



# Investment Policy Statement

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## 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 one or more Investment Advisors or Custodians. 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/Advisory Firms”:*** Generally, the Investment Committee of TCFHR hires investment advisory firms to manage the applicable Investment Pools and Individually Managed Accounts. Advisors/Firms 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. Each Advisor/Firm is responsible for choosing and assessing Investment Managers and maintaining the correct asset allocation within the Portfolio for assets under their management. At least once every five years, TCFHR will assess Advisors/Firms and may issue a request for proposals to evaluate retention of any advisor or firm managing assets on behalf of TCFHR. The Committee may choose to enlist the services of one or more Advisors/Firms. Advisors/Firms will be solely responsible for the portfolios they manage and will be evaluated based on the totality of the services they provide, including partnership and support to benefit the mission of TCFHR. Further, each Advisor/Firm will have a separate account to manage.

***“Investment Manager”:*** Investment Managers are hired by the Investment Advisor/Advisory Firm to handle the investment of the assets as part of the asset strategy set out by the Investment Committee. The Investment Advisor/Advisory Firm for the Investment Pool(s), 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/Advisory Firm, 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. TCFHR acknowledges that if multiple Advisors/Firms are used to manage the pool, there may be multiple Custodians working with TCFHR.

In general, the Investment Advisors/Advisory Firms 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/Advisory Firms 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 performance of 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 Board shall elect the Chair of the Committee, who shall be a director.

### ***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. In addition, the Treasurer shall be invited to Investment Committee meetings.

Subject to approval by the Board, the Board of Directors charges the Investment Committee 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/Advisory Firms, 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 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 income investment, the vast majority of the fixed income allocation shall be held in 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. Up to 10% of the fixed income investments may be held in securities defined as below investment grade by the agencies mentioned above.
- 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 also permissible.
- Maintain the overall Investment Pool diversified as defined in Appendix A.1.

- 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") Sector<sup>1</sup> 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.
- Not lend any TCFHR securities;

#### STANDARDS FOR INVESTMENT ADVISORS/ADVISORY FIRMS

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

- TCFHR is the sole owner of assets held in the account or portfolio; as such, TCFHR will not participate in the practice of securities lending.
- All such assets are and must remain under TCFHR's sole control;
- The Advisor's/Firm's actions and performance will be overseen by the Investment Committee;
- The Advisor/Firm 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/Firm will not purchase securities on margin or sell securities short without the advance approval of the Investment Committee or its designee;
- The Advisor/Firm will rebalance as necessary to fall within the described target ranges for the Investment Pool or Individually Managed Account if applicable. The Advisor/Firm will review the need for rebalancing at least quarterly.
- The Advisor/Firm 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/Firm 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.

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<sup>1</sup> 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.

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/Advisory Firm will advise TCFHR promptly of any event that is likely to adversely affect the management, professionalism, integrity or financial position of the Advisors/Firms 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/Firm, 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. Quarterly portfolio allocation and performance reports for the prior calendar quarter are due to TCFHR by February 1, May 1, August 1 and November 1.

Advisors/Firms shall be required to report to the investment committee in the following manner:

- All Advisors/Firms for Pooled or Individually Managed Assets shall provide a written report quarterly
- Once Individually Managed Assets with an individual Advisor/Firm reach \$1MM, in addition to a written report, that Advisor/Firm will present an oral report to the investment committee at least once in an 8-quarter rolling period.
- Advisors/Firms of Pooled Assets will, in addition to the quarterly written report, provide an oral report to the committee at least twice in a 4-quarter rolling period.

#### 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 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date” (ASC 820-10-35-40). The emphasis within Level 1 is on determining “the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability”, and “whether the reporting entity can enter into a transaction for the asset or liability at the price in that market for the asset or liability at the measurement date.” (ASC 820-10-35-41B)

**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. “Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.” (ASC 820-10-35-47) “Level 2 inputs include “quoted prices for similar assets or liabilities in active markets”, “quoted prices for identical or similar assets or liabilities in markets that are not active”, “inputs other than quoted prices that are observable for the asset or liability”, or “market-corroborated inputs”. (ASC 820-10-35-48)

**Level 3** – “Level 3 inputs are unobservable inputs for the asset or liability.” (ASC 820-10-35-52) “Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.” Level 3 utilizes other valuation techniques and 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/Advisory Firm 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/Advisory Firm satisfies TCFHR’s criteria. Any such Advisor/Firm 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's/Firm's and Manager's performance for Individually Managed Accounts will be reviewed on the same basis as TCFHR's other Investment Advisors/Advisory Firms and Managers.

Board approval of a donor's recommended Advisor/Firm 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/Advisory Firm 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/Advisory Firms 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/Advisory Firm on an ongoing basis and evaluate the Advisor/Firm 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 using Global Investment Performance Standards (GIPS) based on daily time-weighted performance returns that are net of fees;
- Performance is reviewed quarterly and prepared by TCFHR's Investment Advisors/Advisory Firms.

#### 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/Advisory Firms 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 7.13.22

Corporate Secretary

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## 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 <sup>^</sup>	30.0%	25%	50%
		<i>Domestic</i>	27%	15%	50%
		<i>International</i>	3%	0	10%
		Equity*	60%	50%	75%
		<i>International</i>	13%	0%	25%
		Cash	0%	0%	15%
		Commodity Funds & Hedge Funds	10%	0%	15%

\*Includes REITS

<sup>^</sup>A maximum of 10% of Fixed Income assets may be held in securities defined as "below investment grade".

