Community Foundation of the Dan River Region
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Statement of Investment Policies

(Approved by the Board March 18, 2024)

This Statement of Investment Policies ("Policies") has been adopted by the Board of Directors (the "Board") of The Community Foundation of the Dan River Region (the "Foundation") upon the recommendation of the Finance Committee (the "Committee"). These Policies provide guidelines for the management of the Foundation's assets.

I. Investment Objectives

A. Provide a return that over time keeps pace with inflation while protecting and growing the real value of the Foundation assets.

B. Attain an average annual real return (net of inflation and investment management fees) of at least 5.0 percent over the long term, as measured over rolling five-year periods.

C. Control risks that may hinder achievement of these goals.

II. Spending Policy

The Foundation's spending expectation is up to 5.0 percent based on a 20-quarter market value average. Investment return in excess of 5.0 percent, net of investment management fees and adjusted to reflect receipt of gifts and extraordinary withdrawals, shall be added to the Foundation corpus. This policy shall apply to all discretionary endowed funds unless otherwise specified by the gift instrument. No payouts will be approved for funds whose 20-quarter market value average is below 80% of the required minimum balances.

III. Management of the Foundation's assets

A. The Board bears ultimate responsibility for the care and custody of the Foundation's assets.

B. Subject to the Board's oversight, the Committee has been delegated the authority to oversee the day-to-day management and investment of the Foundation assets.

C. The Committee discharges its responsibilities through one or more investment managers ("Managers") who bear direct responsibility for the investment of the Foundation's assets. The Managers have the independent discretion to invest the assets subject to general guidelines established and/or approved for each Manager by the Committee upon recommendation of the Consultant.

D. With the Board's consent and approval, the Committee may retain a professional investment consultant ("Consultant") who shall be responsible for making recommendations to the Committee in order to enhance the potential for meeting the Investment Objectives in connection with such matters as (i) the percentage allocation of Foundation assets to various investment categories and vehicles; (ii) the selection of Managers; and (iii) the monitoring of Manager performance. The Consultant shall also provide input in respect of the formulation and revision of these Policies and such other matters as may arise from time to time in the discretion of the Committee.

E. The Committee is responsible for (i) reviewing these Policies with the Consultant annually and recommending changes or amendments to the full Board for approval; (ii) reviewing with the Consultant at least quarterly the composition of the Foundation's assets for compliance with these Policies; (iii) reviewing with the Consultant at least quarterly Manager performance vis a' vis appropriate benchmarks and peer groups; (iv) in consultation with the Consultant approving new Managers or replacing existing Managers, based on objective data presented by the Consultant reflecting upon Manager competence in the relevant asset classes; (v) allocating the management of the Foundation's assets among the selected managers, consistent with these Policies, and based on objective historical data reflecting risk and return associated with various investment allocations as provided by the Consultant; and (vi) approving Consultant and Manager contracts and fees, which shall be reviewed at least quarterly for contract compliance. The Committee may dismiss Managers or reallocate assets based on objective, performance based criteria which shall be provided by the Consultant.

F. The Committee may select balanced managers provided their investment objectives and structure are reasonably integrated with the overall structure and Investment Objectives of the Foundation described herein.

G. To the extent reasonably feasible and to the extent consistent with these Policies and prudent investment of the Foundation assets, the Committee may endeavor to retain the services of existing Managers for investment of funds held by them at the time such funds are donated to the Foundation, with the understanding that for gifts given subsequent to the adoption of these Policies, this provision shall not be construed to restrict the Committee in the future from reallocating the types and classes of investment managed by existing Managers.

IV. Investment Guidelines

To maximize potential to achieve the Investment Objectives, the Foundation shall be invested in three broad asset classes: "High Quality Bonds", "Equities", and "Short Term Securities." The purpose of the Equities is to provide an engine of real total return sufficient to drive the Foundation to its return objective and to hedge against inflation. Equities may include traditional stock investments, as well as other assets termed "Stock Substitutes." Stock Substitutes may include assets that have a moderate or low covariance with the U.S. stock market, and growth potential that equals or exceeds that of U.S. stocks. The purpose of the High Quality Bonds is primarily to provide a hedge against deflation. The purpose of the Short Term Securities is to provide sufficient liquidity for periodic withdrawals.

A. Cash flow (i.e., from deposits or pending withdrawals) will be allocated to Managers by the Finance Committee (formerly Treasurer) with the objective of rebalancing the allocation among funds and Managers in accordance with the policies detailed herein and/or as adopted from time to time by the Committee. The Finance Committee shall examine the actual allocation relative to these policies periodically. Should allocations exceed the tactical ranges, the Finance Committee, after consultation with the Investment Consultant, shall rebalance to within the ranges by transferring funds among Managers. The Foundation's goal is to maintain in liquid assets a minimum of one year's cash equivalent including administrative and approved grant needs.

