



community foundation

Greater Flint



STATEMENT OF INVESTMENT POLICY

ADOPTED BY BOARD OF TRUSTEES OCTOBER 2006

Statement of Investment Policy for the Community Foundation of Greater Flint

INTRODUCTION AND PURPOSE

This Statement of Investment Policy is set forth to:

1. Define the investment policies, guidelines and objectives of the Community Foundation of Greater Flint.
2. Create a framework from which the Finance Committee can evaluate performance, explore new opportunities and make recommendations to the Board of Trustees to enhance the Foundation's investment portfolio.
3. Provide guidance for, expectation of, and limitation on all parties bearing investment responsibilities with the Community Foundation of Greater Flint.

The intent of this Statement is to design an investment environment with specific parameters that reflects the philosophy of the Board of Trustees, thereby providing Investment Managers with clearly defined policies and objectives. Although these policies and objectives are intended to govern the investment activity, they are designed to be sufficiently flexible in order to be practical.

INVESTMENT RESPONSIBILITIES

The Community Foundation of Greater Flint is an IRS Section 501(c)(3) exempt foundation. The purpose of the Foundation's investment program is to provide charitable funds to various community endeavors consistent with the mission of the Community Foundation. Financial interests of current and potential donors and grantees take precedence over other interests; investment transactions are undertaken on behalf of donors and grantees. The investment program is managed in compliance with all applicable fiduciary, prudence, and due diligence requirements that experienced investment professionals would utilize, and with all relevant laws, rules, and regulations issued by local, state, federal and international political entities that apply to the Foundation.

Board of Trustees

The Board of Trustees ("Board") bears the overall fiduciary responsibility for the Foundation. As such, the Board is ultimately responsible for making the decisions that affect the Foundation's Investment Policy, Portfolio Objectives, Policy Asset Allocation, and Consultant. They must act prudently, avoid self-dealing and conflicts of interest, and for the best long-term interest of the Foundation. The Board has created the Finance Committee, a working committee of the Board, to coordinate the activities of Investment Managers, the Consultant and Custodians, study issues pertinent to the Foundation portfolio, and report and make recommendations back to the Board.

Finance Committee

The Finance Committee (“Committee”) is charged by the Board with the responsibility of overseeing the management of assets of the Foundation available for investment. The Committee has the responsibility to ensure that the assets of the Foundation are managed in a manner that is consistent with the policies and objectives of the Foundation. In this regard, the Committee also has oversight responsibility for full compliance with all applicable laws.

The Committee Members shall discharge their duties solely in the interest of the Foundation and for the exclusive purpose of meeting the financial needs of the Foundation. The Committee is authorized and permitted to engage the services of registered Investment Managers who possess the necessary specialized research facilities and skill to meet the investment objectives and guidelines of the Foundation. Accordingly, the Committee will require the Investment Managers to adhere to any policies adopted by the Committee.

In carrying out its responsibilities a quorum of the Committee must be present, either in person or by teleconference. Each member shall be entitled to one vote and each decision of the Committee shall require the assent of a majority of those present. In those instances where it may be impractical to convene a meeting of the Committee, members shall be allowed to vote via electronic mail (e-mail) upon the recommendation of the Board Treasurer.

The Finance Committee’s responsibilities include:

1. Recommending investment policy guidelines and reviewing their compliance;
2. Recommending policy asset allocation;
3. Selecting Investment Managers and Custodians;
4. Assessing and recommending investment objectives, rebalancing strategies, and performance measurement standards which are consistent with the financial needs of the Foundation;
5. Reviewing and evaluating investment results in the context of predetermined performance standards and implementing corrective action as needed; and
6. Reporting to the Board regarding the portfolio as to account balances, asset allocation, performance, and other pertinent items.

