

OUTER BANKS COMMUNITY FOUNDATION
Investment Policy

Philosophy

The Foundation, as stewards of community resources, invests for the long-term benefit of the donors and community. The primary objective of the investments of the Foundation will be to provide for consistent long-term growth of principal and income. The investment objective is to achieve a total return including appreciation, which will satisfy the current financial needs of the various funds and protect and increase their long term inflation adjusted value. Investment policies are applied equally to all named, component funds, and undesignated assets unless the fund purpose or donor specification requires a different fund-balance ratio.

Consistent with the mission of the Foundation to increase charitable giving in the area and to manage charitable funds for individuals and organizations, the Foundation will provide donors with the best services available with regard to asset investment options, on-going asset management and charitable giving.

Strategy

In order to achieve the return objectives, the following strategies will be used:

1. Diversification of assets between equities, fixed income, cash and various asset classes will be employed to ensure that adverse results from one security, or security class, will not have an unduly detrimental effect on the entire portfolio. The Foundation and its financial partners are free to determine the degree and nature of the diversification of invested assets, subject to the ranges below. However, investments in the equity securities of any one company shall not exceed 5% of the portfolio nor shall the total securities position (debt and equity) in any one company exceed 10% of the portfolio. Reasonable sector allocations and diversification shall be maintained.

Asset Class	Target
<u>Equities</u>	<u>50-80%</u>
Large Cap	25-60
Small Cap	0-20
International - Developed Markets	10-30
International - Emerging Markets	0-15
Real Estate	0-5
<u>Fixed Income</u>	<u>20-50%</u>
Investment Grade	15-55
High Yield	0-15
International – Developed Markets	0-7
International - Emerging Markets	0-3
Alternatives*	0-15
<u>* The addition of Alternative investments requires OBCF approval.</u>	
Cash	0-2 %

2. Equity securities will represent a range of 50-80% of the market value of the total fund assets. The term “equities” includes common stock, as well as large, small, and international stocks, REITs, or a combination thereof.
3. Fixed income securities will represent a range of 20-50% of the market value of the total fund assets. The term “fixed income” indicates contractual payments and includes preferred stocks, convertibles and/or specific maturity dates greater than one year.
4. Re-balancing in asset classes, if not performed more frequently by the investment manager, will be adjusted on an annual basis, subject to review by the Finance Committee.
5. Cash is not a strategic asset of the portfolio, but is a residual to the investment.

Performance

1. To evaluate investment performance in each of the asset subclasses, the Foundation and its investment manager will use the following specific benchmarks:

<u>Asset Subclass</u>	<u>Benchmark</u>
• Money Markets & Equivalents	Lipper Institutional US Treasury Money Market Index
• Fixed Income: US (Intermediate)	Barclays U.S. Aggregate Bond Index
• Fixed Income: US (Short)	Bank of America/ML1-5 Year Corporate Index
• Equities: Large Cap Growth	CRSP US Large Cap Growth Index
• Equities: Small Cap Growth	CRSP US Small Cap Growth Index
• Equities: Small Cap Value	Russell 2000 Value
• Equities: Large Cap Value	Russell 1000 Value Index
• Equities: International - Developed	MSCI World ex US Net USD Index
• Equities: International - Emerging	MSCI EM Net USD Index
• Real Estate	S&P Global REIT (net)
• Equities: International- Developed Small Cap	MSCI World ex US Small Net USD
• Fixed Income: International (hedged)	Citigroup WGBI Non-USD (hedged)
• Fixed Income: International (unhedged)	Citigroup WGBI

The Foundation’s return will be compared to a benchmark comprised of the above indices and weighted in the same proportion as the asset classes are represented in the account. An addendum is included in this policy to cross-reference the benchmark names with their abbreviations as displayed on the investment performance reports.

2. All investment policies and decisions regarding investment management, asset allocation and diversification are reviewed quarterly by the Finance Committee and the Board of Directors.
3. The portfolio investment will be reviewed to ensure consistency with Foundation investment policies and the intent of the donor. This review is to be conducted annually by the Finance Committee, 60 to 90 days following completion of the annual audit.
4. Investment balances are monitored on a monthly basis by staff, and reviewed quarterly by the Finance Committee.

5. Asset Managers and their performance will be formally reviewed every 3 to 5 years. The Finance Committee and the Board will make adjustments as needed to ensure the goals of the Foundation are achieved.
6. The Foundation will strive to match investment returns comparable with the mean return of other foundations with similar investment guideline

Criteria for Multiple Broker/Investment Managers

1. The Foundation, considering those financial institutions that direct donors to the Foundation, will give priority to that institution to manage the fund, providing other investment and performance criteria can be achieved.
2. The Foundation will establish new segregated investment accounts when:
 - financially feasible using new assets, or
 - the donor requests such action be considered, or
 - it is in the interest of the Foundation to establish additional investment relationships within our community
3. The Finance Committee will determine when, to what asset level, and with whom to establish a new segregated account. Authority is given to the Executive Director to implement the goals and policies of the Finance Committee, with consultation from the President or Finance Committee Chairman.