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/Advisory Firms must provide timely explanation to the Investment Committee or its designee of deviation from the target allocations once the allocation goes outside the above allowable ranges.

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:

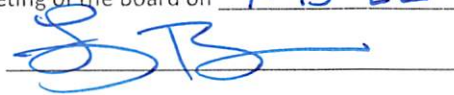
- 1) 65% S&P 500/35% Barclays
- 2) Blended Benchmark comprised of 31% S&P 500, 11% S&P 1000, 23% EAFE, and 35% BCGC.

\*Investment returns are measured using Global Investment Performance Standards (GIPS) based on daily time-weighted performance returns that are net of fees.

The Investment Advisor/Advisory Firm 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 on 7.13.22

Corporate Secretary

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## **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/Advisory Firms 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/Advisory Firm should he/she introduce his/her 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/Advisory Firm 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/Advisory Firm 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/Advisory Firms 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 American Funds Growth and Income Portfolio and/or a money market account. The portfolio objectives are:

- **American Funds Moderate Growth and Income Portfolio (BLPAX-class A shares or BLPEX-class F-2 shares).** 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.
- **Money Market Account–** This 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**

Depending upon the share class, withdrawals from American Fund Portfolio funds within 18 months of initial funding may 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 18 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 7.13.22

Corporate Secretary

A handwritten signature in blue ink, appearing to be "SB", is written over a horizontal line.

## **APPENDIX B – ANNUAL DETERMINATION OF SPENDABLE AMOUNT**

### **The Community Foundation of Harrisonburg and Rockingham County**

#### **Endowed Funds Annual Distribution Policy**

TCFHR's annual distribution policy is designed to ensure the longevity of endowed funds and provide annual distributions while considering market fluctuations and other changes in value. Although the distribution policy may occasionally result in appropriation of principal, the annual distribution is intended to preserve the principal of the fund to support its purpose.

#### **DEFINITIONS**

**“Endowment” or “Endowed Funds”:** Includes permanently endowed funds (funds with a long-term, permanent purpose) and quasi-endowed funds (funds that may not meet the technical or legal requirements of an endowment but have a long-term objective).

**“Investment Return”:** All accumulated earnings or losses, net of third party investment fees, allocated to the fund. Investment return is included in the balance of the fund.

**“Principal”:** The value of gifts to the endowment, less any adjustments or designation of a gift to the spendable balance of the fund.

**“Spendable Balance”:** The portion of the endowment set aside within the fund for distribution.

**“Annual Distribution”:** The amount to be spent annually for charitable purposes from an endowed fund as determined and calculated through this policy.

#### **ANNUAL DISTRIBUTION SPENDING PROCESS**

TCFHR shall calculate annual distributions by September 30<sup>th</sup> each year. The distribution is set at **4%** of the average balance (see “Annual Distribution Calculation”). Each type of endowed funds follows a specific spending process as outlined below.

**Endowed Donor Advised Funds:** Fund advisor(s) will be notified of the amount available for distribution and may elect any of the following by June 15<sup>th</sup>:

- 1) Recommend the annual distribution be granted to specific nonprofit organization(s).
- 2) If recommendations are not received from the fund advisor by June 15<sup>th</sup>, the distribution will be granted to the Community Endowment for the needs of the community.
- 3) In special circumstances, the endowment fund may retain the distribution in the endowment's investments until an agreed upon balance is reached.

**Scholarship Endowed Funds:** The annual distribution will be added to the scholarship fund's cumulative spendable balance. This provides funding for multi-year scholarship awards.

**Agency Fund Endowments:** Fund advisor(s) for the endowment will be notified of the amount available for distribution and may elect any of the following by June 15<sup>th</sup>:

- 1) Request the distribution.
- 2) Retain the distribution in the endowed fund and keep the balance invested to increase future annual distributions.

**Designated Endowments:** The annual distribution will be granted to the designated organizations according to the fund agreement.

**Area of Interest Endowments:** The annual distribution will be awarded according to the fund agreement.

**TCF Board Discretionary Endowments:** The annual distribution will be spent or retained at the discretion of the TCFHR Grants Committee.

### **ANNUAL DISTRIBUTION CALCULATION**

An endowed fund must be held by TCFHR for a minimum of four (4) quarters before an Annual Distribution will be calculated. The annual distribution percentage is set at **4%** of the fund's average balance. The average balance will be calculated annually after the end of TCFHR's fiscal year based on the average ending balance for a minimum of four (4) quarters up to twenty (20) quarters. The average balance excludes any illiquid assets and pledges that are not available for immediate expenditure.

*Example: Donor A creates Fund B in December 2023. When the annual distribution is calculated in 2024, Fund B will only have been held at TCFHR for three (3) quarters: December 2023, March 2024 and June 2024, so Fund B will not have a distribution calculated in 2024. At the annual distribution calculation in 2025, Fund B will have a distribution calculated based on the average balance of seven (7) quarters: December 2023, March 2024, June 2024, September 2024, December 2024, March 2025 and June 2025.*

The use of a quarterly average is intended to smooth out the impact of any volatility in the investment market. This helps protect the principal, ensure fund growth, and provide fund beneficiaries with the benefit of a reasonably stable and predictable flow of funds.

### **ANNUAL REVIEW OF POLICY**

The Investment Committee shall annually review this policy and distribution percentage. The committee's review includes consideration of the purpose of the endowed funds, general economic conditions, expected market return, and TCFHR's Investment Policy Statement. Changes to this policy are subject to approval by the TCFHR Board of Directors.

## 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