



Investment Policy Statement

PURPOSE

The purpose of this policy is to guide The Community Foundation of Harrisonburg & Rockingham (“TCFHR”), its Board of Directors, its Investment Committee, and its Investment Professionals in effectively and prudently managing, monitoring, and evaluating TCFHR's Investment Portfolio.

TERMS

INVESTMENT PORTFOLIO. TCFHR has a variety of investment accounts and pools which it maintains to manage its invested assets. The Investment Portfolio consists of all assets subject to the authority of the Investment Committee as further described in this policy (“Investment Portfolio” or “Portfolio”) including but not limited to the following assets.

“Pooled Account”: TCFHR manages over two hundred charitable funds, with a variety of restrictions and time horizons, in a fund accounting system. Each charitable fund has its own general ledger and is accounted for separately but multiple charitable funds may be combined into a single investment vehicle. TCFHR maintains several Pooled Accounts in which multiple charitable funds are combined for economies of scale into one large Pooled Account managed by a single Investment Advisor or Custodian. Pooled Accounts held for short term assets and liquidity may or may not be managed by an Investment Advisor. The Pooled Account may be made up of a single checking or money market account or may consist of multiple investment accounts managed by different Investment Managers (the “Investment Pool” or “Pool”) depending on the time horizon and acceptable risk parameters of the assets. TCFHR will maintain several Pooled Accounts with different asset allocations and risk parameters based on the time horizon of the assets contained in the Pool as further described in Appendix A.1 to this policy.

“Individually Managed Accounts”: Individually Managed Accounts refers to mutual funds, money market funds, checking account, or other similar account where the account holds the assets of only one charitable fund. Options for Individually Managed Accounts are included in Appendix A.1 and Appendix A.2 to this policy.

Other Assets. From time to time TCFHR may hold real property or other assets such as notes receivable as an investment subject to approval by the Investment Committee and the Board of Directors. The retention of other assets for investment purposes will be

carefully considered on a case by case basis with consideration taken for the relevant costs, benefits, and returns including cost to hold and maintain the asset, and expertise needed to hold and maintain the asset. These assets may be considered separately from the asset allocation and other parameters contained in this policy for the Investment Portfolio.

Assets held in Trust. Assets held by TCFHR as trustee for a beneficiary under a split-interest trust agreement or other trust agreement will be invested in accordance with the trust document and subject to the growth and cash flow needs of the beneficiaries.

INVESTMENT PROFESSIONALS. TCFHR and the Investment Committee works with the following types of professionals in managing its invested assets and further reference to these Professionals or Investment Professionals is defined as follows.

“Investment Advisor”: Typically, the Investment Committee of TCFHR hires investment advisors to manage the applicable Investment Pools and Individually Managed Accounts. Advisors hired by TCFHR are responsible for picking investments and Investment Managers, and maintaining asset allocation and risk in compliance with the requirements contained in this policy. The Advisor is responsible for choosing and assessing Investment Managers and maintaining the correct asset allocation within the Portfolio. At least every five years, TCFHR will assess Advisors and may issue a request for proposals to evaluate retention of the Advisor.

“Investment Manager”: Investment Managers are hired by the Investment Advisor to handle the investment of the assets as part of the asset strategy set out by the Investment Committee. The Investment Advisor for the Investment Pool, and any Individually Managed Accounts meeting the minimum size requirements contained in this document, will pick the Investment Managers and monitor their performance to ensure compliance with the risk tolerance, asset allocation, and performance objectives set out in this Investment Policy.

“Custodian”: The Custodian is set by the Investment Advisor, and approved by TCFHR, or in some cases, such as certain checking and money market accounts, set by TCFHR directly. The Custodian has physical custody of the equities, mutual funds, fixed income holdings, cash and equivalents and other invested assets. The Custodian will handle all transactions, report the status of assets, assist with tax compliance and reporting, and manage the accounts and transactions.

