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# **INVESTMENT POLICY STATEMENT**

**For**

## **The Community Foundation of Grant County, Indiana, Inc.**

Prepared on January 6, 2003  
Amended March 2004  
Restated June 2005  
Restated February 2008  
Amended July 2008  
Amended August 2009  
Amended May 2011

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# TABLE OF CONTENTS

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	<u>Page</u>
Purpose.....	1
Background.....	2
Statement of Objectives.....	3
• Time Horizon	
• Risk Tolerances	
• Performance Expectations	
• Asset Allocation Constraints	
• Rebalancing of Strategic Allocation	
Securities Guidelines.....	6
Selection of Money Managers .....	8
Control Procedures .....	10
• Duties and Responsibilities of Finance Committee	
• Duties and Responsibilities of Board	
• Duties and Responsibilities of the Money Managers	
• Mutual Funds	
• Duties and Responsibilities of Custodian	
• Duties and Responsibilities of the Investment Consultant	
• Brokerage Policy	
• Performance Objectives	
• Gift Acceptance Policy	
Monitoring of Money Managers/Mutual Funds.....	14
Signatures .....	16
Appendix A	
Appendix B	

## **PURPOSE**

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The purpose of this Investment Policy Statement (“IPS”) is to assist The Community Foundation of Grant County, Indiana, Inc. (“Foundation”) Board of Directors (“Board”) in effectively supervising, monitoring and evaluating the investment of the Foundation’s Endowment Fund (“Fund”) assets. The Fund's investment program is defined in the various sections of the IPS by:

- Stating in a written document the Board's attitudes, expectations, objectives and guidelines for the investment of all Foundation assets.
- Setting forth an investment structure for managing all Fund assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.
- Providing guidelines for each investment portfolio that control the level of overall risk and liquidity assumed in that portfolio, so that all Foundation assets are managed in accordance with stated objectives.
- Encouraging effective communications and understanding regarding investment performance between the Board, the investment consultant (“Consultant”) and the money managers.
- Establishing formal criteria to monitor, evaluate and compare the performance results achieved by the money managers on a regular basis.
- Complying with all applicable fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international political entities that may impact Fund assets.

This IPS has been formulated, based upon consideration by the Board of the financial implications of a wide range of policies, and describes the prudent investment process that the Board deems appropriate.

*Pursuant to The Community Foundation of Grant County, Indiana, Inc. Investment Policy Statement restated effective February, 2008, the section titled "Statement of Objectives" is amended as follows:*

## **BACKGROUND**

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### **Mission Statement:**

To enhance an improved quality of life for Grant County, by continuing to increase endowment assets; be purposeful and effective in grant making; and increase commitment to the Grant County community and beyond.

Key information regarding the Fund can be found in Appendix A.

*Pursuant to The Community Foundation of Grant County, Indiana, Inc. Investment Policy Statement restated effective February, 2008, the section titled "Statement of Objectives" is amended as follows:*

## **STATEMENT OF OBJECTIVES**

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The objectives of the Board have been established in conjunction with a comprehensive review of the current and projected financial requirements. The objectives are:

1. To allocate total earnings from the Foundation's endowment portfolio between current spending and reinvestment for future earnings while providing a dependable growing stream of income to beneficiaries of Foundation grants. Achievement of these objectives will ensure that the Fund preserves the real purchasing power in perpetuity while providing ongoing operational support to designated charitable activities.
2. To apply a smoothing rule to mitigate the effects of short-term market volatility on spending. The following smoothing rule will be applied:

Foundation's spending policy is to spend 4.5% of a 3 year moving average of quarterly market values. In the early stages of fund accumulation, however, the Finance Committee may recommend and the Board may adopt an interim spending policy of 4.5% of a one year moving average of quarterly market values. This spending policy establishes the resources available for grant spending only. Operating expenses are outlined in the following paragraph. Amounts which remain unspent at the end of the year may be carried over for disbursement in the following years.

The Foundation will assess a 3/8 of one percent administrative fee, on a quarterly basis, to all endowed funds. If a scholarship fund recipient is chosen by a committee of the Foundation, then an additional 1/2 of one percent will also be charged quarterly. This fee is used to offset expenses associated with managing and administering all endowed funds.

3. The Finance Committee, with Board approval, reserves the right to take exception to the set Spending Policy in order to meet current conditions.
4. To control both administrative and investment cost.
5. To maximize return within reasonable and prudent levels of risk.
6. To maintain an appropriate asset allocation based on a total return policy that is compatible with a flexible spending policy, while still having the potential to produce positive real returns.

## **Time Horizon**

The investment guidelines are based upon an investment horizon of greater than five years, so that interim fluctuations in market value should be viewed with appropriate perspective. Similarly, the Fund's Strategic Asset Allocation is based on this perspective.

Short-term liquidity requirements should be anticipated and will be handled from contributions, the amount allocated to cash, and/or by the income, appreciation, or reallocation of Fund investments.

## **Risk Tolerances**

The Board recognizes the difficulty of achieving the Fund's investment objectives in light of the uncertainties and complexities of contemporary investment markets. To support the annual level of disbursements required by the spending policy and achieve real growth of the assets, some risk must be assumed.

In establishing the risk tolerances of the IPS, the ability to pay all grants and operating expenses, and the Fund's ability to withstand short and intermediate term variability were considered.

In summary, the Foundation's prospects for the future, its current financial condition, and other factors, suggest collectively that the Fund can tolerate some interim fluctuations in market value and rates of return in order to achieve long-term objectives.

## **Performance Expectations**

The desired investment objective is a long-term rate of return on assets that averages not less than 8.00%, which is 5.25% greater than the rate of inflation as measured by the Consumer Price Index (CPI). The target rate of return for the Fund has been based upon the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in the IPS.

The Board realizes that market performance varies and that an 8.00% rate of return may not be meaningful during some periods. Accordingly, relative performance benchmarks for the managers are set forth in Appendix B.

Over the long-term, the Fund's overall annualized total return should perform above a customized index comprised of market indices weighted by the Strategic Asset Allocation of the Fund.<sup>1</sup>

## **Asset Allocation Constraints**

The Board believes that the Fund's risk and liquidity posture are, in large part, a function of asset class mix. The Board has reviewed the long-term performance characteristics of various asset classes, focusing on balancing the risks and rewards of market behavior. The following asset classes were selected:

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<sup>1</sup> The Strategic Index is comprised of 33% S&P 500; 11% Russell 2000; 14% MSCI EAFE; 26% Barclays Aggregate, 14% Barclays Intermediate Government/Credit; 2% 90 day T-Bill.

- Domestic Large Capitalization Equity
- Domestic Small Capitalization Equity
- International Equity
- Domestic Fixed Income
- Cash and Equivalents

Based on the Fund's time horizon, risk tolerances, performance expectations and asset class preferences, an efficient or optimal portfolio was identified. In addition, the risk to any one manager was evaluated regarding proper diversification among investment strategy and business risk. The Strategic Asset Allocation of the Fund is as follows:

<b>Asset Allocation</b>	<b>Lower <u>Limit</u></b>	<b>Strategic Asset <u>Allocation</u></b>	<b>Upper <u>Limit</u></b>
Domestic Large Cap Equity	28%	<b>33%</b>	38%
Passive S&P 500		17%	
Value Equity		8%	
Growth Equity		8%	
Domestic Small Cap Equity			
Small Cap Broad	6%	<b>11%</b>	16%
International Equities			
Core International	9%	<b>14%</b>	19%
Domestic Fixed Income			
Core Plus	35%	<b>40%</b>	45%
Cash	0%	<b>2%</b>	5%

### **Rebalancing of Strategic Allocation**

The Board recognizes that from time to time the asset mix will deviate from the targeted percentages due to market conditions. A range has been established for each asset class to control risk and maximize the effectiveness of the Fund's asset allocation strategy, while avoiding unnecessary turnover at the security level.

The percentage allocation to each asset class on a market value basis should be reviewed by the Board no less than quarterly. When an asset class is outside of its allowable range, the Board will evaluate the feasibility of rebalancing the Fund back to the target allocation. During periods of extreme market conditions, which may include excessive volatility or illiquidity in an asset class, or where rebalancing may unduly hinder the Fund, the Committee may choose to delay rebalancing the Fund. During that period, it is expected that more frequent reviews of the Fund's allocation and market conditions will be evaluated to assess the appropriateness of rebalancing the Fund.

Where possible, cash flow to or from the Fund should be used to rebalance back to the targeted percentage as much as possible, since this avoids unnecessary turnover of securities. Where transfers between accounts are required investment managers should be notified in advance, if possible, of the amount and timing of any transfers to or from their accounts.

*Pursuant to The Community Foundation of Grant County, Indiana, Inc. Investment Policy Statement restated effective February, 2008, the section titled "Securities Guidelines" is amended follows:*

## **SECURITIES GUIDELINES**

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Every money manager selected to manage Fund assets must adhere to the following guidelines. The following securities and transactions are not authorized unless receiving prior Board approval:

- (1) Letter stock and other unregistered securities; commodities or other commodity contracts.
- (2) Securities lending; pledging or hypothecating securities;
- (3) Investments in the equity securities of any company with a record of less than three years' continuous operation, including the operation of any predecessor.
- (4) Investments for the purpose of exercising control of management.

**In addition, the guidelines set forth in the prospectus shall prevail for all mutual fund investments.**

### **Domestic Equities:**

- Equity holdings in any one company should not exceed more than 5% of the market value of the Fund's equity portfolio. Additionally, holdings in one industry should not exceed 25%, without the prior written approval of the Board.
- Allocation to any one economic sector should not be excessive and should be consistent relative to the broad equity market and to managers following similar style disciplines.
- The manager shall emphasize quality in security selection and shall minimize risk of large loss through diversification.
- The managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the managers will be evaluated against their peers on the performance of the total funds under their direct management.
- Holdings of individual securities shall be large enough for easy liquidation.

### **Domestic Fixed Income:**

- The average credit quality of each Manager's portfolio shall not be lower than Aa3/AA-.
- All fixed-income securities held in the portfolio should have a Moody's, Standard & Poor's and/or a Fitch's credit quality rating of no less than "BBB". U.S. Treasury and U.S. government agencies, which are unrated securities, are qualified for inclusion in the portfolio.

- No more than 20% of the market value of the fixed income portfolio shall be rated less than single "A" quality, unless the manager has specific written authorization. If the ratings are "split" between ratings agencies, the lowest of the ratings shall apply.
- In the event a holding is downgraded by all ratings agencies to less than "BBB", the manager will sell the security no later than 90 days after the downgrade.
- The exposure of the portfolio to any one issuer, other than securities of the U.S. government or agencies, shall not exceed 5% of the market value of the fixed income portfolio. Securities backed by the full faith and credit of the United States Government or any of its instrumentalities shall not be subject to exposure limitations.
- The average duration of a fixed income manager may not vary by more than 25% from the average duration of that Manager's benchmark index.
- Holdings of individual issues shall be large enough for easy liquidation.
- The manager may contract to purchase securities for a fixed price at a future date beyond customary settlement provided that cash or cash equivalents are maintained sufficient to make payment in full.

**Cash/Cash Equivalents:**

- Cash equivalent reserves shall consist of cash instruments having a quality rating of A-2, P-2 or higher. Eurodollar Certificates of Deposits, 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 interest bearing sweep vehicle managed by the custodian.

## **SELECTION OF MONEY MANAGERS**

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The Board will select appropriate money managers to manage the Fund assets. Managers must meet the following minimum criteria:

- (1) Be a bank, insurance company, investment management company, or investment adviser as defined by the Registered Investment Advisers Act of 1940.
- (2) Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of representative accounts of similar investment style, and reported net and gross of fees.
- (3) Provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the manager relative to other managers of like investment style.
- (4) Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel. This information can be a copy of a recent Request For Proposal (RFP) completed by the manager.
- (5) Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
- (6) Selected firms shall have no outstanding legal judgments or past judgments that may reflect negatively upon the firm.

The Board may also select appropriate mutual funds to manage a portion of the Fund's assets. Mutual funds must meet the following minimum criteria:

- (1) Funds must correspond to the asset classes outlined in the Board's IPS. For example, the growth component of the IPS must be implemented with a mutual fund invested in growth stocks.
- (2) The fund's manager must have been in place for three years or more or use a team approach.
- (3) The funds must have been following the same investment strategy for at least three years.
- (4) The fund must have sufficient assets under management so that any single client does not represent more than 10% of the fund.

Additionally, the following criteria will be evaluated in selecting Managers for implementation of the Fund's assets:

1. The assets in the product being considered. The Manager must demonstrate they manage significant assets in their specific product area. Ideally this would be in excess of \$100 million. The Committee reserves the right to consider, on an individual basis, firms with less than \$100 million in the product.
2. The relevant experience and education of Managers. Ideally, at least two key decisions-makers will have worked together for five years or longer and in their current organization for three years. The relevant experience and education of the personnel making decisions for the portfolio will be considered.
3. Total return versus the appropriate peer group and index over cumulative and rolling periods, as well as, risk-adjusted performance, such as Sharpe Ratio and Relative Standard Deviation, over rolling periods.
4. The process the Manager uses to select securities for the portfolio.
5. Portfolio characteristics such as the number of holdings and transactions employed by the Manager.
6. Managers that represent a style that will complement the overall investment manager structure.
7. The Manager's investment strategy. The strategy shall be described in a clear and understandable manner, and the Manager's adherence to the strategy over time shall be documented. The portfolio's characteristics should be consistent with the investment philosophy for the stated strategy:
  - Equity managers: capitalization, style
  - Fixed income managers: duration, credit quality
8. The strength, depth and experience of the organization.
9. Fees that the Manager charges for investment management should be competitive with managers of similar style.

*Pursuant to The Community Foundation of Grant County, Indiana, Inc. Investment Policy Statement restated effective February, 2008, the section titled "Control Procedures" is amended as follows:*

## **CONTROL PROCEDURES**

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### **Duties and Responsibilities of the Finance Committee**

The Finance Committee (hereinafter, "Committee") is responsible for the overall management of the Investment Program and reporting decisions made to the Board. The Committee's specific responsibilities include: establishing the Fund's asset allocation and diversifying portfolio assets; establishing and following investment policy objectives and guidelines; hiring prudent experts to make investment decisions; controlling and accounting for expenses; and performing ongoing monitoring. The Committee is also responsible for ensuring that the Fund is managed in the best interests of the Foundation and its donors and beneficiaries. The Committee shall conduct its responsibilities as outlined in this IPS.

### **Duties and Responsibilities of the Board**

The Board is ultimately responsible for the overall Investment Program. The Board's specific responsibilities include: establishing the Fund's asset allocation and diversifying portfolio assets; establishing and following investment policy objectives and guidelines; hiring prudent experts to make investment decisions; controlling and accounting for expenses; and performing ongoing monitoring. In addition, the Board's duties include the appointment and removal of Committee members to which the Board has delegated authority. The Board is also responsible for ensuring that the Fund is managed in the best interests of the Foundation and its donors and beneficiaries. The Board shall conduct its responsibilities as outlined in this IPS.

### **Duties and Responsibilities of the Money Managers**

The duties and responsibilities of each money manager retained by the Board include the following:

- (1) Managing the Fund assets under its care, custody and/or control in accordance with the IPS objectives and guidelines set forth herein, and also expressed in separate written agreements when deviation is deemed prudent and desirable by the Board.
- (2) Exercising investment discretion [including holding cash equivalents as an alternative] within the IPS objectives and guidelines set forth herein.
- (3) Promptly informing the Board in writing regarding all significant and/or material matters and changes pertaining to the investment of Fund assets, including, but not limited to:
  - a. Investment strategy
  - b. Portfolio structure
  - c. Tactical approaches
  - d. Ownership
  - e. Organizational structure
  - f. Financial condition

- g. Professional staff
  - h. Recommendations for guideline changes
  - i. All legal material, SEC and other regulatory agency proceedings affecting the firm.
- (4) Promptly voting all proxies and related actions in a manner consistent with the long-term interests and objectives of the Fund set forth herein. Each manager shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto.
- (5) Utilize the same care, skill, prudence and due diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like Funds with like aims in accordance and compliance with applicable laws, rules and regulations from local, state, and federal entities as it pertains to fiduciary duties and responsibilities.
- (6) Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire IPS set forth herein, and as modified in the future.

### **Mutual Funds**

Each mutual fund company selected to manage Fund assets must adhere to the terms and conditions set forth in its prospectus.

### **Duties and Responsibilities of the Custodian**

The Committee believes that timely and accurate completion of custodial functions is necessary for effective management and monitoring of the Fund assets. Specifically, the duties and responsibilities of the Custodian include the following:

- Implementing in a timely and effective manner the investment actions as directed by the investment manager(s);
- Investment of any cash into the chosen sweep vehicle;
- Holding all securities in safekeeping for the Foundation;
- Collecting and receiving all income and principal;
- Maintaining accounting records and preparing reports that are required by the Consultant, Committee, and Board;
- Providing performance measurement numbers consistent with the Global Investment Performance Standards (GIPS®) of the CFA Institute as requested by the Consultant, Committee, and Board;
- Processing distributions from the Fund as requested by the Committee and Board;

- Conforming to all provisions in its contract with the Foundation.

### **Duties and Responsibilities of the Investment Consultant**

The duties and responsibilities of the investment consultant include the following:

- Assist in the development of an asset allocation strategy that meets the risk/reward requirements of the Foundation.
- Prepare written IPS, and assist in the documentation of all investment decisions.
- Assist in the selection of “prudent experts” (money managers) who, in turn, are charged with making investment decisions that are consistent with the IPS.
- Assist in the control of investment expenses, including helping to negotiate money manager and custodian fees, and to insure that brokerage is transacted at “best execution.”
- Monitor the activities of hired money managers and service vendors.
- Educate Board members of their fiduciary responsibilities and the fundamentals of investment management.
- Assist Board avoiding conflicts of interest.

### **Brokerage Policy**

All transactions effected for the Fund will be "subject to the best price and execution." If a manager utilizes brokerage from the Fund assets to effect “soft dollar” transactions, detailed records will be kept and communicated to the Board.

### **Performance Objectives**

Investment performance will be reviewed at least annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the IPS for achieving those objectives.

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

### **Gift Acceptance Policy**

Gifts of cash, marketable securities, publicly traded stocks and bonds may be accepted by the Foundation staff without prior approval of the Community Foundation’s Board of Directors. Personal or real property, proposed as gifts, must first be reviewed by the Compliance Committee

with recommendation to the Board of Directors on acceptance. Such acceptance shall not expose the Community Foundation to any significant financial or monetary obligation, or to any legal or ethic problems. All gifts are to be liquidated and monies placed in appropriate investment account to main asset allocation.

Notwithstanding any other provision hereof, the Community Foundation shall not accept any gift of an interest in a business enterprise for a donor advised fund that would subject the Community Foundation to tax under section 4943 of the Internal Revenue Code, concerning "excess business holdings." Any proposed gift that would result in the donor advised fund holding:

- (a) a 20% or greater interest in a business or in an entity, or
- (b) any interest in an entity in which any interest is owned by a donor or advisor to the donor advised fund, by a family member or by an entity in which any of the foregoing persons has an interest,

shall be referred to the Community Foundation's counsel for an opinion on the possible application of Code section 4943.

*Pursuant to The Community Foundation of Grant County, Indiana, Inc. Investment Policy Statement restated effective February, 2008, the section titled "Monitoring of Money Managers/Mutual Funds" is amended as follows:*

## **MONITORING OF MONEY MANAGERS/MUTUAL FUNDS**

The Finance Committee and Board are aware that the ongoing review and analysis of money managers/mutual funds is just as important as the due diligence implemented during the money manager/mutual funds selection process. Monitoring these managers is a three step process, outlined below:

### **Step 1 – On-Going Monitoring**

The Consultant, Finance Committee and Board will perform a constant and on-going analysis of all Fund money managers/mutual funds. In addition to reviewing quarterly investment performance, the Consultant, Finance Committee and Board will continually evaluate:

- Money manager's/mutual fund's adherence to the IPS guidelines
- Material changes in the money manager's/mutual fund's organization, investment philosophy and/or personnel
- The volatility of the investment rates of return of the money manager/mutual fund compared to the volatility of an appropriate market index and peer group (as listed in Appendix B)
- Comparisons of the money manager's/mutual fund's results to appropriate indices and peer groups (as listed in Appendix B).

### **Step 2 – Formal Watchlist**

If the Consultant, Finance Committee and Board determine that any of the above factors, or any other development regarding the money manager's/mutual fund's performance or organization, warrants a more thorough examination, the Finance Committee and Board will place the money manager/mutual fund on a formal "watchlist". Factors examined during the watchlist period include, but are not limited to, the following:

- Extraordinary Events (Organizational Issues)

Extraordinary events that may lead to a money manager/mutual fund termination include such things as:

- Change in ownership (e.g., key people "cash out")
- Change in professionals
- Changes to a money manager's/mutual fund's philosophy or the process it uses to implement the agreed upon strategy
- Money manager/mutual fund is involved in material litigation or fraud
- Client-servicing problems
- Significant account losses or significant account growth
- Change in cost
- Change in financial condition

- Extreme performance volatility
- Long-Term Performance in Relation to Appropriate Market Index

Long-term performance standards measure a money manager's/mutual fund's performance over rolling five-year returns or since inception in relation to the appropriate market index.

- Shorter-Term Performance in Relation to Appropriate "Style Group"

Shorter-term performance standards incorporate a time period of at least three years. Each money manager/mutual fund is expected to consistently perform in the top 50th percentile versus an appropriate peer group of money managers/mutual funds with similar investment styles. Additionally, each money manager/mutual fund is expected to demonstrate favorable cumulative and rolling three-year risk-adjusted performance compared to its peer group. Risk-adjusted performance measures will vary, but may include: Sharpe Ratio, Downside Risk, Information Ratio, and/or Relative Standard Deviation.

### **Step 3 – Replace or Retain**

The watchlist period will generally be four quarters, but the time period can be shorter or longer depending on the factors causing the watchlist.

As a result of the watchlisting examination of the money manager/mutual fund, a recommendation to either **replace** or **retain** the money manager/mutual fund will be made.

It is at the Finance Committee's and Board's discretion to take corrective action by replacing a money manager/mutual fund, if it deems it appropriate, at any time. The watchlist is not the only route for removing an existing money manager/mutual fund. The aforementioned events, or any other events of concern identified by the Finance Committee and Board, may prompt the immediate removal of a manager without it being watchlisted.

*Pursuant to The Community Foundation of Grant County, Indiana, Inc. Investment Policy Statement restated effective February, 2008, the section titled "Signatures" is amended as follows:*

## **SIGNATURES**

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Prepared:  
Capital Cities, L.L.C.

Date: 5-16-11

Joe Bill Wiley  
Joe Bill Wiley, Consultant

Approved by:  
The Community Foundation of Grant  
County, Indiana, Inc.

Date: 5-26-11

Nancy Cole - President  
Nancy Cole, Board President

# APPENDIX A

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## **Key Information:**

**Name of Foundation:** ..... The Community Foundation of Grant County, Indiana, Inc.

**Type of Fund:** ..... Community Foundation

**Current Assets:** ..... \$17,149,851 (as of March 31, 2011)

**Planning Time Horizon:** ..... Greater than 5 years

**Expected or Modeled Return:** ..... 8.00% (5.25% over CPI)

**Risk Tolerance:** ..... Losses not to exceed (-) 7.9%/year, statistical confidence level of 95%

## **Board of Directors:**

Nancy Cole, President	Chad Leighty
Martin Harker, Vice President	Brian Lewis
David Crouse, Treasurer	John Lightle
Royce Mitchell, Secretary	Dru McCoy
Dennis Banks	Jane Merchant
Janet Barnett	Reggie Nevels
Steve Bedi	Christopher Oliver
Karen Behnke	Dave Raabe
Michael Belcher	Dennis Smith
Mike Cline	Nedra Sutter
Trent Dailey	Wilbur Webb
Gary Hendricks	

## **Finance Committee:**

<u>Voting Board Members:</u>	Gary Hendricks
David Crouse, Chair	Dave Raabe
Steve Bedi	Nancy Cole
Trent Dailey	Martin Harker

## **Investment Advisors:**

### Non-Voting/Board Volunteers:

Doug Carl, Member  
Joe Martin, Member  
Jim Widner, Member  
Terrill Vieth, Member

**Executive Committee:**

Dru McCoy, Past President & Nominating Chair  
Nancy Cole, President and Transition Task Force Chair  
Martin Harker, Vice President  
David Crouse, Treasurer  
Royce Mitchell, Distribution Committee Chair and Secretary  
Wilbur Webb, Youth Grant Committee Chair

**Executive Director:**..... Elizabeth Wright (765) 662-0065

**Custodian:**..... KeyBank National Association  
Steven Hegedus (419) 259-8261

**Investment Consultant:** ..... Capital Cities, L.L.C.  
Joe Bill Wiley (800) 743-6010  
Janet Sweet (800) 743-6010  
Bill Mauger (800) 743-6010

**Staff Accountant:**..... Sherri Rush, Accountant (765) 662-0065

**Historical Record**

<b><u>Date</u></b>	<b><u>Change</u></b>	<b><u>Comments</u></b>
Feb, 2011	A Fee Analysis was conducted.	None.
Nov, 2010	A Fixed Income Search was conducted. Frontegra Columbus Core Plus was selected to replace Morgan Asset Mgmt due to performance and fees.	Morgan was liquidated during January 2011 and the proceeds were used to purchase Frontegra Columbus Core Plus.
Aug, 2010	IPS was reviewed.	IPS is reviewed and updated regularly.
May, 2010	An Asset Allocation Study was conducted.	58% Equities/42% Fixed Income allocation was confirmed.
Feb, 2010	A Fee Analysis was conducted.	None.
Nov, 2009	An Investment Manager Review Analysis was conducted.	None.
Aug, 2009	Amended IPS.	IPS is reviewed and updated regularly.
May, 2009	Foundation conducted a custodian search. As a result of the findings of the search, Capital Cities negotiated favorable trade fees with KeyBank.	Effective July 1, 2009, the transaction charge was reduced to \$5/trade. Previously, a fee of \$12 was charged for each transaction within the Eagle Account and a fee of \$15 was charged for all other transactions.
May, 2009	An Asset Allocation Study was conducted.	58% Equities/42% Fixed Income allocation was confirmed.
July, 2008	Amended IPS.	IPS is reviewed and updated regularly.
Feb, 2008	Restated IPS.	IPS is reviewed and updated regularly.
Dec, 2007	As a result of a fixed income structure review and subsequent fixed income manager searches, the Committee elected to split 2/3 of the fixed income allocation between two Core Plus managers, with Morgan retaining 1/3 of the fixed income assets.	American Funds Bond Fund of America and PIMCO Total Return Funds were chosen to represent the Core Plus Fixed Income exposure of the Portfolio. The JP Morgan Core Bond Fund was eliminated in the Portfolio due to co-portfolio manager change and asset loss. \$1,500,000 of Morgan Asset Management was also liquidated to meet the new fixed income structure.

Dec, 2007	After conducting a manager search, American Beacon Large Cap Value replaced Bear Stearns in the Portfolio.	Bear Stearns was terminated effective December 14, 2007 after the manager had experienced organizational changes and underperformance. The Bear Stearns' Portfolio was liquidated and the proceeds were used to purchase the American Beacon Large Cap Value Fund.
June, 2005	Restated IPS.	IPS is reviewed and updated regularly.
June, 2005	After conducting a manager search, Bear Stearns Large Cap Value replaced Goelzer Asset Management in the Portfolio.	Goelzer was terminated due to performance and trading costs.
March, 2004	Amended IPS.	IPS is reviewed and updated regularly.
Feb, 2003	Manager searches were conducted based on the manager structure analysis completed in December 2002.	Selected Managers- Passive Core Equity: Vanguard 500 Index, Large Cap Value: Goelzer Asset Mgmt, Large Cap Growth: PIMCO RCM Large Cap Growth, Small Cap Broad: Eagle Asset Mgmt, International Equity: Amer Funds EuroPacific Growth, Core Fixed Income: One Group Bond and Union Planters. Funds implemented during second quarter, 2003.
Jan, 2003	Custodian search was conducted and KeyBank was chosen.	Assets transferred to KeyBank during the second quarter, 2003.
Jan, 2003	Prepared and executed Investment Policy Statement.	None.
Dec, 2002	A Manager Structure analysis was conducted.	None.
Nov, 2002	An Asset Allocation Study and Spending Policy Analysis was conducted. A 58% Equity/42%Fixed Income allocation was selected.	None.

\*Appendix A information is as of May, 2011.

## APPENDIX B

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### Descriptions of Selected Styles:

**Large Cap Core Equity Index:** Large Cap Core Equity Index Style managers hold portfolios with characteristics similar to those of the broader market as represented by the Standard & Poor's 500 Index.

**Large Cap Value Equity:** Large Cap Value Equity managers invest in predominately large capitalization companies believed to be undervalued or possessing lower than average price to book and price to earnings ratios. The companies are expected to have a near-term earnings rebound and realize their potential for capital appreciation.

**Large Cap Growth Equity:** Large Cap Growth Equity managers invest in predominately large capitalization companies that are expected to have above average prospects for long-term growth in earnings and profitability. Future growth prospects take precedence over valuation levels in the stock selection process.

**Small Cap Broad:** Small Cap Broad Equity managers invest primarily in companies with relatively small capitalization. The companies typically have zero dividends or dividend yields below the broader market. The securities exhibit greater volatility than the broader market as measured by the risk statistics beta and standard deviation. Managers will generally invest in both value and growth stocks.

**International Core Equity:** International Core Equity managers invest in a well-diversified portfolio of mostly large issues in developed countries with liquid markets, resulting in characteristics similar to that of an index such as the Morgan Stanley Capital International (MSCI) EAFE Index.

**Core Plus Bond:** Core Plus Bond managers construct portfolios that may deviate significantly from the Barclays Government/Credit Bond Index or the Barclays Aggregate Bond Index. The objective is to add value by tactically allocating significant portions of the portfolio among non-benchmark sectors while maintaining majority exposure similar to the broad market.

**Money Market:** This style consists of open-end mutual funds that invest in low-risk, highly liquid, short-term financial instruments and whose net asset value is kept stable at \$1 per share. The average portfolio maturity is 30 to 60 days.

**Selected Managers, Index and Relevant Peer Group:**

<i>Asset Category</i>	<i>Index</i>	<i>Peer Group Universe</i>
<b>Domestic Large Cap Equity</b>		
Vanguard 500 Index	S&P 500	Core Equity Style
American Beacon Lg Cap Val	Russell 1000 Value	Large Cap Value Eq Style
Allianz RCM Large Cap Gr	S&P 500 Growth	Large Cap Growth Eq Style
<b>Domestic Small Cap Equity</b>		
Eagle Asset Management	Russell 2000	Small Cap Broad Eq Style
<b>International Equity</b>		
Amer Funds Europacific Gr	MSCI ACWI-ex US	International Equity Style
<b>Domestic Fixed Income</b>		
Frontegra Columbus Core Plus	Barclays Aggregate	Core Plus Style
PIMCO Total Return	Barclays Aggregate	Core Plus Style
Amer. Funds The Bd Fund of Amer.	Barclays Aggregate	Core Plus Style
<b>Cash</b>		
Key Money Market	90 Day T-Bills	

**Evaluation Benchmark:**

Total Return to be compared to the performance of the CPI + 5.25%, and a weighted index of:

- 33% S&P 500
- 11% Russell 2000
- 14% MSCI EAFE-US\$
- 40% Barclays Aggregate
- 2% 90 Day T-Bills

\*Appendix B information is as of May, 2011.