

PURPOSE

The purpose of this Investment Policy Statement (IPS) is to assist the Executive Committee (Committee) of the Community Foundation of Boone County, Inc. (Foundation) in effectively supervising, monitoring and evaluating the investment performance of the assets of the Foundation.

The Foundation's investment program is defined in the various sections of this IPS by:

1. *Stating the objectives in a written document.*

The objectives are desired results, reflecting the Committee's attitudes, risk tolerances, expectations and guidelines for the investment of all assets.

2. *Setting forth an investment structure.*

This structure includes various asset classes and investment management styles that, in total, are expected to produce a satisfactory level of overall diversification and total investment return over the long term.

The Committee will determine the allocation of assets with the assistance of the investment consultant(s).

3. *Providing policy guidelines for the investment portfolio.*

These guidelines are designed to control the level of overall risk and liquidity assumed in the portfolio. Through effective monitoring of the policy, the Committee hopes to optimize the likelihood of meeting return and risk objectives and ensure that the assets of the Foundation are managed in accordance with stated objectives.

4. *Encouraging effective communication.*

A continuing review process involving the Committee, the investment consultants, and the investment managers is intended to assist the Foundation in achieving the stated objectives.

5. *Complying with all fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize.*

This IPS has been arrived at upon consideration by the Committee of the financial implications of the current and prospective asset allocation policy, and describes the prudent investment process deemed appropriate.

BACKGROUND

SECTION I: GENERAL INFORMATION

The Foundation was founded in 1992 by a group of civic-minded Boone County citizens. Its purpose, as a publicly supported community foundation is to ensure on a long-term basis funding from permanent endowments for projects and one-time needs so that our community can continue to flourish now and into the future.

The mission of the Foundation is: To provide pathways for connecting people who care with causes that matter for now and in the future.

All endowments (unless specifically restricted by the donor or the Committee) will be pooled for investment purposes in a fund titled Pooled Endowment Fund. The Board of Directors of the Foundation has delegated oversight of the investment management of this and all other funds to the Executive Committee. The Executive Committee and the Executive Director have the responsibility to select and monitor the performance of any and all investment managers. It is expected that the assets of all funds will be invested with the care, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the investment of assets of institutions of like character and aims.

SECTION II: KEY INFORMATION/OTHER ADVISORS

TAX IDENTIFICATION NUMBER:

35-1829585

CURRENT CUSTODIAN:

Charles Schwab & Company

CURRENT INVESTMENT CONSULTANT:

Lancaster Pollard Investment Advisory Group

FISCAL YEAR:

January 1 – December 31

GENERAL INVESTMENT OBJECTIVES

The general investment objectives for the Foundation are:

- To outperform inflation,
- To grow principal through a total return (interest, dividends and capital appreciation) approach to investing,
- To invest in securities that are readily marketable,
- To establish an asset allocation policy weighted toward equity-like volatility investments,
- To provide a portfolio that offers both equity like and fixed income like volatility strategies that are diversified among asset classes and investment styles.
- To maximize the return of the portfolio within reasonable and prudent levels of risk.

SPENDING POLICY

ENDOWMENT FUNDS

Up to five percent (5%) of the average net fund balance is available for granting beginning in the first quarter of the following year, if the average net fund balance exceeds the fund's historic gift value. The average net fund balance is determined by a trailing 12 quarters ending September 30. If the average net fund balance is below the fund's historic gift value, the fund may distribute up to 2% of the average net fund balance; provided that the fund will not go below 80% of its historic gift value or the \$5,000 minimum fund balance.

NON-ENDOWED FUNDS

These funds are temporarily a part of the Foundation, however, invested per the Community Foundations Investment Policy. There are no restrictions on the amount per year that can be disbursed from a non-permanent endowment fund, consistent with the fund agreement.