Role of the Finance Committee

The Finance Committee recognizes that its role is supervisory, not advisory, and that discretion is delegated to managers as long as they adhere to general guidelines established by the Outer Banks Community Foundation. The primary roles of the Committee are to:

- establish performance goals
- identify appropriate asset mix guidelines
- review the results of the endowment on a regular basis
- select, monitor, and if necessary, replace the professional investment manager(s)
- review these guidelines as deemed necessary, recommending changes as needed
- determine asset amounts to be managed by each investment manager/broker, review and adjust every 3 to 5 years

Asset Managers

The Foundation reserves the right to select asset managers who meet the following general criteria to provide:

- a high level of consultant services to the Foundation
- a consistent and high level of investment performance

- the necessary accounting services required by the Foundation, to help address current FASB accounting standards
- flexibility in investment options and services
- a reasonable investment fee for its services

Banking Services

The Foundation recognizes the importance of establishing and maintaining good working relationships with financial institutions providing services in the Foundation's geographic area, and will maintain normal banking services of checking and money market accounts, savings box, and any other operating services it may require, with the aforesaid financial institutions. The Finance Committee will determine the asset allocation among the various financial institutions.

Spending Policy

The spending policy is determined by each fund's underlying fund agreement. Funds not governed by a fund agreement have a distribution policy of 5% of a rolling 12 quarter average of fair market value. The calculations are made in the first quarter of the year using the figures from the preceding 12 quarters.

Approved, 12/98

Amended, 12/99 – Equity/fixed income mix of max 65% and min 45% equities

Amended, 9/01 – Minor word revisions

Format revised, 2/04

Amended, 3/06 – Equity/fixed income mix of max 70% and min 30% equities

Amended, 6/06 – Add Spending Policy

Amended, 9/06 - Added subclasses and benchmarks

Amended, 12/09- revise investment wording, set target ranges and updated spending policy

Amended, 9/15 – Equity class max 75%; cash max 2%; Alternatives up to 15% upon OBCF Board approval; updated fund names and added addendum to align benchmark names with abbreviations per performance reports

Amended 12/17 – Equity class 50%-80%; Fixed Income class 20% - 50%

Amended 12/18 to include an addendum to limit ownership of closely-held business interests in a donor-advised fund

OUTER BANKS COMMUNITY FOUNDATION
Investment Policy Addendum
Benchmark Abbreviations per Performance Report Cross-Referenced to IPS

Investment Policy Statement (IPS)		TCTS Performance Report		
Asset Subclass	Benchmark	Asset Subclass	Benchmark	Investments
Money Markets & Equivalents	Lipper Institutional US Treasury Money Market Index	Money Market	Lip Inst US-T MM	BLACKROCK T-FUND INST
Fixed Income: US (Intermediate)	Barclays U.S. Aggregate Bond Index	Interm-Term Bond	BC Aggregate	JP MORGAN CORE BOND FD SEL, VANGUARD TOTAL BD MKT INDEX INSTL
Fixed Income: US (Short)	Bank of America/ML 1-5 Year Corporate Index	Short-Term Bond	BofAML Corp 1-5	VANGUARD SHORT TERM INVESTMENT GRADE FD INSTI
Equities: Large Cap Growth	CRSP US Large Cap Growth Index	Large Growth	CRSP LG Growth	VANGUARD GROWTH INDEX FD INST
Equities: Small Cap Growth	CRSP US Small Cap Growth Index	Small Growth	CRSP SC Growth	VANGUARD SM CAP GR INDEX FD INST SHS
Equities: Small Cap Value	Russell 2000 Value Index	Small Value	Russell 2000 Val	DFA US SMALL CAP VALUE
Equities: Large Cap Value	Russell 1000 Value Index	Large Value	Russell 1000 Val	DFA US LARGE CAP VALUE
Equities: International - Developed	MSCI World ex US Net USD Index	Foreign Large	MSCI Wld xUS-Net	DFA LARGE CAP INTL PORTFOLIO, DFA INTERNATIONAL VALUE
Equities: International - Emerging	MSCI EM Net USD Index	Emerging Markets	MSCI EM - Net	DFA EMERGING MKTS VALUE, DFA EMERGING MKTS SML CAP PORT
Real Estate	S&P Global REIT Index (net)	Global REITs	S&P Glbl REIT	DFA INTL REAL ESTATE SEC PORT, DFA REAL ESTATE SECURITIES
Equities: International – Developed Small Cap	MSCI World ex US Small Net USD Index	Foreign Small	MS Wld xUS SmNet	DFA INTL SMALL COMPANY
Fixed Income: International (hedged)	Citigroup WGBI Non-USD (hedged)	World Bond Hgd	Non-USD Wld Gvt	VANGUARD TOTAL INTERNATIONAL BOND INDEX FD IN
Fixed Income: International (unhedged)	Citigroup WGBI	World Bond Unhgd	Citi World Govt	TEMPLETON GLOBAL BOND FD ADV CL

Investment Policy Addendum: Excess Business Holdings

The purpose of this addendum to the Outer Banks Community Foundation’s Investment Policy is to limit ownership of closely-held business interests in a donor-advised fund.

Pursuant to the Pension Protection Act of 2006 amended section 4943 of the Internal Revenue Code, a donor-advised fund’s holdings, together with the holdings of disqualified persons (i.e., donors, advisors, 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 or 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 interest 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 the Foundation’s policy to divest itself of such holdings within five years from the date the Foundation acquired the asset. If that is not possible, the asset will be transferred to a new or existing fund that is not a donor-advised fund.

Because they are not “business enterprises,” this policy will not apply to most gifts of real property, except for undeveloped land that 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—and are excluded from this policy—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.