In general, the Investment Advisors will ensure that each Custodian will:

- Provide monthly transaction reports and monthly asset reports no later than the tenth business day following month end;

- Provide TCFHR, and its investment Advisors special reports as reasonably requested;
- Communicate immediately any concerns regarding portfolio transactions or valuation, or material changes in personnel, procedures or organizational structure.

DIVISION OF RESPONSIBILITIES

Board of Directors

The Board of Directors is ultimately accountable for the Portfolio, but has determined that the Portfolio is more likely to achieve return objectives if oversight and management are delegated to the Investment Committee. As a result, the Board of Directors has delegated to the Investment Committee full power and authority to make decisions related to investments of TCFHR, consistent with the Investment Policy approved and adopted by the Board.

Members of the Committee shall be appointed by the Board and shall serve at the pleasure of the Board. The Treasurer of the Board and the Accounting Director of TCFHR shall be ex officio members of the Committee.

The Chair of the Committee, who shall be a director, shall be elected by the Board.

Investment Committee

The Investment Committee shall consist of up to nine voting members, at least two of whom shall be Directors. Members of the committee shall be persons knowledgeable about investments and investment practices. At least one member shall be a representative of an agency charitable fund with holdings of at least \$1 million invested with TCFHR.

Subject to approval by the Board, the Investment Committee is charged by the Board of Directors with the responsibility for formulating TCFHR's overall investment policies. The Investment Committee is also charged with establishing investment guidelines in furtherance of those policies; overseeing the investment assets of TCFHR; monitoring the management of TCFHR's assets for compliance with the investment policies and guidelines; and for meeting performance objectives over time.

The Committee will review the implementation of this Investment Policy at least annually, making recommendations for changes to the Board as needed, and will monitor the achievement of the Policy's objectives.

The Committee is responsible for selecting and managing relationships with Investment Advisors, Managers, Custodians, and other professionals engaged to assist in TCFHR's investments. The Committee may delegate investment and management authority in accordance with written agreements between the Professionals and TCFHR.

The Committee will act in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances in selecting, continuing or terminating Investment Professionals, establishing the scope and terms of any delegation, and monitoring performance and compliance with the scope and terms of the delegation and with this policy.

The Committee will provide relevant information to the Investment Professionals concerning TCFHR's resources and any special considerations pertaining to any particular assets of TCFHR.

The Committee will meet at least quarterly. The Chair of the Investment Committee may also call special meetings of the Investment Committee as needed.

A majority of the Committee shall constitute a quorum for the transaction of business, and the act of a majority of the members of the Committee present at any meeting at which a quorum is present shall be the act of the Committee.

STANDARD OF CARE

In exercising its responsibilities, the Committee will act in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

A person with special skills or expertise, or selected in reliance upon his or her representation that he or she has special skills or expertise, will use those skills or that expertise in managing and investing institutional assets.

STANDARDS FOR PRUDENT INVESTING

In investing and managing the Portfolio, the Committee will consider both the purposes of TCFHR and the purpose of any specific charitable fund.

Management and investment decisions about an individual asset or fund will be made not in isolation but rather in the context of the Portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to TCFHR.

In managing the Portfolio, the Committee will incur only those costs that are appropriate and reasonable in relation to the Portfolio or any specific institutional fund, the purposes of TCFHR, and the skills available to it and will use reasonable efforts to verify facts relevant to the management and investment of the Portfolio or any specific institutional fund.

Except as a donor's gift instrument otherwise requires, and consistent with the Uniform Prudent Management of Institutional Funds Act contained in Title 64.2 Chapter 11 of the Code of Virginia, as amended, the following factors must be considered, if relevant, in managing and investing the Investment Portfolio, including the requirements for any specific institutional charitable funds:

- 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 TCFHR's overall Investment Portfolio;
- the expected total return from income and the appreciation of investments;
- other resources of TCFHR;
- the needs of TCFHR and a given institutional fund to make distributions and to preserve capital; and
- an asset's special relationship or special value, if any, to the purpose of TCFHR.