NON-PERMANENT FUNDS/SPECIAL PROJECT FUNDS

These funds are temporarily a part of the Foundation. There are no restrictions on the amount per year that can be disbursed from a non-permanent fund, consistent with the fund agreement. The entire fund can be disbursed.

GIFTS OF COMMON STOCK

The Foundation's brokerage account will be used to accept all gifts of common stock. The current broker of the account has standing instructions to liquidate all shares that come into the account and remit the proceeds to the Foundation. If an individual donor chooses to use a specific broker, this liquidation policy shall also apply.

ASSET ALLOCATION GUIDELINES

The major component of the Foundation's IPS is the allocation of assets among various asset classes.

For example, studies have indicated that anywhere from 85% to 93% of a portfolio's variability of returns over longer periods of time can be attributed to how assets are allocated among various security classes, not how asset managers add value through their security selection or timing decisions.

The Committee has reviewed the forecasted returns and historical volatility associated with different asset classes. Also, the Committee has reviewed the importance of asset diversification and its impact on portfolio volatility and returns.

SECTION I: GENERAL ASSET ALLOCATION GUIDELINES

The Asset Allocation shall be monitored on a quarterly basis and reviewed annually by the Committee. The following asset allocation guide shall apply in aggregate to investment assets over which the Foundation has discretion.

Strategic Allocation

	Target	Range
<i>Equity-like Volatility</i>		
U.S. Equity	15%	10-20%
International Equity – Developed Markets	22%	12-32%
International Equity – Emerging Markets	13%	8-18%
Real Estate Investment Trusts (REITs)	5%	0-10%
Commodities	5%	0-10%
High Yield Fixed Income	5%	0-10%

Fixed Income-like Volatility

Investment Grade Fixed Income	30%	20-40%
Treasury Inflation Protected Securities (TIPS)	5%	0-10%

Benchmarks

U.S. Equity	Russell 3000 Index
International Equity – Developed Markets	MSCI EAFE Index (net)
International Equity – Emerging Markets	MSCI Emerging Markets Index (net)
Real Estate Investment Trusts (REITs)	Dow Jones US Select REIT Index
Commodities	S&P Goldman Sachs Commodity Index
High Yield Fixed Income	ML US High Yield Master II Index
Investment Grade Fixed Income	Barclays Capital Intm. Govt/Corp Index
TIPS	Barclays Capital US TIPS Index

Policy Benchmark

Market Benchmark:	43%	Russell 3000 Index
	22%	MSCI EAFE Index (net)
	35%	Barclays Capital Intermediate Govt/Corp Index

SECTION II: ASSET CLASS/ALLOCATION

Eligible Investments and Transactions

Assets are to be managed with a view toward achieving the specific investment objectives previously described. Any bank, custodian, investment manager, broker/dealer, consultant or insurance company providing services which is appointed by the Committee shall be governed by these investment policy guidelines.

To the extent that at any time and from time to time the Committee has designated two (2) or more investment managers, each investment manager shall be governed by these investment policy guidelines. Provided, however, that each investment manager shall be responsible for compliance with the guidelines and for the attainment of the objectives only to the extent of the funds which have been transferred to it and which are subject to its management and control.

U.S. Equity

Eligible Securities: Publicly-traded U.S. equity securities, regardless of market capitalization or style, including common stocks and convertible preferred stocks, as well as mutual funds and exchange-traded funds that invest primarily in U.S. equities. For diversification purposes, any equity portfolio should have in excess of 30 positions. The investment manager shall handle the voting of proxies and tendering of shares in a manner that is in the best interests of the Community Foundation of Boone County and is consistent with its investment objectives. Exchange traded funds or index shares are allowed for style diversification.

Excluded Investments: Non-convertible preferred stocks, options, warrants, primary derivatives, and investments in non-marketable securities are prohibited.