Investment Consultant

The Committee may recommend the engagement of an independent investment-consulting firm (“Consultant”) to assist the Foundation in the attainment of its financial and investment objectives, and to monitor compliance with the stated investment policies. The Consultant’s responsibilities are:

1. Assisting in the development and implementation of investment policies, objectives and guidelines,
2. Preparation of an asset allocation analysis and recommendation of an asset allocation strategy with respect to the Foundation's objectives,
3. Reviewing Investment Managers - including search, selection, reasonable due diligence of manager activity, and recommendation,
4. Preparing and presenting performance evaluation reports in accordance with Association of Investment Management and Research promulgated standards,
5. Attending Finance Committee meetings to present evaluation reports on a quarterly basis (attendance at other meetings is on an "as needed" basis),
6. Reviewing of contracts and fees for both current and proposed Investment Managers,
7. Reviewing and developing special investment strategies that complement existing asset classes or strategies to be considered by the Finance Committee,
8. Communicating investment policies and objectives to the Investment Managers, monitoring their adherence to such policies and reporting all violations,
9. Notifying the Finance Committee of any changes in key personnel or ownership of the consulting firm, as well as satisfactory explanation for such changes,
10. Assisting the Finance Committee in special tasks,
11. Notifying the Finance Committee immediately of any litigation or violation of securities regulations in which any Investment Manager is involved, and
12. Notifying the Finance Committee of any significant changes in portfolio managers, personnel or ownership of any investment management firm.

Investment Managers

Each Investment Manager is expected to pursue their own investment strategy within the performance guidelines created for individual managers. Coordination of the guidelines for the individual managers assures the combined efforts of the managers will be consistent with the overall investment objectives of the Foundation.

The Investment Managers' responsibilities are as follows:

1. Investing assets under their management in accordance with the guidelines and restrictions formulated by the Committee,

2. Exercising discretionary authority over the assets entrusted to them, subject to these guidelines and restrictions,
3. Providing written documentation of portfolio activity, portfolio valuations, performance data, and portfolio characteristics on a quarterly basis in addition to other information as requested by the Committee or Consultant,
4. Voting proxies vigorously in the best interest of the Foundation, and
5. Where applicable, annually providing a copy of the SEC investment advisors disclosure form ADV Part II.

Investment Custodian

The Investment Custodian (“Custodian”) is responsible for the safekeeping of the Foundation’s assets. The duties and responsibilities of the Custodian are as follows:

1. Providing timely reports detailing investment holdings and account transactions monthly and an annual report summarizing the following to be submitted to the Foundation and Consultant within 21 days following each fiscal year end.
2. The reports will include the following:
 - a. Statement of all property on hand,
 - b. Statement of all property received representing contributions to the accounts,
 - c. Statement of all sales, redemptions, and principal payments,
 - d. Statement of all distributions from the account,
 - e. Statement of all expenses paid,
 - f. Statement of all purchases, and
 - g. Statement of all income.
3. Establishing and maintaining an account(s) for each Investment Manager of the Foundation,
4. Providing all normal custodial functions including security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, daily investment of uninvested cash, etc., and
5. Preparing additional accounting reports as requested by the Committee or Consultant.

INVESTMENT POLICIES AND OBJECTIVES

General Investment Philosophy

Objectives:

- A. **Return:** The long-term objective of the Foundation is to earn a return sufficient to preserve the purchasing power of the Foundation for generations to come, as well as to provide for current needs. As a result, the annual return should at least equal the annual sum of distributions, inflation, administrative costs, and management fees. The Foundation portfolio has adopted a “total return” investment approach. Current income is considered a secondary consideration.
2. **Risk:** The Board of Trustees will permit the Foundation’s portfolio to experience an overall level of risk consistent with the risk generally associated with the Board of Trustees’ policy asset allocation.

Constraints:

1. **Liquidity:** The portfolio must offer sufficient liquidity to meet payments of philanthropic endeavors and expenses.
2. **Time Horizon:** The Foundation has a long life and should be managed with a time horizon much longer than the normal investment cycle. A time horizon of thirty to fifty years is appropriate. Providing for the Foundation's needs over the time horizon is a high priority.
3. **Taxes:** The Foundation is tax-exempt.

