doing so, the Investment Manager will work to attain the stated objectives of this investment policy statement. The Investment Manager will serve as the primary contact for underlying investment managers and will inform the Director of Finance of changes made to the underlying managers or asset classes. The Investment Manager will prepare and present appropriate reports, on at least a quarterly basis.

Director of Finance

The Director of Finance works with the Investment Manager, so that the Committee receives timely, complete and relevant information on the Investment Manager's activities and performance in relation to the management of CACF assets and compliance with Foundation policy.

FINANCIAL OBJECTIVE

CACF has a long-term horizon for the majority of the investments. The primary financial objective is to grow the assets so that the purchasing power of future dollars is at least as great as current dollars, to ensure the ongoing distribution of funding for the benefit of the community. A secondary objective is to provide a first-class investment program that is attractive to and meets the needs of the fund holder(s).

INVESTMENT OBJECTIVE

The Fund's primary objective is to provide long-term growth of capital to meet the on-going obligations of the Fund consistent with the policies and mission of the Foundation. Another consideration and objective is to prudently manage risk by diversifying investments in a manner that lowers overall volatility.

RISK TOLERANCE

CACF recognizes that higher returns involve higher volatility and has indicated a willingness to tolerate volatility in order to optimize the financial objective of the Fund. The Fund will be appropriately diversified.

RETURN OBJECTIVE

The Fund will be managed to maximize annualized returns net of all costs over rolling 10-year periods while adhering to CACF's stated risk parameters defined as a portfolio invested primarily in stocks (including hedge funds) and to a lesser extent in bonds.

ASSET ALLOCATION AND BENCHMARK

The Investment Committee will meet with the donor and investment manager, both at the onset of the relationship and periodically thereafter, in order to establish an asset allocation strategy and plan, along with appropriate benchmark of fund performance.

The Foundation's Investment Policy (as distinct from this Investment Policy for Separately Invested Funds) is available upon request.

PROXY VOTING POLICY

All proxies are voted by the managers with the sole purpose of maximizing shareholder value.

POLICY CHANGES

The Investment Committee will review this policy annually at its August meeting and make changes, if any, as necessary.

This policy was approved by the CACF Governing Board on December 14, 2015.