Benchmark: Russell 3000 Index

International Equity: Developed Markets

Eligible Securities: Publicly-traded equity securities of non-U.S. companies domiciled in developed markets, as defined by Morgan Stanley Capital International (MSCI), regardless of market capitalization or style, including common stocks and convertible preferred stocks. The portfolio can also invest in mutual funds and exchange-traded funds that invest primarily in these securities.

Excluded Investments: Non-convertible preferred stocks.

Benchmark: MSCI EAFE Index (Net)

Investment Grade Fixed Income

Eligible Securities: U. S. dollar-denominated debt securities issued by governments, government agencies and instrumentalities, and corporations, both domestic and foreign, that are rated investment grade (Baa3 / BBB- or higher at time of purchase), as well as mutual funds and exchange-traded funds that invest primarily in these markets. The investment grade fixed income portfolio must have an overall weighted average credit quality rating of Aa/AA or better by Moody's and Standard and Poor's rating services, respectively. There shall be no investments in securities rated below (Baa/BBB) at the time of purchase.

If a bond falls below investment grade after purchase than the investment manager shall bring that to the attention of the Committee with a recommendation of strategy. Not more than 10% of an investment manager's portfolio shall be invested in commercial paper of any single issuer. The minimum credit quality must be P-1 and A-1. In the event that an individual security is split rated, the lower of the two ratings shall be used.

No more than 25% of a fixed income manager's assets, at market value, shall be invested in any single industry.

Duration: For each fixed income portfolio, the duration shall be within +/- 20% of the duration of its stated benchmark.

Excluded Investments: Mortgage-backed and asset-backed securities.

Benchmark: Barclays Capital Intermediate Government / Credit Index

Cash

Definition: The unallocated assets of the portfolio that the organization decides to keep in cash. This allocation does not include the cash held by managers or funds.

Eligible Investments: Cash, cash equivalents, (including commercial paper, bankers' acceptances, certificates of deposit) and money market mutual funds, including proprietary money market mutual funds, provided that they invest solely in eligible cash investments.

Excluded Investments: Foreign bonds, zero-coupon bonds (including U.S. Treasury stripped securities), below investment grade securities, and short sales.

Benchmark: Merrill Lynch U.S. 3-Month Treasury Bill Index

International Equity: Emerging Markets

Eligible Securities: Publicly-traded equity securities of non-U.S. companies domiciled in emerging markets, as defined by Morgan Stanley Capital International (MSCI), regardless of market capitalization or style, including common stocks and convertible preferred stocks. The portfolio can also invest in mutual funds and exchange-traded funds that invest primarily in these securities.

Excluded Investments: Non-convertible preferred stocks.

Benchmark: MSCI Emerging Markets Index (Net)

Non-Investment Grade Fixed Income

Eligible Securities: Debt securities issued by governments, government agencies and instrumentalities, and corporations, both domestic and foreign, that are rated non-investment grade (BB / Ba1 or lower), as well as mutual funds and exchange-traded funds that invest primarily in these markets. In the event that an individual security is split rated, the lower of the two ratings shall be used. The portfolio can also invest in non-convertible preferred stocks and convertible bonds. No more than 25% of a fixed income manager's assets, at market value, shall be invested in any single industry.

Duration: For each fixed income portfolio, the duration shall be within +/- 20% of the duration of its stated benchmark.

Benchmark: Merrill Lynch U.S. High Yield Master II Index

U.S. Treasury Inflation-Protected Securities (TIPS)

Eligible Securities: Debt securities issued by the U.S. government that are linked to inflation, as well as mutual funds and exchange-traded funds that invest in these securities.

Diversification: There are no diversification limitations for U.S. Treasury Inflation-Protected Securities.

Duration: For each fixed income portfolio, the duration shall be within +/- 20% of the duration of its stated benchmark.

Benchmark: Barclays Capital U.S. Treasury Inflation-Protected Securities (TIPS) Index

Real Estate Investment Trusts (REITs)

Eligible Securities: Equity securities issued by companies, both domestic and foreign, that are organized as either equity-focused real estate investment trusts or real estate operating companies, including mutual funds and exchange-traded funds that invest in these securities.

