INVESTMENT OBJECTIVES, POLICIES AND PROCEDURES

I. INVESTMENT OBJECTIVES

A. Rate of Return Requirements

The Community Foundation supports the charitable purposes of the communities comprising St. Joseph County, Indiana as set forth in the Articles of Incorporation and Bylaws. Spending from investment return provides operating support to individual programs throughout the community.

The primary investment objectives of the Foundation are to:

(1) Preserve the real purchasing power of the principal

(2) Provide a growing stream of income to be made available for spending, ideally keeping pace with inflation, in order to sustain the operations and grant-making capacity of the Foundation.

The long-term annualized rate of return objective for the total fund is inflation plus 5 percent. A minimum return equal to the rate of inflation is required to preserve the real purchasing power of the fund and the additional 5 percent is required to provide for spending.

Investment objectives will be achieved by maximizing total return consistent with prudent risk limits. The total return strategy ensures that investment objectives will be met with the intent of maximizing the long-term return of the entire portfolio, both from market value increases (realized and unrealized capital appreciation) and from current yield (interest and dividends). Portfolio managers are free to prudently allocate assets in a manner that they believe will produce the highest total return without the constraint of generating a specified amount of income for distribution.

B. Risk Tolerance

In light of the Foundation's long-term time horizon and limited liquidity needs over and above a sound spending policy, the fund can assume an average level of risk. Reasonable consistency of return on an annual basis is important to assure the Foundation's capacity to sustain a level of operation that will provide for its continual growth. Accordingly, the funds are to be managed in a manner that will limit downside risk. The asset allocation and investment manager structure and guidelines should ensure adequate diversification in order to reduce volatility. Investment managers are to make reasonable efforts to control risk and that level of risk will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.

C. Specific Targets

Specific total rate of return goals are expected to be met on a cumulative basis over a 3 to 5 year time horizon. These goals are as follows:

(1) The total fund performance objective will be to achieve an annualized total rate of return (net of fees) equal to or exceeding the U.S. Government Consumer Price Index (C.P.I.) plus 5 percent.

In addition, the total fund is expected to exceed a constructed policy benchmark comprised of 75% All Country World Index (ACWI) and 25% Barclays Aggregate Bond Index, net of fees and commissions, over a 3 to 5 year period.

In addition, the total fund is expected to exceed a constructed standard benchmark comprised of 65% All Country World Index (ACWI) and 35% Barclays Aggregate Bond Index, net of fees and commissions, over a 3 to 5 year period. The total fund will also be evaluated relative to other tax-exempt institutional funds, such as educational endowments and foundations that have similar investment objectives

(2) The annualized total rate of return of the private equity portion of the fund is expected to exceed a blended benchmark representing the broad private equity market, net of fees and commissions, over a 3 to 5 year period. The blended benchmark is comprised of 34% Cambridge U.S. Private Equity Index, 33% Cambridge U.S. Venture Capital Index, and 33% Cambridge Global ex U.S. Index. The private equity portion will also be evaluated with respect to its contribution to overall portfolio return, its return relative to public equity, and its impact on overall portfolio risk. Individual investment managers will be evaluated relative to their defined statement of investment objectives and guidelines received from the Foundation when hired. Individual investment managers will also be compared to an appropriate and statistically valid universe of institutional funds/managers.

(3) The annualized total rate of return of the real estate portion of the fund is expected to exceed a benchmark representing the broad real estate market, such as the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index, net of fees and commissions, over a 3 to 5 year period. The private real estate portion will also be evaluated with respect to its contribution to overall portfolio return and its impact on overall portfolio risk. Individual investment managers will be evaluated relative to their defined statement of investment objectives and guidelines received from the Foundation when hired. Individual investment managers will also be compared to an appropriate and statistically valid universe of institutional funds/managers.

II. INVESTMENT POLICIES

A. Investment Constraints

(1) Liquidity

Liquidity needs are low. Except for investment purposes and spending requirements, the fund requires no sizable liquid reserves. In addition, investing in marketable securities will enable the fund to raise cash on short notice if necessary.

(2) Time Horizon
The fund has a very long time horizon, which is typical for most foundations. The horizon extends well beyond a normal market cycle, and for the purpose of investment strategy, can be considered to be in "perpetuity."

(3) Laws and Regulations
Most endowment and foundation funds are governed by state regulations, which embrace the Prudent Investor Rule. The Prudent Investor Rule is a flexible legal investment standard that allows a fund fiduciary to utilize modern portfolio theory to guide investment decisions and requires risk versus return analysis. Therefore, a fiduciary's performance is measured on the performance of the entire portfolio rather than individual investments. The Foundation operates in accordance with the Indiana Uniform Prudent Management of Institutional Funds Act ("UPMIFA").

