

**The Community Foundation of Switzerland County
Investment Policy Statement**

February 2000

Amended: November 13, 2003

Amended: May 12, 2005

Amended: November 9, 2006

Amended: August 9, 2007

I. Purpose of Investment Policy Statement

A. Purpose

The Community Foundation of Switzerland County (hereinafter, the “Foundation”) Investment Policy Statement is established to ensure that the Foundation assets will be invested in a prudent manner consistent with the investment objectives stated in this document. This policy further describes the standards utilized by the Finance and Investment Committee in constructing and monitoring the overall portfolio, as well as the criteria for overseeing, evaluating and retaining investment managers. The investment managers will be retained through the investment vehicle of mutual funds. It is the Finance and Investment Committee’s intent to select and retain only investment managers that can generally comply with this policy. This policy is established by the Finance/Investment Committee and approved by the Board of Directors. This policy will be reviewed annually on a formal basis. Upon material changes, this investment policy will be modified accordingly.

Client Profile

The Community Foundation of Switzerland County, Inc. is a tax exempt, not for profit, organization. It became a legal entity in September 1999.

Mission Statement

The Community Foundation of Switzerland County is a public organization that secures permanent funds for philanthropic purposes. Its mission Connecting People Who Care With Causes That Matter For Good For Ever For Switzerland County.

B. Scope of Responsibilities

This Investment Policy Statement applies only to those assets that are a part of the Foundation and for which Investment Advisor has investment supervisory authority.

Finance/Investment Committee

The Finance/Investment Committee is responsible for providing the oversight and direction to the financial affairs of the Foundation, and is responsible for providing direction to the investment of assets given to the Foundation. All decisions of the Committee are subject to approval by the Board of Directors.

C. Fiduciary Duty

In seeking to attain the investment objectives set forth in this policy, the Finance and Investment Committee and its members will act with discretion, honesty and good faith to the Foundation. The adopted investment policies will be followed and held to a standard of ordinary business care and prudence under the facts and circumstances prevailing at the time of the Fiduciaries' actions or decisions. The Fiduciaries will remain loyal, placing the interest of the Foundation first. Fiduciaries will provide full and fair disclosure to the Finance and Investment Committee of all material facts regarding potential "conflict of interests".

D. Investment Advisor

The Investment Advisor is responsible for all aspects of managing and overseeing the Foundation's portfolio. On an ongoing basis the Investment Advisor will:

1. Implement the overall investment strategy, including the selection/termination of investment managers, within these investment policy guidelines;
2. Monitor the asset mix and allocate assets of each investment strategy within these investment policy guidelines;
3. Provide the Investment Committee with quarterly investment reports;
4. Provide the Investment Committee with an annual review of the Investment Policy Statement, including an assessment of the current asset allocation and investment objectives; and
5. Supply the Investment Committee with other reports or information as reasonably requested.

II. General Investment Objectives and Time Horizon

A. Investment Objectives

The general investment objectives for the Foundation are to generate sufficient long term growth of capital, without undue exposure to risk, to provide for spending distributions when needed, as well as enhance the real (adjusted for inflation) purchasing power of the investments. The Foundation's investment objective is a compromise between the demanding need for current income and the long term growth of assets. Due to the Foundation being an institution perpetual in nature, the portfolio should be viewed long term in its entirety, avoiding decisions based solely on short term concerns and individual investments. The inevitability of short term market fluctuations is tolerable to allow for "real" growth of assets. A diversified investment structure, which is identified under the "Asset Allocation" section of this statement, is utilized in order to provide participation in rising markets, while mitigating risk in falling markets. The Finance/Investment Committee's understanding and knowledge of generally accepted financial concepts and the committee to adhere to this policy during all market environments is the Foundation's best protection in achieving its long-term investment goals.

B. Time Horizon for Evaluation

In pursuing these investment objectives, the Foundation endeavors to achieve total returns that, over the long term, meet the investment goals set forth in this policy statement. The Finance and Investment Committee seeks investment returns over a full market cycle, and therefore, does not expect that in each and every year the investment objectives will necessarily be attained. The Finance and Investment Committee intends for the investment objectives to be achieved without undue exposure to risk over a moving five-year period, net of mutual fund expenses. The Finance and Investment Committee reserves the right to evaluate and make any necessary changes regarding the investments over a shorter term using the criteria established in the "Evaluation of Investment Managers" section of this statement.

C. Rebalancing

The investment advisor will be responsible for asset allocation based on their determination of market valuations, but must remain within the ranges prescribed in the sub-section E, Asset Allocation. If the portfolio becomes over-weighted/underweighted or exceeds the range of percentage for that asset class, the investment advisor will use prudence in rebalancing the portfolio, either immediately or over the subsequent few months.

D. Spending Policy

Subject to gift instruments and statutory requirements, spendable income is determined by a total return system. The amount to be spent in the coming year is calculated each September 30 and is reviewed and approved by The Foundation's Board of Trustees annually. The calculation is based on a 20-quarter previous average of the market value of the total fund (based on the average quarterly market value since inception until a five year history is established), multiplied by an amount not to exceed 4%. It is the goal of the Board to spend no greater than 4% annually of spendable income. The "spendable income" that may be spent, as determined in this paragraph, may be drawn from both ordinary income earned (i.e., dividends and interest) and capital appreciation, both earned and unearned. At no time, however, may the historic dollar value of the principal be invaded. (per UMIFA)

The overall, long-term investment goal of the Foundation is to achieve an annualized total return, (net of fees and expenses), through appreciation and income, greater than the rate of inflation (as measured by the Consumer Price Index) plus any spending, thus protecting the purchasing power of the assets. Based on current capital market assumptions the expected rate of return is approximately 8%.

This 8% combined with the Annual Investment expense of 1% provides an annualized target rate of return of 9.0%.

Annual Investment Expenses		Annual Administrative Fee		Estimated Annual Inflation Rate		Real Growth Target		Annual Spending Rate*		Annualized Target Rate of Return
1.0%	+	1.0%	+	2.5%	+	0.5%	+	4.0%*	=	9.0%

Note*: not to exceed 4%

E. Asset Allocation

The strategic asset allocation among a broad range of asset classes is designed to achieve the long term investment objectives of the Foundation. The overall target asset allocation, which was derived from an asset allocation study specific to the Foundation investment objectives, should reflect the following structure:

Asset Class	Long-Term Weights	Min	Max
US Equities	50%	30%	60%
Large/Mid Cap Equities		10%	55%
Small Cap Equities		5%	20%
International Equities	15%	5%	25%
Developed International		5%	15%
International Small Cap		0%	10%
Emerging Market Equities		0%	10%
Fixed Income	20%	5%	35%
Core Fixed Income		5%	30%
Treasury Inflation Protected Securities		0%	20%
High Yield		0%	10%
Emerging Market Debt		0%	10%
International Fixed Income		0%	10%
Real Estate	5%	0%	20%
Private Real Estate		0%	0%
Public Real Estate		0%	20%
Low Volatility Substitute	10%	5%	20%
Cash	0%	0%	10%

The asset allocation shall be monitored on an ongoing basis and reviewed annually to determine whether it is necessary to rebalance the assets to ensure that the overall target asset mix is maintained. Additionally, the asset allocation will be reviewed annually to determine whether the asset mix appropriately reflects the investment objectives of the Foundation.

F. Long Term Performance Objectives: Total Portfolio

The portfolio in its entirety will be expected to achieve the following objectives over a **5-year moving period**, net of expenses.

Total Portfolio:

Objective	Expected Result
• Total return to exceed the Consumer Price Index by:	Exceed by 5.0%
• Total return to exceed a Balanced Index of 55% Russell 3000 Index, 15% MSCI All World Country Index – ex U.S. Index and 30% LB Aggregate Bond Index:	Exceed the Balanced Index.
• Volatility (Risk):	1.20 Times the Balanced Index

III. Evaluation of Investment Managers and Investment Advisors

A. Process for Evaluation of Investment Managers

Measuring and evaluating investment managers require both quantitative and qualitative analysis. Due to the inevitability of market volatility, the Finance and Investment Committee is committed to “staying the course” with investment managers that make good qualitative sense even when the short term quantitative measures are disappointing. The Finance and Investment Committee will monitor and evaluate investment managers on a quarterly basis utilizing information provided by an independent third party. The evaluation process takes into account both short term variability of performance and long term expectations that the investment manager will produce superior investment returns, ultimately being able to meet or exceed the stated performance objectives in this policy. In this framework, performance evaluation becomes a three-stage process. The investment managers will be selected and evaluated ongoing based upon the following criteria:

Stage 1: Short Term (first 3 years) – adherence to the stated philosophy and style of the investment managers at the time the investment was retained in the portfolio; and, continuity of personnel and practices at the firm of the investment managers.

Stage 2: Intermediate Term (rolling 3 years) – adherence to the stated philosophy and style of the investment managers at the time the investment was retained in the portfolio; continuity of personnel and practices at the firm of the investment managers; and, ability to meet or exceed performance of other investment managers who adhere to the same or similar investment style.

Stage 3: Long Term (rolling 5 years or full market cycle) – adherence to the stated philosophy and style of the investment managers at the time the investment was retained in the portfolio; continuity of personnel and practices at the firm of the investment managers;

ability to meet or exceed performance of other investment managers who adhere to the same or similar investment style; *and, ability to outperform its respective target index.*

Purchases of securities on margin, short sales transactions, use of highly leveraged derivative securities, options and futures, commodities and special purpose funds (LBOs, Venture Capital, etc.) are prohibited.

B. Long Term Performance Objectives: Investment Managers

Investment Managers: Each investment manager will be expected to achieve the following objectives over a **5-year moving period**, net of investment manager expenses.

1. Total Return to exceed the following respective benchmark:

Asset Class	Benchmark
Large Cap Domestic Equity	S&P 500 Index
Small Cap Domestic Equity	Russell 2000 Index
International Core Equity	Morgan Stanley EAFE Index
International Small Cap Equity	Morgan Stanley EAFE Small Cap Index
Emerging Markets Equity	MSCI Emerging Markets Index
Fixed Income	LB Aggregate Bond Index

2. Volatility of ≤ 1.2 times the respective benchmark index and positive risk-adjusted performance.
3. Rank above median of universe of managers in the same asset class and investment style.

C. Investment Advisors Review

Investment Advisor will be reviewed at the end of each year. Every three years Request for Proposals from Investment Advisors will be invited and reviewed.

IV. Conclusion

This statement of investment policy shall be reviewed annually, while investment performance will be reviewed on a quarterly basis.



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