Excluded Investments: Mortgage REITs, hybrid REITs and Fixed Income REITs.

Benchmark: Dow Jones Wilshire REIT Index

Commodities

Eligible Securities: Mutual funds and exchange-traded funds that invest in broad commodity indexes and the futures of single commodities.

Excluded Investments: Physical commodities and futures on individual commodities.

Benchmark: S&P Goldman Sachs Commodity Index (GSCI)

Additional Guidelines

The following guidelines apply to each asset class listed above.

De minimis rule: Mutual funds and exchange-traded funds whose underlying holdings are less than 20% of ineligible securities shall be deemed in compliance.

Diversification: No single issuer shall comprise more than 5% of the total portfolio, with the exception of the U.S. government, its agencies and instrumentalities, as well as mutual funds and exchange-traded funds that are broadly diversified.

Marketability: The portfolio shall only hold securities (individual shares and exchange-traded funds) that are regularly traded on a national exchange, mutual funds, and fixed income securities where an active market exists; the portfolio may not own privately held securities.

Proprietary: With the exception of money market funds, proprietary mutual funds and proprietary exchange-traded funds shall be considered ineligible investments.

SECTION III: REBALANCING

The Committee, with assistance from the investment consultant, will be responsible for monitoring asset class exposures in the Foundation. On a yearly basis the Foundation's current asset mix will be determined. Market values of assets at year end will be used for this calculation.

The Committee will review the asset allocation on a quarterly basis to ensure investment strategies are within acceptable ranges as defined. The portfolio however will be rebalanced annually to the target allocations as set forth in this policy using December 31st values. The Committee must approve portfolio rebalancing.

SECTION IV: TIME HORIZON

The Committee views investment portfolio performance with a long-term perspective. This IPS is based upon an investment time horizon of a complete market cycle, typically three to five years (or longer). Interim or shorter term fluctuations in Foundation results will be viewed with appropriate perspective.

SECTION V: RESTRICTIONS

The following securities and transactions are not authorized for use by outside professional asset managers:

- Venture capital, private placements, unregistered or restricted stock, or limited partnerships,
- Letter stock and other unregistered securities,
- Commodities or other commodity contracts, unless in a diversified mutual fund or exchange traded fund approved by the Executive Committee.
- Short sales and margin transactions,
- Securities lending,
- Option writing (such as covered calls) and futures trading activities are restricted to bona fide hedge purposes only...not for speculative transactions, and
- Use of derivatives for speculative purposes.

If any of the above securities and transactions is received as gifts, the Committee reserves the right to reject the gift. However, if accepted as a gift, all efforts will be made to liquidate promptly so the funds can be reinvested per policy.

STANDARDS FOR EVALUATION OF EACH INVESTMENT CLASS

SECTION I: INVESTMENT PERFORMANCE EVALUATION

The following standards will be used to evaluate the investment managers for the Foundation. Several important comments about these standards are noted below.

- *The time period for assessment will generally be rolling three and five year periods. Interim or shorter term fluctuations in results will be viewed with appropriate perspective.*
- *The Committee understands that at varying points in time, individual investment managers may not generate a performance that achieves all three standards stated below concurrently.*
- *No individual standard is more important than another. Instead, all standards will be considered in aggregate.*
- *Evaluation of investment managers will not be limited to the standards set forth below. Organizational stability and adherence to investment style/process will also be key points of consideration. These standards are further outlined in the control procedures of this IPS.*

SECTION II: REVIEW AND ANALYSIS

The Committee is aware that the ongoing review and analysis of investment managers is just as important as the due diligence implemented during the manager selection process.