(4) Tax Considerations
The Foundation is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. This general exemption from tax does not apply to the "unrelated business taxable income" ("UBTI") of an exempt organization. As these tax payments will reduce the yield from these investments, the Foundation will consider the expected net after tax return in determining the appropriateness of an investment. The additional tax cost and reporting requirements of an investment will also be considered prior to the investment being made.

B. Policies and Guidelines

(1) The Foundation portfolio will be a broadly diversified portfolio of various equity, fixed income, and alternative investment asset classes. In order to achieve the inflation plus 5 percent return objective, the portfolio must have a heavy weighting in equities. The long-term strategic asset mix targets are provided as Exhibit A.

(2) Decisions regarding the allocations among asset classes, or the addition of new asset classes, will be made when such actions are expected to produce incremental return, reduce risk, or both. The various expected return, risk, and correlation characteristics of asset classes will be analyzed when making such decisions. It is expected that extreme positions will be avoided to prevent the possibility of a significant reduction in value given adverse market conditions.

(3) Investment firms managing Foundation portfolios are expected to act in an ethical manner and with integrity in all phases of the investment process. It is expected that, as a minimum requirement, investment managers will comply with The Code of Ethics and Standards of Professional Conduct as established by the CFA Institute.

(4) The purpose of the Foundation's equity investment portfolio is to provide capital appreciation. The equity portfolios shall consist of marketable securities that may be purchased on recognized exchanges in the U.S. and, in the case of international stocks, throughout the world. In any case, the following restrictions apply:

(a) the equity securities of any one corporate issuer should not exceed 10 percent of the equity portion, based on market value, of any manager's portfolio; and

(b) the equity securities of any single corporation and its related entities should not exceed 10 percent of the total issued and outstanding shares of such corporation.

(5) The purpose of the Foundation's fixed income portfolio is to preserve principal by hedging against deflation, while limiting the volatility of the total fund. Purchase of fixed income securities shall be limited to money market instruments, prime commercial paper and master demand notes, and certificates of deposit, bankers' acceptances, and other bank obligations, obligations of the U.S. government and its agencies, mortgage- and asset-backed securities, corporate bonds, debentures and other forms of corporate debt obligations, including equipment trust certificates, Eurobonds, Insurance Surplus Notes, and Capital Securities. Investments may also include exchange-traded funds, over-the-counter derivatives, futures contracts, currency options, currency forwards, swap contracts, credit default swaps.

Up to 5% of the assets may be in sovereign debt of emerging countries. Up to 15% of the portfolio may be in bonds with ratings less than "Baa3"/ "BBB-" according to Moody's or Standard and Poor's. The average credit quality rating of the fixed income portfolio shall be "Aa2"/ "AA" or higher by Moody's or Standard and Poor's. The portfolio will typically maintain duration within ±2 years of the benchmark's duration.

(6) The purposes of the Foundation's alternative investments in private equity and private real estate are to gain exposure to different asset classes in order to enhance total return, hedge against inflation, and increase portfolio diversification. Alternative investments generally may be considered illiquid and hard-to-price assets in the financial statements. As stated in *Investment Constraints*, liquidity needs are low and the target allocation of 20% of the Foundations assets in alternative investments does not impinge liquidity needs.

The Foundation generally accepts the fair value measures of alternative assets provided by the Foundation's external investment managers based on favorable review of each manager's

(a) FAS 157-compliant fair valuation policy and procedures; and

(b) Annual audit conducted by a nationally recognized accounting firm.

(7) Money market funds rated "A-1" (Standard and Poor's) or "P-1" (Moody's Investors Service) or higher should be utilized.

(8) Strict adherence to specific elements of these guidelines may be waived by the Finance and Investment Committee when collective, pooled, or mutual funds are utilized to meet the Foundation's investment objectives. The Committee will monitor portfolio transactions to identify variances from the guidelines.

III. INVESTMENT MANAGER SELECTION AND PERFORMANCE EVALUATION

A. Manager Selection Criteria

Portfolio managers and/or trustees of Foundation assets shall be approved by the Board of Directors based upon recommendations from the Finance and Investment Committee. Exhibit B provides an overview of key investment manager selection criteria that will be utilized by the Committee to analyze prospective investment management firms. Particular emphasis will be placed on a firm's ethical and financial viability, organizational structure, and experience of key personnel in addition to their historical performance record in both up and down markets.

B. Performance Evaluation

The Finance and Investment Committee will meet on a quarterly basis within 8 weeks of the close of the calendar quarter to review managers' adherence to investment objectives and guidelines and portfolio management performance. In advance of these meetings, the managers shall provide written reports containing sufficient schedules and narrative to evaluate their performance relative to investment objectives and guidelines. Each portfolio manager will receive a Statement of Investment Objectives and Policies which will reflect their particular assignment in the total Foundation portfolio.