RETURN OBJECTIVE

TCFHR's long-term investment objective is to preserve the real value of its charitable funds while maintaining the desired grant expenditure payout rate to insure availability of funds for grant purposes in the near or long term. For its Long Term Assets, this means that TCFHR seeks a total rate of return that at a minimum supports and ideally exceeds TCFHR's spending policy distribution percentage, administrative fees, expenses, investment fees, and inflation. TCFHR will normally measure whether it has achieved that objective over a rolling ten-year period.

The long-term horizon of TCFHR's Investment Portfolio allows for a large allocation to equity-oriented strategies where the potential for long-term capital appreciation exists. Other assets may also be used to reduce risk and overall portfolio volatility subject to approval by the Investment Committee.

The Investment Portfolio will be diversified across asset classes and managers and may include, but not be limited to, domestic equity, international equity, emerging markets, and fixed income. In addition, TCFHR will endeavor to maintain at all times a minimum of two quarters of cash on hand for purposes of grant making and expenses.

In general, TCFHR's invested assets fall into two broad time horizon categories: long-term and short-term. For purposes of this policy, long-term assets may include 1) permanent charitable funds which have been designated in their respective fund agreements as permanently endowed funds, 2) charitable funds which may not meet the technical legal requirements of an endowed fund but which are intended by the donor to be of long duration and are subject to TCFHR's distribution policy, and 3) non-permanent charitable funds with no restriction on timing of distributions but where distribution is not anticipated in the next 12 months (collectively referred to as "Long-Term Assets"). Short-term refers to assets where distribution is planned or likely within 12 months ("Short-term Assets").

Long-Term Assets may be invested in one or more of TCFHR's Investment Pools or Pooled Accounts, or an Individually Managed Account subject to the requirements for Individually Managed Accounts contained in this Policy. These Pools and Individually Managed Accounts, with their asset allocations, are described in Appendix A.1 and A.2 to this Policy.

Short-Term Assets generally will be invested in cash equivalent securities or other cash account in order to preserve the charitable fund's principal. Short-Term Assets may be held in a Pooled Account or Individually Managed Account. TCFHR will assess the value of these accounts at least quarterly with the goal of maintaining a minimum of one year's estimated cash needs for its invested assets. However, TCFHR may consider recommendations from authorized fund representatives to invest Short-Term Assets in one or more of the investment options available for Long-Term Assets.

STANDARDS FOR RISK TOLERANCE

The Investment Committee has determined that Investment Professionals should avoid imprudent risk in investing TCFHR's assets. To achieve that goal, Investment Advisors will insure that Investment Managers observe the following limits:

- For fixed asset investment, maintain investment grade assets as defined by major credit rating agencies such as Moody's or Standard and Poor's. Split rated securities will be governed by the lower rating. If any holdings fall below investment grade, the Advisor must provide timely notification and recommended strategy to the Investment Committee or its designee;
- For cash equivalents, all cash and equivalent investments shall be made with utmost concern for quality. Therefore, investment will be limited to U.S. Treasury bills, commercial paper rated P-1, and insured certificates of deposit. Other securities that reflect similar quality as those described above including, but not limited to, money market mutual funds, which meet such parameters, are permissible also.
- Maintain the overall Investment Pool to be diversified;
- Hold no more than 5% of market value of the Investment Pool in the securities of a single issuer and do not allow exposure to any one Global Industry Classification Standard ("GICS") Sector¹ to exceed 2 times that GICS S&P 500 weight with an absolute cap of 30% of the market value of the equity portion of the Portfolio;
- Unless approved otherwise by the Investment Committee, all of the Investment Pool's net assets will be held in vehicles utilizing lockups of 12 months or shorter.

¹ GICS was developed by and is the exclusive property and a service mark of Morgan Stanley Capital International Inc. ('MSCI') and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ('S&P'). S&P provides sector classification for common stocks only. The 10 sectors commonly used by TCFHR's Advisors in its analysis are: Energy, Materials, Consumer Discretionary, Consumer Staples, Health Care, Financials, Information Technology, Telecom Services and Utilities.