B. The investment objective for High Quality Bonds is to match or outperform, net of fees, the Bloomberg Aggregate Bond Index. The average quality of the High-Quality Bond portfolio shall be A or higher. Holdingsrated BBB+ or below shall not exceed 15 percent without the consent of the Committee. Investments may include readily marketable obligations of U.S. government agencies, State, local, corporate, and other similar obligors. Zero coupon, discount, and current pay obligations are allowed. The aggregate obligations of any single non-U.S. government or government agency issue may not exceed 5 percent of the High Quality Bond portfolio. Non-U.S. debt securities of comparable quality to the above are permitted up to 25% of the High Quality Bond portfolio. The average duration of the High Quality Bond portfolio should be three to seven years. No more than 25% or less than 10% of Foundation assets shall be allocated to the High Quality Bond portfolio.

C. The investment objective for the Equities is to match or outperform, net of fees, the Russell 3000 Index. The performance of each individual equity fund will be measured against an appropriate equity index and manager universe. The Foundation recognizes that, due to the nature of stock markets, the Equities will be subject to "market risk," which is to say periods of declining prices broadly affecting the entire stock market. This risk is exacerbated during conditions of inflation. To mitigate this risk, the Committee may increase the diversity of the Equities portfolio by investing portions of the fund in Stock Substitutes, which are investments that have a moderate or low covariance with the U.S. stock market, and growth potential that equals or exceeds that of U.S. stocks. These assets may include real estate, hedge funds, venture capital, private equity, high-yield bonds, and other assets. The Foundation recognizes that investments in Stock Substitutes may entail greater Manager risk than diversified investments in stocks or bonds. No more than 90% or less than 75% of Foundation assets shall be allocated to the Equities portfolio, of which no more than 50% shall consist of Stock Substitutes.

D. Stock Substitutes may be opportunistic, or long-term. Opportunistic investments are those investments intended by the Committee to be temporary. They are intended to capitalize on extraordinary opportunities in the capital markets due to undervaluation, with the expectation that when the value is realized, the investment will be liquidated. If not opportunistic, Stock Substitutes are intended to be core holdings that are to be held through market cycles, over the long term. Because Stock Substitutes tend to be illiquid and unregulated, they tend to have higher exposure to specific risks, such as Manager risk and company risk. Particular attention will be paid to controlling these risks through careful selection of the highest quality Managers, and diversification across several Managers and styles. It is understood that the Committee will place significant reliance on the advice of the Consultant in selecting Stock Substitutes.

E. Many Stock Substitutes involve illiquid private transactions and are made available through limited partnerships with multi-year lock up periods. To provide general control over illiquidity, no more than 40% of the Foundation assets may be invested in investments that cannot be liquidated within one year, and no more than 25% percent of the Foundation assets may be invested in investments that cannot be liquidated within five years. Moreover, the Committee will endeavor to diversify illiquid investments with long lock up periods by “vintage year” (which is to say fund starting date) and by liquidation date. In this way, the Foundation will, to the maximum extent practicable, hold illiquid investments with different maturities so that some will be at the investment stage while others will be at the liquidation stage over time.

F. The investment objective for the Short-Term Securities is to match or outperform, net of fees, a 91-day T-Bill index. Non-U.S. government or government agency obligations must be from issuers rated A-1/P-1, or higher by Standard & Poors or Moody’s. Investments may include readily marketable bank certificates of deposit, repurchase agreements, commercial paper, U.S. government and government agency obligations, and other similar instruments, all of a maturity not to exceed one year. The aggregate obligations of any single non-government issuer shall not exceed 10 percent of the Short-Term Securities.

G. Decisions as to individual security selection, security size and quality, number of industries or holdings, current income levels, and turnover are left to broad Manager discretion, subject to usual standards of fiduciary prudence. However, in no case (excepting commingled fund shares) shall a single security exceed 5 percent of the market value of the Equities. Additionally, no single economic sector shall represent more than 20 percent of the market value of the Equities.

H. Excess Business Holdings Rules for Donor Advised Funds. Under the Pension Protection Act of 2006 (PPA), the private foundation excess business holdings rule apply to donor-advised funds as if they were private foundations. That is, the holdings of a donor-advised fund in a business enterprise, together with the holdings of persons who are disqualified persons with respect to that fund, may not exceed any of the following:

- Twenty percent of the voting stock of an incorporated business
- Twenty percent of the profits interest of a partnership or joint venture or the beneficial interest of a trust or similar entity
- Any interest in a sole proprietorship

Donor-advised funds receiving gifts of interests in a business enterprise have five years from the receipt of the interest to divest holdings that are above the permitted amount, with the possibility of an additional five years if approved by the Secretary of the Treasury. Community foundations that held such assets in donor advised funds on the date of enactment will have a much longer period to divest under the same complicated transition relief given to private foundations in 1969.