The quarterly reports shall include an overview of investment strategies to be maintained or implemented over the next calendar quarter. The portfolio managers shall meet with the Committee to review individual reports as requested.

The Chair of the Committee will report on the status of the investment portfolio and any actions taken to the Board of Directors at each Board meeting.

Performance shall be measured on a total return, time-weighted basis and presented for the most recent quarter, year-to-date, and the trailing year, 3 years, 5 years and 10 years. Performance for periods greater than one year should be expressed on an annualized basis. In order to facilitate performance comparisons, investment results should be reviewed net of fees. Portfolio managers' time-weighted total returns will be compared to the appropriate market benchmarks for the asset class, peer universes of active fund managers and managers of similar investment style, i.e., growth, value, small-capitalization growth, etc.

IV. SPENDING POLICY

The objectives of the Foundation's spending policy are to allocate total earnings from the portfolio between current spending and reinvestment for future earnings, and to provide a predictable and growing stream of income to beneficiaries of Foundation grants.

Achievement of these dual objectives will ensure that the fund preserves real purchasing power in perpetuity while providing ongoing operational support to designated charitable activities. The long-term annual spending rate target from the Foundation is five percent (5%). The Foundation's spending policy seeks to distribute annually five percent (5%) of a 12-quarter moving average of each fund's quarterly market values calculated as of December 31st. Funds with 4-11 quarters of history may expend five percent (5%) of the average fund value based on ending quarterly values since inception until twelve quarters of history have been achieved. No distributions shall be made from funds with fewer than four quarters of history.

The Foundation's Spending Policy may be adjusted at the discretion of the Committee depending upon market conditions.

Donor Advised Philanthropic Funds (non-endowed) shall be administered in accordance with the terms of their contractual agreement with the Foundation. Therefore, compliance with the general spending policy outlined above is not anticipated or required.

VI. EXECUTION OF POLICIES AND PROCEDURES

Responsibility for execution of the policies and procedures outlined in this statement shall be delegated by the Board of Directors of the Foundation to the Finance and Investment Committee. The Committee shall be composed of no more than 12 members with a minimum of 3 Board members identified as having expressed interest in serving on the Committee. Additional members shall be selected from the community at large based on their recognized expertise in the financial services area. Members of the Committee are to be appointed by the Chair of the Board of Directors of the Foundation.

Terms for Committee members shall be for 3 years, and shall be renewable. The starting dates for individual terms shall be staggered to provide continuity. Vacancies occurring prior to the expiration of a member's term shall be filled at the discretion of the Chair of the Board of Directors.

VII. CONFLICT OF INTEREST

Committee members are required to make known to the Committee and the Foundation president conflicts of interest pertaining to their involvement with current or prospective Foundation investment managers (e.g. board membership, employment of self or relatives, business relationships, etc.) prior to any discussion or actions involving such investment managers. When such a conflict exists, the committee member shall leave the room when actions involving the relevant investment manager are being discussed. The committee member may respond to direct questions from other committee members regarding the relevant investment manager but shall not advocate on behalf of that manager unsolicited. Further, the committee member shall abstain from voting on such matters. The conflict of interest and related abstentions from votes taken shall be noted in the minutes of the meeting.

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Exhibit A

Asset Category	Strategic Target	Target Ranges
Global Stocks	75	70 - 80
U.S.	33	28 - 38
International	22	17 - 27
Private Equity/Private Real Estate	20	15 - 25
Fixed Income	25	20 - 30
Cash	0	0 - 5
Totals	100	

Rev Mar 2012; Rev May 2013, Rev Oct 2015; Rev Feb 2017; Rev Aug 2018

INVESTMENT OBJECTIVES, POLICIES AND PROCEDURES

EXHIBIT B

Investment Manager Selection Criteria

I. Investment Philosophy
   a. Coherence
   b. Faithfulness of execution
   c. Fit with the Foundation's structure and objectives
   d. Capacity
   e. Leverage
   f. Investment terms (fees, liquidity, lock-up, etc.)

II. Performance Record
   a. Against the market
   b. Against other managers
   c. Against other managers of similar philosophy

III. Personnel
   a. Experience (in years) of professional personnel
   b. Years that the <u>group</u> has been together
   c. Financial incentives
   d. Availability of key personnel
   e. Interest in the Foundation
   f. Personal chemistry with the Foundation
   g. Conflicts of interest

IV. Organization
   a. Appropriateness of asset size (current and planned) and philosophy for the Foundation
   b. Degree of administrative complexity as evidenced by account size and discretion
   c. Similarity of clientele or familiarity with particular Foundation characteristics
   d. Research capability (as required by philosophy)
   e. Financial and Ethical Viability
   f. Decision-making process / levels of accountability
   g. Compliance / monitoring protocols
   h. Operational efficiency
   i. Conflicts of interest