- Not lend any TCFHR securities;

STANDARDS FOR INVESTMENT ADVISORS

TCFHR will enter into a written investment agreement with any Advisors it retains, including Advisors recommended by donors. The agreement must provide that:

- TCFHR is the sole owner of assets held in the account or portfolio;
- All such assets are and must remain under TCFHR's sole control;
- The Advisor's actions and performance will be overseen by the Investment Committee;
- The Advisor will adhere to and insure that any specific Investment Fund Managers it hires adhere to TCFHR's asset allocations, risk tolerance, and rebalancing requirements;
- The Advisor will not purchase securities on margin or sell securities short without the advance approval of the Investment Committee or its designee;
- The Advisor will rebalance as necessary to fall within the described target ranges for the Investment Pool or Individually Managed Account if applicable. The Advisor will review the need for rebalancing at least quarterly.
- The Advisor agrees to fees that are reasonable and consistent with what TCFHR pays or would pay other money managers for similar services;
- The agreement may be terminated at any time and assets will be transferred to TCFHR immediately upon termination.

Assets will be invested in accordance with state law regarding prudent investing.

The Advisor must agree to distribute to TCFHR such sums as TCFHR may request from time to time, including TCFHR's administrative fee for any charitable fund under separate management and distributable income.

TCFHR will not pay any Investment Professional or any other party for referring a donor to TCFHR and no existing funds of TCFHR will be transferred to such a person as compensation for a referral.

Investment Advisors will advise TCFHR promptly of any event that is likely to adversely affect the management, professionalism, integrity or financial position of the Advisors or any related Manager's firm or its progress toward the goals and objectives of this policy.

Investment Advisors shall not invest any part of TCFHR's assets through transactions that involve self-dealing or an actual or perceived conflict of interest.

REPORTING REQUIREMENTS

The Advisor, or applicable Custodian, will provide monthly statements to the Investment Committee or its designee, which shall include the current fair value of the assets; the cost basis and date of acquisition; income received; distributions made; fees paid; securities transactions; and periodic statements of performance. The statement shall also include gains and losses, both realized and unrealized. The Investment Committee or its designee may request additional information from time to time as it deems necessary to measure performance.

FAIR VALUE MEASUREMENTS

TCFHR must report fair value to its fund holders and provide disclosure regarding the valuation process and as such has adopted FASB ASC 820, Fair Value Measurements and Disclosures which provides the framework for measuring fair value. Fair Value as defined in FASB ASC 820 is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. Based on FASB ASC 820 guidelines, TCFHR uses a three level fair value hierarchy describing the inputs that are used to measure assets and liabilities as follows:

Level 1 – Valuations for assets and liabilities traded in active exchange markets such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange or dealer or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

INDIVIDUALLY MANAGED ACCOUNTS

At TCFHR's discretion, and with approval from the Investment Committee, the assets of a particular component charitable fund of TCFHR may be managed by an Investment Advisor recommended by the charitable fund's donor or Advisor provided the value of the charitable fund meets minimum criteria established by TCFHR and the Investment Advisor satisfies TCFHR's

criteria. Any such Advisor must acknowledge and agree to comply with this Investment Policy by signing a copy of this document.

Due to the additional work and time involved by staff in setting up and maintaining an Individually Managed Account, component charitable funds must have an initial gift value of at least \$10,000 to be invested in an Individually Managed Account. Charitable funds meeting the minimum initial contribution amount must comply with the investment requirements contained in the Appendix A.2 to this policy which lists the Approved Mutual Funds for Individually Managed Accounts. Component charitable funds with a value of greater than or equal to \$250,000 may be invested in an Individually Managed Account and must either 1) comply with the investment requirements contained in the Appendix A.2 to this policy which lists the Approved Mutual Funds for Individually Managed Accounts or 2) may adopt and follow the asset allocations for TCFHR's Investment Pool contained in Appendix A.1 to this policy. Advisor and Manager's performance for Individually Managed Accounts will be reviewed on the same basis as TCFHR's other Investment Advisors and Managers.

Board approval of a donor's recommended Advisor is contingent on the execution of a written agreement that meets the Standards for Investment Managers contained in this policy. Upon the death of the charitable fund's original donor, the agreement between TCFHR and the Investment Advisor may continue for a period of up to five years or longer, if the donor has so requested in writing or if desired by TCFHR and if approved by the Investment Committee.

Donors may not act as Investment Advisors for funds created by their own donations and for which they advise the distribution of grants from the fund.

PERFORMANCE EVALUATION

The Investment Committee will review each Investment Advisor on an ongoing basis and evaluate the Advisor based on the following criteria:

- Ability to meet or exceed the applicable benchmark or benchmarks that match the pool or fund under management over the trailing quarter, 1-year, 3-year, 5-year, and 10-year periods;
- Investment returns are measured net of fees;
- Performance is reviewed quarterly and prepared by TCFHR's Investment Advisors.

EXCESS BUSINESS HOLDINGS

The Pension Protection Act of 2006 amended section 4943 of the Internal Revenue Code to limit ownership of closely-held business interests in a donor advised fund. A donor advised fund's holdings, together with the holdings of disqualified persons (donor, Advisor, members of their families and businesses they control) may not exceed any of the following:

- 20% of the voting stock of an incorporated business;
- 20% of the profits interest of a partnership, joint venture, or the beneficial interest in a trust or similar entity;
- Any interest in a sole proprietorship.

These limitations do not apply if the donor-advised fund holds an interest that does not exceed two percent of the voting stock and two percent of the value of the business.

Donor-advised funds receiving gifts of interests in a business enterprise have five years from the receipt of the interest to divest holdings that are above the permitted amount, with the possibility of an additional five years if approved by the Secretary of the Treasury. To prevent a violation of these rules, it is TCFHR's policy is to divest itself of such holdings within five years from the date TCFHR acquired the asset. If that is not possible, the asset will be transferred to a new or existing fund that is not an advised fund.

Because they are not "business enterprises," the rule will not apply to most gifts of real property, although undeveloped land may become a business enterprise under some circumstances. Interests in investment partnerships and LLCs—including family partnerships, hedge funds, REITs, and so forth—are excluded from the definition of business enterprise as long as 95 percent or more of the entity's income is from passive sources. Examples of other property gifts that are excluded because they are not business enterprises include: oil and gas interests (non-working); life insurance; tangible personal property (as long as it is not inventory); and remainder interests in personal residences and farms.

SPENDING POLICY

TCFHR sets its annual spending policy for permanent funds by applying a percentage, determined annually by the Board of Directors based on the recommendation of the Investment Committee, to a permanent fund's average net balance. Average net balance is based on a rolling 20 quarter market value as determined by the Investment Committee. In determining the applicable percentage, the Investment Committee considers TCFHR's history, spending policies in place at other community foundations, and TCFHR's responsibility to preserve the purchasing power of its permanent funds over time. The Endowed Funds Annual Distribution Policy, which sets out the annual spending rate for permanent funds for TCFHR is attached hereto as Appendix B and incorporated herein by reference.

REPORTING

In order to ensure that the Board of Directors and the Committee are able to fulfill their duties with respect to prudent management of the Portfolio, TCFHR's Investment Advisors will provide detailed reports at least quarterly to the Committee. Such reports shall include, though not be

limited to, performance of TCFHR's Investment Portfolio, actions taken with respect to the Investment Portfolio, and expected changes in investments.

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.

CONFLICTS OF INTEREST

Any actual or potential conflicts of interest possessed by a member of the Investment Committee must be disclosed and resolved pursuant to TCFHR's Conflict of Interest Policy.

Approved at a regular meeting of the Board of Directors on February 21, 2018.

Corporate Secretary

A handwritten signature in blue ink, appearing to read "Dana Lynn Harper", is written over a horizontal line.

APPENDIX A.1 – INVESTMENT POOLS

TCFHR maintains two Investment Pools with varying risk and return objectives.

STRATEGY	RECOMMENDED FOR	Asset Type	Target Allocation	RANGE	
Income	Short-term projects (1 year or less)	U.S. Government money markets (must have fixed \$1.00 net asset value per share), CD's, cash equivalents	100%		
Moderate Growth	Board recommended for all long-term funds (1 year or more)	Fixed Income	35.0%	25%	50%
		<i>Domestic</i>	31.5%	15%	50%
		<i>International</i>	3.5%	0	10%
		Equity*	65%	50%	75%
		<i>International</i>	10%	0%	20%
Cash	0%	0%	10%		

*Includes REITS

Pass through charitable funds with intended distribution of one year or less may be maintained in TCFHR's checking account to ensure fund availability for grant or other disbursement.

Please note that the target allocations in the table above are meant to be a guide. Investment Advisors must provide timely explanation to the investment committee or its designee of deviation from the target allocations once the allocation goes outside the allowable ranges given above.

In addition, separate accounts may be created, on a charitable fund by fund basis, depending on the donor's intent for the fund and the type of fund. These funds should be held in one of the following types of investment:

- 1) American Fund Portfolio Series approved by the Investment Committee as further detailed in Appendix A.2 to this policy (minimum \$10,000 initial contribution).
- 2) Other individually managed pooled investment account maintained in compliance with this Policy and the asset allocation targets and ranges given above (Minimum \$250,000 initial contribution).
- 3) Money market or other cash equivalent account, including checking accounts, maintained for short term liquidity needs in conjunction with the Investment Portfolio.

On a quarterly basis, returns from the Invested Pool and any applicable Individually Managed Accounts will be compared with applicable benchmarks. Historically, the applicable benchmarks used have been the following. Benchmarks may be adjusted and revised to be in line with changes in asset allocation subject to presentation and approval by the Investment Committee:

- 1) Morningstar Moderate (50% - 70% Equity)
- 2) 65% S&P 500/35% Barclays
- 3) Blended Benchmark comprised of 31% S&P 500, 11% S&P 1000, 23% EAFE, and 35% BCGC.

The Investment Advisor for such funds will be required to document and provide written explanation for underperformance of 1% or more from the applicable benchmarks for the lagging quarter, 1-year, 3-year, 5-year, or 10-year returns.

Approved at a regular meeting of the Board of Directors on February 21, 2018.

Corporate Secretary

A handwritten signature in cursive script, reading "Dana Lynn Harper", is written over a horizontal line.

APPENDIX A.2 – APPROVED MUTUAL FUNDS FOR INDIVIDUALLY MANAGED ACCOUNTS

AMERICAN PORTFOLIO FUNDS OPTION

Introduction

TCFHR recognizes the value of building relationships with local investment advisors and providing them an avenue to assist their clients in making charitable contributions to TCFHR. This avenue needs to be structured in a way not to disadvantage the investment advisor should he introduce his client to the benefits of them working with TCFHR. With this in mind, TCFHR has chosen the American Funds mutual fund company as the money manager whereby the investment advisor can continue to be the representative of the fund his client may choose to establish with TCFHR.

Fund Ownership

It must be clear that even though the investment advisor remains the representative on the account, the account is owned by TCFHR and the donor client does not retain any ownership interest. In addition, the investments in the fund will be chosen at the discretion of the Investment Committee of TCFHR and must adhere to the Investment Policy and this Addendum. American Fund investment advisors will be subject to the Investment Policy including the requirements for standards for investment managers and individually managed accounts contained therein.

Donor Goals

TCFHR recognizes the fact that donors may have different goals for the contributions they make. It is important to understand their goals and make investment decisions for their fund which are consistent with these goals. We also recognize the fact that these goals may change over time which would require adjusting the investments to remain consistent with the new goals.

Options

In order to make prudent investment decisions for these funds, the Investment Committee has selected four American Fund portfolios with different investment objectives: The Preservation Portfolio, The Income Portfolio, The Balanced Portfolio and The Growth and Income Portfolio. These portfolios are managed by the American Funds to remain consistent with the portfolio's overall objective. The portfolio objectives are:

- **American Funds Preservation Portfolio (PPVAX)** – The Preservation Portfolio's investment objective is to provide current income, consistent with preservation of capital. This portfolio would be particularly well suited for donors who would like to minimize risk due to market volatility.
- **American Funds Conservative Growth and Income Portfolio (INPAX)** – The objective of the Income Portfolio is to provide income and, secondarily, long-term growth of capital. This portfolio is designed to provide current income and opportunity for growth to support ongoing distributions in both the short and long term.

- **American Funds Moderate Growth and Income Portfolio (BLPAX)**- The objective of the Balanced Portfolio is to provide current income and long-term growth of capital and income. This portfolio is well suited for the donor who wants to grant up to 25% of the original contribution within three years with the possibility of granting 50% in five years.
- **American Funds Growth and Income Portfolio (GAIOX)** – The objective of this portfolio is to provide long-term growth of capital while providing current income. This portfolio is designed to create over the long term (10+ years), a return of 5% above inflation thus allowing a 5% annual distribution without the potential erosion of principal. In order to achieve this, the donor would not have current plans to payout principal over and above the 5%.
- **Money Market Account**– Each fund will have a money market component to provide liquidity and a mechanism for distributions and payment of fees in the first year.

Minimum Initial Gift Amount

A minimum of \$10,000 must be contributed to initially for the creation of a fund subject to this policy.

Initial Year of Fund

All withdrawals from American Fund Portfolio funds within 12 months of initial funding will be subject to a sales charge by American Funds. Every effort should be made to avoid such sales charges and plan for liquidity needs for the initial 12 months by maintaining the balance of the money market fund equal to anticipated cash outflows during the initial year of the fund.

TCFHR will work closely with the donor to select the portfolio which is best suited for the current and future goal of their fund. In addition, these portfolios will be reviewed and compared with appropriate benchmarks to comply with the Performance Measurement and Review section of the Investment Policy.

Approved at a regular meeting of the Board of Directors on February 21, 2018

Corporate Secretary



APPENDIX B – ANNUAL DETERMINATION OF SPENDABLE AMOUNT

The Community Foundation of Harrisonburg and Rockingham County

Endowed Funds Annual Distribution Policy

The Community Foundation of Harrisonburg and Rockingham County (“TCFHR”) has adopted a distribution policy for endowed funds. For purposes of this policy, the term endowed funds includes both permanently endowed funds and funds that may not meet the technical legal requirements of an endowed fund but that are intended by the donor to be of long duration and subject to TCFHR’s distribution policy (together hereafter referred to as “permanent funds”). Each permanent fund’s balance consists of undistributed principal plus investment returns.

“Principal” means the sum of the value of property given at the fund agreement’s execution and the value of property added at any time by the Donor-Advisor(s) or other donors, including any distributions not taken and retained in the fund, to assure the continuation and growth of the fund, all values being determined at the time the property is received by TCFHR.

“Investment returns” means all accumulated earnings or losses, net of third party investment fees, allocated to the fund. TCFHR shall separately account for principal and investment returns. A permanent fund’s balance shall remain a part of the fund until distributed under the terms of the fund agreement. Any investment returns in excess of the annual distribution, TCFHR administrative fees, and investment advisory fees shall be retained in the fund.

TCFHR fees will be assessed quarterly against each fund and are not included in the distribution limit included below. When determining the annual distribution percentage, TCFHR will also consider fees charged to the fund.

This policy is designed to preserve the integrity of the principal of the permanent fund, thereby also preserving the long-term ability of the funds to make annual distributions. The policy takes into consideration the fact that a fund may have an increase or decrease in value or it may have income or loss that would in some years be less than or greater than the annual distribution amount. It is expected that over time the annual distribution policy will likely help preserve the fund’s Principal. However, it may result in appropriation of Principal in some years.

The amount to be expended annually (“Annual Distribution”) from a permanent fund is determined by the Board of Directors based on the recommendation of the Investment Committee. The Annual Distribution amount is calculated on a percentage of the fund’s Average Net Balance.

The Average Net Balance (“Average Net Balance”) is based on the twenty (20) quarter rolling average market value, excluding pledges receivable, of the fund as of June 30th of each year. If

the fund has not been in existence for twenty (20) quarters, the quarterly market value will be averaged over the number of quarters in existence once the minimum number of quarters has been reached. A permanent fund must be in existence for a minimum of four (4) quarters before an Annual Distribution is made.

The purpose of the twenty (20) quarter rolling average is to smooth out investment return volatility. By limiting fluctuations in distributions, this method of determining the Annual Distribution is intended to:

- Help to protect the principal of each fund;
- Help the principal grow over time; and
- Give beneficiaries of the funds the benefit of a reasonably stable, consistent, and predictable flow of funds.

The Board has determined that the Annual Distribution shall not exceed 4% of the Average Net Balance of a permanent fund. In making this determination, the Board took into consideration:

- The duration and preservation of its permanent funds;
- TCFHR's purposes and those of the funds;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and the appreciation of investments;
- TCFHR's other resources; and
- TCFHR's investment policy.

TCFHR will calculate the recommended distributions by September 30th of each year. Permanent fund holders will be notified of the amount available for distribution and may, at their option, do any of the following:

- 1) Take the distribution at the recommended amount by the date given in the notification. TCFHR will issue a check to the nonprofit agency beneficiary of the fund.
- 2) Roll the distribution into a non-permanent fund which is not subject to this policy. These funds will be available for distribution at any time but will no longer be included in the Average Net Balance calculation for future distributions.
- 3) Retain the distribution in the fund thus making it part of the Principal balance of the fund. These funds will become part of Principal and will increase future distributions by increasing the Average Net Balance for the fund.

Fund holders must notify TCFHR of their requested action in writing no later than December 31 of the same year.

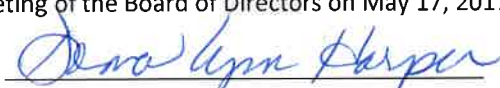
From time to time, a fund holder or beneficiary may request a distribution in excess of the Annual Distribution or before the fund has reached the minimum numbers of quarters to be included in the Annual Distribution calculation. A donor may allocate a portion of the original gift or any subsequent gifts as spendable at the time the gift is made. Any funds designated by the donor as spendable at the time of the gift will not be included in the Principal amount. Such designation must be documented in writing to TCFHR and signed by the donor concurrent with the gift.

In addition, a distribution in excess of Annual Distribution may be considered on a limited basis subject to the original fund agreement, the donor's intent, policy considerations, and specific circumstances. Any requests for prior year distributions must be approved by the TCFHR Investment Committee and the TCFHR Board of Directors. In no event shall total annual distributions, including TCFHR fees, from any fund exceed 7% of the Average Net Balance of the fund. In addition, any specific requirements contained in the fund agreement for excess distributions must be met. Terms and requirements contained in the specific fund agreement and set out by the original donor may supersede requirements contained in this agreement.

This policy applies to all permanent funds unless otherwise specified by the gift instrument. This policy shall be reviewed from time to time by the Investment Committee of TCFHR and shall be adjusted as deemed appropriate by TCFHR. Any change to this policy shall be effective only prospectively to the next fiscal year and will be subject to approval by the TCFHR Board of Directors.

Approved at a regular meeting of the Board of Directors on May 17, 2017

Corporate Secretary

A handwritten signature in blue ink, reading "Dana Lynn Harper", is written over a horizontal line.

APPENDIX C – CERTIFICATION OF ACCEPTANCE BY INVESTMENT ADVISORS

I have received, read, and understand The Community Foundation of Harrisonburg & Rockingham’s Investment Policy dated _____. I will abide by the Policy with respect to the assets for which I am the Investment Advisor.

I will notify TCFHR’s Investment Committee, or its designee, in advance of any proposed investment that is inconsistent with this Policy and I will not make such investment without the advance written approval of same.

Date

Signature

Print Name

Print Title