V. Guidelines for Transactions

All transactions should be entered into on the basis of best execution, which means best realized net price.

VI. Monitoring of Objectives and Results

A. All Policies are in effect until modified by the Board, upon Committee recommendation. The Committee will review these Policies annually for their continued appropriateness.

B. All Policies are to be in agreement with the Virginia Uniform Prudent Management of Institutional Funds Act (UPMIFA), which governs the standard of conduct in managing and investing institutional and endowment funds.

C. The deployment of both individually managed portfolios and total Foundation assets will be monitored for consistency of investment philosophy, return relative to objectives, and investment risk as measured by asset concentration, exposure to extreme economic conditions, and market volatility. Individually managed portfolios will be monitored by the Committee on an on-going basis. Total Foundation results will also be evaluated on a rolling five-year basis.

D. The Foundation encourages comments concerning these guidelines from Managers and the Consultant at any time. In any event, as part of the portfolio review meeting with the Committee, the Consultant will be expected to comment formally on the Policies and their continued appropriateness and timeliness in light of the prevailing economic and investment environments. It is further expected that the Consultant will provide quantitative support for its recommendations.

VII. Outside Services

A. With the consent of the Foundation's Board of Directors, the Committee is authorized to engage independent consultants to advise and assist the Committee in the performance of its Page 6 of 8 responsibilities under these Guidelines. The expenses of such consultants shall be charged to and paid from the Foundation's assets and taken into consideration in monitoring the overall investment performance of the Foundation's assets.

B. The Committee is further authorized to engage a financial institution or trust company to act as custodian of Foundation assets.

Appendix A: Additional Guidelines for Individually Managed Accounts

Managers have the responsibility and the discretion to increase cash equivalents if such a defensive position is warranted by market conditions or, in balanced accounts, to select asset allocations of equity and fixed income portfolios based on market conditions, subject, however, to the allocation limits established in these Policies. Significant changes in asset allocation should be reported in a timely manner to the Consultant and to the Committee.

Appendix B: Performance Measurement and Administration

A. Each Manager's performance shall be compared with the appropriate benchmark index as recommended by the Consultant and approved by the Committee. Performance shall be compared to the appropriate benchmark index for the quarter, year-to-date, 1-year, 3-year and 5-year periods.

B. Documentation: The Foundation expects to receive quarterly Manager reports (where applicable and practicable) reflecting:

a. Portfolio composition for each major investment class including cash equivalents, i.e. asset mix at book and at market values.

b. Individual security holdings including book and market values, if applicable.

c. Descriptive detail of all security transactions

d. Detail of cash transactions

The Foundation also expects the Manager to provide adequate information to independent auditors for each fiscal year-end June 30.

C. Investment Overview: A summary of investments and cash accounts is presented to the Foundation's Board of Directors on a quarterly basis. The Finance Committee of the Foundation reviews the investment performance of fund managers at least annually. Performance is compared with (1) policy guidelines; (2) appropriate market indices; (3) industry standards; and (4) other applicable data. The investment managers may be requested to meet with the Foundation's Finance Committee or others. The agenda for these meetings may include, but not be limited to:

a. A presentation of investment results in comparison with investment objectives.

b. A review/discussion of investment strategies.

c. Information concerning material policy changes, objectives, staffing or business conditions of the Investment Manager.

d. A review and restatement of the investment objectives designed to meet the Foundation expectations.

Appendix C: Finance Committee Structure

The Board shall appoint a Chairman and Vice Chairman of the Committee from its own members, and it may appoint such other Committee members as it deems appropriate. The Treasurer of the Foundation shall be a standing member of the Committee.

Revision History: Adopted by Board 9.23.2013; revised and Board approved 6.27.2016; revised and Board approved 6.24.2019; reapproved by Board 6.22.2020; revised and Board approved 6.21.2021; revised and Board approved 3.21.2022; revised and Board approved 3.20.2023; revised and Board approved 3.18.2024.

THE COMMUNITY FOUNDATION ADMINISTRATION FEE SCHEDULE

(Effective July 1, 2013)

***Total 5 million fee schedule 0.77%**

***Minimum Fee of $500 on all scholarship funds.**

***Fees on Pass Thru Funds be at least 2% of the Total Fund**

Additional charges may be required for special services on any funds.

		FUND		FEE		ANNUAL FEE
		VALUE		SCHEDULE		AMOUNT
First		500,000.00		1.25%		6,250.00
Next		500,000.00		1.00%		5,000.00
Next		1,000,000.00		0.75%		7,500.00
Next		3,000,000.00		0.65%		19,500.00
Total		**5,000,000.00**				**38,250.00**