Therefore, *a review of an investment manager will be conducted if:*

- Performance, net of fees, does not meet market indices over 3 and 5 years.
- A manager performs in the bottom quartile (75th percentile) of his or her peer group over an annual period.
- A manager falls in the southeast quadrant of the risk/return scattergram for three- and/or five-year periods.
- A manager consistently performs below the median (50th percentile) of his or her peer group over rolling three-year periods.
- A manager consistently performs below the median (50th percentile) of his or her peer group over a five-year period.
- A manager fails to adhere to the investment style for which they were employed.
- *Major organizational changes occur* including:
 - Change in professionals.
 - Significant account losses.
 - Significant growth of new business.
 - Change in ownership.

Investment managers will be monitored on an ongoing basis. The Committee has the discretion to replace a manager at any time if they deem it appropriate.

SECURITIES GUIDELINES

The investment managers are expected to adhere to the following guidelines:

SECTION I: MUTUAL FUNDS AND CO-MINGLED ACCOUNTS

Security guidelines for mutual funds and co-mingled accounts are determined by the constraints outlined within each mutual fund's specific prospectus, or the subscription agreement in the case of a co-mingled account. The Committee recognizes that the use of mutual funds, or co-mingled accounts, limits their ability to outline specific security guidelines. This means that the Committee cannot influence some or all of the restrictions in Section V, Page 12 of this IPS, including securities lending.

Each mutual fund and co-mingled account is expected to adhere to their respective prospectus, or subscription agreement.

SECTION II: MONEY MARKET FUNDS AND CASH EQUIVALENTS

- Cash equivalent reserves shall consist of cash instruments having a minimum quality rating of P-1, A-1, or F-1 as defined by Moody's, Standard & Poor's or Fitch's. Eurodollar Certificates of Deposit, time deposits, and repurchase agreements are also acceptable investment vehicles.
- Any idle cash not invested by the investment managers shall be invested daily through an automatic sweep managed by the custodian.

SECTION III: EQUITIES (Separate Accounts)

- Equity holdings in *any one company* should not exceed more than 5% of the cost basis of the portfolio managed by any particular investment manager.
- Not more than 30% of the market value of the portfolio managed by any specific investment manager should be invested in *any one industry category* (based on Standard & Poor's Industry Codes).
- Domestic equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on the major U.S. exchanges, including NASDAQ.

- The investment managers shall have the discretion to invest a portion of the assets in cash reserves when the manager deems appropriate. However, *the manager(s) will be evaluated against a universe of similar managers based upon the performance of the total funds under the manager's direct control.*
- Any investment by a domestic equity manager in foreign securities is restricted to American Depositary Receipts (ADR's)
- Issues convertible into common stocks are limited to 10% of the portfolio managed by any particular investment manager.
- The international manager/mutual fund will invest only in non-U.S. stocks.
- The international manager/mutual fund must diversify investments to avoid undue concentration in a single country or region.
- The international manager/mutual fund is permitted to use hedging strategies to mitigate currency risk.
- Fixed income instruments (excluding convertible bonds) in any equity portfolio with maturities greater than one year are prohibited, with the exception of convertible bonds.

SECTION IV: FIXED INCOME (Separate Accounts)

- Investments shall be limited to US dollar denominated fixed income securities. Obligations may be fixed or floating rate. Equities are to be excluded from the portfolio.
- Direct obligations of the U.S. Government and its agencies will be unlimited in the amount held.
- Mortgage securities (CMO's and Pass-throughs) shall be limited to 40% of the portfolio at cost.
- The fixed income manager will maintain an average overall credit quality of at least single "A" as determined by either Moody or Standard & Poor's. Portfolios may include a small percentage of non-rated securities.

- Corporate securities shall be rated A-/A3 or better. No more than 5% of the portfolio (at cost) may be invested with any one issuer. No more than 25% of the funds (at cost) may be invested with any one industry.
- Asset Backed Securities (other than CMO's and Pass-through mortgages) are limited to 10% with any one issuer.
- US and non-US issues of state or municipal agencies shall not be purchased, due to Foundation's tax-exempt status.
- No specific limitations on the portfolio's weighted average maturity or duration have been set. However, significant deviations from the respective characteristics of the Barclays Capital Aggregate Index will be scrutinized.