Return Measurement Objectives

The investment objectives of the Foundation are based upon a long-term investment horizon allowing interim fluctuations to be viewed in an appropriate perspective. While there cannot be complete assurance that the defined objectives will be realized, it is believed that the likelihood of their realization is enhanced by the Investment Policy Statement of the Foundation.

Over time, the Foundation will aim to achieve the total fund return goal while maintaining acceptable risk levels. To accomplish this goal, the fund will diversify its assets among several asset classes. **Appendix A** provides permissible asset classes and appropriate index measures of these classes. Active managers will be expected to provide returns greater than or equal to their appropriate benchmark while utilizing acceptable risk levels.

All return objectives described are understood to be net of (after) investment expense.

1. Total Foundation (portfolio) assets should strive to return, over the Time Horizon, an annualized nominal rate of return greater than or equal to the long-term return objective, net after all fees and costs.

2. Total Foundation (portfolio) assets should strive to return, over rolling twelve month periods, a nominal rate of return greater than or equal to a composite index created by combining various indices (**Appendix A**) in the same proportion as the Foundation's target allocation (described in Asset Allocation section).
3. Each investment manager should strive to return, over rolling twelve-month periods, a nominal rate of return greater than or equal to the appropriate market index for that investment manager (**Appendix A**), with not more than commensurate risk.

Volatility and Risk

The Foundation believes that the return objectives can be achieved while assuming acceptable risk levels commensurate with "market" volatility. "Market" volatility is defined as the trailing three-year standard deviation of investment returns (based on monthly data) of the benchmark indices deemed appropriate.

The Foundation further believes that risk is defined as the probability of failing to meet the Foundation's objectives over the time horizon. Therefore, in order to minimize the probability of failure, thereby minimizing risk, the following variables should be considered in all aspects of the decision-making process with regards to the Foundation's investable assets:

- Probability of missing the goal return
- Inflation
- Asset/style allocation

Distribution Policy

Distribution Rate

Annual distribution amounts are determined based on the Total Return Concept of endowment and foundation management in compliance with the Uniform Management of Institutional Funds Act, adopted by the State of Michigan as the Michigan Institutional Funds Act.

The Foundation recognizes that authorizing a Distribution Rate equal to the Foundation's total return each year will doom the Fund to declining real values, due to the effects of inflation and costs of investment management. At the same time, the Foundation is aware that it has come to rely upon a certain distribution amount in preparing its operating budgets. This amount is made available for the payments of grants, operating expenses, and investment management expense.

In carrying out the Distribution Policy, the Foundation may find it necessary to distribute more in an individual year than was actually earned in the year where, for instance, the most recent four quarters experienced a loss. The policy will act to maintain a more stable distribution stream, whether total return is positive or negative in given years.

Distribution Amount Calculation

- A. The amount to be spent from an endowed Fund each year is the immediate prior year's spending amount multiplied by the trailing twelve-month Consumer Price Index (CPI) for the period ending September 30 of the immediate prior year. However, in no case can the amount spent be above 6.0% (six percent) of the market value of each endowment fund ("maximum spendable amount"), or below 4.0% (four percent) of the market value of each endowment fund ("minimum spendable amount"). New funds that have no immediate prior year's spending amount will have spending calculated at 4% of the fund's value as of September 30th of the immediate prior year, unless they elect the alternative calculation below. The maximum or minimum amount to be spent each year is calculated based on the applicable Fund values as of September 30 of the immediate prior year as reviewed and approved by the Board of Trustees at its regular meeting held the first Friday of December following each September 30, subject to the limitations set forth below.
1. If the market value of an endowment fund on the December 31 following the September 30 valuation exceeds the fund's historic dollar value (the amount of the original gift that established the fund, plus any additional gifts to corpus, not counting any appreciation from investments) by an amount less than the immediate prior year's spending amount multiplied by the trailing twelve-month Consumer Price Index (CPI), subject to maximum and minimum spendable amounts defined above, then the amount available for spending from the endowment fund is the amount by which the endowment fund exceeds the fund's historic dollar value, together with the ordinary income (including interest, dividends, rents, etc.) earned on the fund during the previous four calendar quarters.
 2. If the market value of an endowment fund on December 31 is less than the fund's historic dollar value, then the amount available for spending from the endowment fund is the ordinary income (including interest, dividends, rents, etc.) earned on the fund during the previous four calendar quarters.
 3. An alternative calculation can be used for funds that meet the following criteria:
 - a. New Funds: those funds in existence for less than five (5) years may elect to spend 5% (five percent) of the average quarterly market value of the fund. (Quarters are defined as calendar year quarters: March 31, June 30, September 30, December 31.) Spending beginning with the fifth calendar year after the inception of the fund will follow the calculations set forth in paragraphs A.1. and A.2. above, using 4% (four percent) of the market value of the fund as of September 30th of the prior year as the base calculation.
 - b. Growth funds: those funds in an active campaign in any one fiscal year, may spend 5% (five percent) of the market value of the fund determined on an 8-quarter moving average. A Growth fund is evidenced by the following criteria:

- A general solicitation of donors, and
- Existence of a campaign committee.

Additionally, the fund must be a permanent endowment, and new gifts must equal 20% of the prior year-end market value determined at September 30th of each year.

Exceptions to these spending calculations must be approved in writing by the President of the Community Foundation of Greater Flint.

B. Non-UMIFA Total Return Spending Policy

If the fund agreement creating an endowed fund at the Community Foundation of Greater Flint specifically states or is amended to state that the donor creating said fund elects to have annual spending determined by a Non-UMIFA Total Return Spending Policy, annual spending will be calculated as follows:

The amount to be spent from an endowed Fund each year is the immediate prior year's spending amount multiplied by the trailing twelve-month Consumer Price Index (CPI)) for the period ending September 30 of the immediate prior year. However, in no case can the amount spent be above 6.0% (six percent) of the market value of each endowment fund ("maximum spendable amount"), or below 4.0% (four percent) of the market value of each endowment fund ("minimum spendable amount"). The maximum or minimum amount to be spent each year is calculated based on the applicable Fund values as of September 30 of the immediate prior year as reviewed and approved by the Board of Trustees at its regular meeting held the first Friday of December following each September 30.

The fund agreement for a fund electing a Non-UMIFA Total Return Spending Policy must state that it is the donor's intent and expectation that said fund is a permanent endowment fund consistent with the language of the State of Michigan tax credit regulations for gifts to permanently endowed funds established at qualifying Community Foundations.

Total Return Policy

The Foundation's total return is comprised of both traditional "income" (e.g., dividend on stocks and interest on fixed-income securities) *plus* realized and unrealized net capital gains. In recognition of these facts the Foundation has determined to use a Total Return approach to Distribution Policy.

It shall be the policy of the Foundation when administering this Distribution Policy to consider the Foundation's total return from both income and net capital gains, both realized and unrealized. All earnings are to be reinvested rather than be paid in cash. When distributions are made they will be withdrawn from the portfolio regardless of the portion of the total return that is from capital gains or from income.

Asset Allocation

The single most important decision made by the Foundation is the asset allocation decision. Investment research has determined that a significant portion of a fund's investment behavior can be attributed to (1) the asset classes/styles which are employed by the fund, and (2) the weighting of each asset class/style. It is the responsibility of the Committee of the Foundation to recommend to the Board the asset allocation that offers the highest probability of achieving the investment objectives. The Committee, with guidance and recommendations from their Consultant, should review the asset mix on an ongoing basis and recommend revisions as necessary.

The target asset allocation has been determined by the Foundation based on a comprehensive allocation study completed by the Consultant. The target asset allocation of the Foundation is designed to give balance to the overall structure of the Foundation's investment program over a long time horizon. However, some factors may impact the target allocation, thereby requiring an asset allocation review and possible rebalancing. Some of these factors include:

1. The Committee's assessment of the intermediate or long term outlook for different types of asset classes and styles,
2. The Consultant's assessment of the intermediate or long term outlook for different types of asset classes and styles,
3. Divergence in the performance of the different asset classes and styles.

Portfolio Rebalancing

Since asset allocation is the most critical component of the Foundation's returns, it is desirable to rebalance the portfolio periodically to minimize deviations from the Policy Asset Allocation mix.

The Committee may rebalance the portfolio to achieve the Policy Asset Allocation at any time. However, the Foundation shall normally be rebalanced in the event any individual marketable asset class differs from policy ranges (minimum or maximum) by more than 20% of the target weight, but with a minimum deviation threshold of 2% of the total portfolio value.

The Consultant will inform the Administration at the close of any month in which rebalancing the portfolio is necessary. The Consultant, together with the Administration, will complete the rebalancing process and notify the Committee. The Consultant will assist the Administration as needed in implementing such rebalancing.

Permissible Investments

The target asset allocation of the Foundation is expected to include a wide range of asset classes. These asset classes and their relative comparative indices are displayed in **Appendix A**. The permissible asset classes are as follows:

- Domestic Large-Capitalization Equity
- Domestic Large-Capitalization Value Equity
- Domestic Mid-Capitalization Equity
- Domestic Small-Capitalization Equity
- Domestic Small-Capitalization Value Equity
- International Large-Capitalization Equity
- International Small-Capitalization Equity
- International Emerging Markets Equity
- Private Equity
- Domestic Fixed Income
- Global Fixed Income
- Inflation-protected Fixed Income
- High Yield Fixed Income
- International Emerging Markets Fixed Income
- Real Estate (including REITs)
- Absolute Return Strategies (including hedge funds)
- Natural Resource and Commodity Funds
- Cash Equivalents

Investment Policies & Performance Goals for Investment Managers

The following are performance goals and constraint guidelines placed on individual managers within specific asset classes:

All Managers

1. All managers shall demonstrate a reasonable match, or “fit”, with their respective index, as measured by acceptable R^2 and tracking error. R^2 ranges from 0 to 100 and reflects the percentage of a manager's movements that are explained by movements in its benchmark index.
2. Active managers shall be terminated if tracking error is consistently out of policy and net performance is statistically indistinguishable from the benchmark return.
3. Index managers shall be terminated if tracking error is consistently out of policy.
4. No traditional manager shall be permitted to use margin or to otherwise leverage the portfolio, without the prior written consent of the Investment Committee. However, alternative managers (managers not considered to

be un-leveraged and long-only in the fixed income and equity asset classes) are permitted to use margin or leverage the portfolio, without the Board's consent, so far as their use of margin and leverage is consistent with their mandate.

Domestic Equity

1. The maximum weighting (cost basis) in any one company for active managers is 10%. This weighting applies only to those funds managed by a particular manager.
2. The maximum allocation to cash, at any time, will be 5% unless written permission is communicated to the Consultant by the Committee.
3. Trading and Execution: Managers should execute trades on a competitive basis, considering both commission and market impact, as compared to relative size funds.

Domestic Fixed Income

The maximum weighting (cost basis) in any one security for active managers is 10%. This does not apply to U.S. government and agency issues. This weighting applies only to those funds managed by a particular manager.

International Equity and Fixed Income

The use of currency futures to enhance performance and/or hedge currency exposure by international and/or global managers is at the discretion of the manager, provided the hedging in any one currency will never exceed the market value of the assets in the currency. A detailed description of a manager's currency strategy must be submitted to the Committee.

Other

- *Securities Lending:* Investment Managers may engage in securities lending to broker dealers as a means of enhancing income.
- *Related Party Transaction:* The Foundation will not loan funds to related parties defined as an officer, Trustee, Committee member, employee, or donor either current or prospective.

Procedure for Revising Guidelines

All investment policies and performance goals will be reviewed annually or when deemed necessary by the Committee. In order to facilitate timely adjustments and

rebalancing to the Foundation's Policy Asset Allocation without undue delays, the Policy Asset Allocation may be revised with a majority vote of the Board.

Reporting Requirement

The Consultant will be responsible for the preparation of the reports concerning performance evaluation. These reports will comply with standards developed by the Association for Investment Management and Research. While the assets will be monitored on a continuous basis, the Committee will focus primarily on the achievement of its objectives over a rolling three-year time horizon. However, if any Investment Manager significantly changes management philosophy, personnel or ownership, a review will be conducted to determine if the Investment Manager remains appropriate for the Foundation's purpose. The format of the Foundation's performance evaluation reports shall be developed with input from the Committee.

Conflicts of Interest

All persons responsible for investment decisions or who are involved in the management of the Foundation or who are consulting to, or providing any advice whatsoever to the Committee, shall disclose in writing at the beginning of any discussion or consideration by the Committee, any relationships, material beneficial ownership, or other material interest(s) which the person has or may reasonably be expected to have, with respect to any investment issue under consideration. The Committee may require such persons to remove themselves from the decision-making process.

Any member(s) of the Committee responsible for investment decisions or who are involved in the management of the Foundation shall refuse any remuneration, commission, gift, favor, service or benefit that might reasonably tend to influence them in the discharge of their duties, except as disclosed in writing to and agreed upon in writing by the Committee. The intent of this provision is to eliminate conflicts of interest between committee membership and the Foundation. Failure to disclose any material benefit shall be grounds for immediate removal from the Committee. This provision shall not preclude the payment of ordinary fees and expenses to the Foundation's custodian(s), Investment Manager(s), or Consultant(s) in the course of their services on behalf of the Foundation.

APPENDIX A
COMPARATIVE INDICES
FOR TRADITIONAL INVESTMENT MANAGERS

ASSET CLASS	COMPARATIVE INDEX
Equity	
<i>Domestic Equity</i>	
U.S. All-Cap Stocks	Wilshire 5000
U.S. Large Stocks	S&P 500
U.S. Large Value Stocks	S&P/BARRA 500 Value
U.S. Mid Stocks	S&P MidCap 400
U.S. Small Stocks	Russell 2000
U.S. Small Value Stocks	Russell 2000 Value
<i>International Equity</i>	
Int'l Large/Mid Stocks	MSCI EAFE
Int'l Small Stocks	S&P Citigroup EMI-EPAC
Emerging Market Stocks	MSCI Emerging Markets Free
<i>Private Equity</i>	S&P 500 + 5%
Fixed Income	
Domestic Fixed Income	Lehman Aggregate Bond
Inflation-protected Fixed	Citigroup Inflation Linked Bond
High Yield Fixed Income	Citigroup High Yield
Global Fixed Income	Citigroup World Bond
Emerging Mkt Bonds	JPM Emerging Mkt Bond
Cash Equivalent	U.S. Treasury Bills
Absolute Return	HFR Fund of Funds Index
Real Estate (including REITs)	Dow Jones Wilshire REIT
Commodities	Dow Jones AIG Commodity Index

APPENDIX B**ASSET ALLOCATION POLICY****Part I. POLICY ASSET ALLOCATION**

	<i>60% Equity 15% Alts 25% Fixed</i>
<i>Total Equity</i>	60%
<i>Total Alternatives</i>	15%
<i>Total Fixed Income</i>	25%
Total	100%

Part II. POLICY SUB-ALLOCATIONS

Within the above Policy Asset Allocation, the Committee currently anticipates the following sub-allocations as stated below. However, the Committee may, from time to time, revise these sub-allocations.

Growth Assets	
US All-Cap Stocks	23%
US Large Value Stocks	7%
US Small Value Stocks	5%
<i>US Equity</i>	35%
Intl Large Stocks	13%
Intl Small Stocks	5%
Intl Emerging Market Stocks	7%
<i>Intl Equity</i>	25%
Private Equity / Special Situations	5%
Total Growth Assets	65%
Risk Reduction Assets	
US / Global Fixed Income	15%
Absolute Return	5%
Total Risk Reduction Assets	20%
Inflation Protection Assets	
US Inflation Protected Fixed	10%
Real Assets	5%
Total Inflation Protection Assets	15%
Total	100%

This Investment Policy Statement must be reviewed by the Board of Trustees at least once a year and confirmed as appropriate or amended as necessary at that time.

Approved by the Board of Trustees on this 6th day of October, 2006.