SELECTION OF INVESTMENT MANAGERS

The Committee, with the assistance of the investment consultant, will select appropriate investment firms to manage Foundation assets. Managers are required to meet the following criteria:

- The investment manager must be a bank, insurance company, mutual fund or investment advisor as defined by the Registered Investment Advisors Act of 1940.
- The investment manager must provide to the consultant historical quarterly performance information calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.
- The investment manager must provide detailed information for the consultant on the history of the firm, key personnel, key clients, fee schedule, and support personnel.
- The investment manager must clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
- The consultant must prepare performance evaluation reports for the Committee that illustrates the risk/return profile of the investment manager relative to other managers of like investment style.

CONTROL PROCEDURES

SECTION I: DUTIES AND RESPONSIBILITIES OF THE INVESTMENT MANAGERS

The duties and responsibilities of each investment manager retained by the Foundation shall include the following:

- Managing the portfolio assets under its care, custody and/or control in accordance with the investment objectives, policies and guidelines set forth herein, and also expressed in separate written amendments when deviation is deemed prudent and desirable by the Foundation.
- Exercising investment discretion (including holding cash equivalents as an alternative) within the investment objectives, policies and guidelines set forth herein.
- Promptly voting all proxies and related actions in a manner consistent with the long-term interests and objectives of the Foundation set forth herein. Each manager shall keep detailed records of said voting of proxies and related action and will comply with all regulatory obligations related thereto. These records would be made available upon request by the Foundation.
- Each manager shall utilize the same care, skill, prudence and due diligence that experienced investment professionals, acting in a like capacity and fully familiar with such matters, would use.

SECTION II: GENERAL REVIEW OF INVESTMENT OBJECTIVES

This IPS and its guidelines will be reviewed annually to determine whether existing policy remains effective and appropriate. Reviews will be conducted more frequently, if necessary.

It is not expected that this IPS will change frequently. In particular, short term changes in the financial markets should not require adjustments to the IPS.

SECTION III: MONITORING OF INVESTMENT MANAGERS

The Committee intends to monitor the performance of the investment managers through its investment consultant. Performance monitoring will be completed quarterly and reviewed with

the Committee. Annual reviews will be conducted with the Committee. These reports will focus upon various topics, including:

- The economic environment during the various periods being evaluated;
- Each manager's adherence to the IPS guidelines;
- Material changes in each manager's organization, investment philosophy and/or personnel;
- Performance of each asset class and the total fund;
- Comparison of each manager's results to the appropriate standards, as specified in this IPS.
- Manager's performance in peer group universe;
- Promptly informing the Foundation in writing regarding all significant and/or material matters and changes pertaining to the investment of assets, including, but not limited to:
 - Changes in investment strategy, portfolio structure, tactical approaches and significant market value declines of managed assets;
 - Changes in ownership, organizational structure, financial condition, and/or professional staff of the firm; and
 - All material legal, SEC and other regulatory agency proceedings affecting the firm.

SECTION IV: TENURE

While the relationship with each investment manager is expected to be ongoing, the Committee reserves the right to terminate its relationship with any retained investment manager at any time it deems appropriate to do so.

SECTION V: CONCLUSION

This IPS expresses the Committee's attitude and/or philosophy, which will guide the investment managers toward the performance desired. These objectives are meant to be sufficiently specific to be meaningful, but sufficiently flexible to be practical.

The Committee believes that these limitations and guidelines will not prevent the investment managers from achieving the stated objectives.

The Committee expects the Consultant to monitor the investment managers relative to their personnel, organizational structure, investment style and compliance with this IPS. The Consultant shall report to the Committee any findings that *may* prevent the Foundation from meeting the objectives of this IPS.

Adopted on:

Signature:
