

# ATHENS AREA COMMUNITY FOUNDATION

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## STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES

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### INTRODUCTION Mission And Vision

The Athens Area Community Foundation is dedicated to enhancing the quality of life, economic well-being, and spirit of community in Athens-Clarke, Oconee, Jackson, Barrow, Madison, and Oglethorpe Counties by building, preserving, and distributing philanthropic assets.

As the primary vehicle for building and managing the community's permanent charitable resources, the Foundation envisions a community with sufficient philanthropic resources that, when invested and utilized effectively, will produce a thriving, just, and caring community for the benefit of all.

The mission of the Foundation will be accomplished through: (1) the acceptance of donations to establish donor-advised funds, permanent endowments, field of interest funds, memorial funds, fiscal sponsorship funds, nonprofit agency endowment funds and estate planning instruments such as charitable remainder trusts, gift annuities, insurance contracts and other charitable fund instruments that may become beneficial; (2) the management and investment of these assets; (3) the awarding of grants to charitable and community causes. It is the objective of the Foundation to invest its assets in such a way as to create income and achieve growth with capital preservation as a primary goal.

This Statement of Investment Policies and Objectives governs the investment management of the Athens Area Community Foundation's investment assets. It is anticipated that this statement will be effective until modified as conditions warrant by the Board of Directors. The Board, the Finance Committee and the investment advisors are expected to propose revisions in the guidelines at any time the existing guidelines would impede meeting the investment objectives. The policies and objectives apply to the Foundation's investment assets in general. Specific guidelines for individual funds will be dependent on each fund's purpose and use.

#### A. INVESTMENT OBJECTIVES

The financial objectives for the Foundation's investment assets are (1) to create income which will support the charitable purposes of The Athens Area Community Foundation, Inc., its donors and its agency endowments and (2) to preserve the purchasing power of the Foundation's assets. These objectives dictate that the Foundation conserve and prudently manage those assets. The perpetual nature of the Foundation requires a growing asset base and a growing annual return.

The primary investment objective for the total Portfolio is to attain an average annual real total return (net of investment management fees) of at least 5% over the long term (rolling five-year periods). It is recognized that the real return objective may be difficult to attain in every five-year period, but should be attainable over a series of five-year periods.

# ATHENS AREA COMMUNITY FOUNDATION

## B. SPENDING POLICY

1. Spending from the Foundation's investments will be defined periodically based on the nature of its various charitable funds.
2. To preserve the Portfolio's purchasing power, long-term average spending from a fund should not exceed the expected long-term real total return. As a general principal, the spending from the funds held at the Foundation should be in the range of 5% of each fund's balance. It is further recognized that some funds such as endowments and funds that are building to a specific asset level may not spend anything for a number of years.
3. For liquidity purposes, the Foundation will seek to maintain 5% of an individual fund's balance in money market accounts.

## C. FOUNDATION FEE STRUCTURE

1. The fee that the Foundation assesses for its management of the various types of funds is applied quarterly.
2. All investment expenses of managers and mutual funds will be netted from the account on a monthly basis.

## D. INVESTMENT MANAGEMENT STRUCTURE

The Board of Directors of the Foundation is responsible for the oversight of the Foundation's investment assets and delegates regular review and management of the Foundation's investments to the Finance Committee of the Board. The Finance Committee meets at least quarterly and reports to the full Board at its next regularly scheduled meeting. The Finance Committee is responsible for contracting with investment advisors and managers, for investing the Foundation's assets including those assets held by the Foundation as Trustee and for measuring performance of the Foundation's investments.

It is the policy of the Foundation to use external investment managers to manage the Portfolio. Each investment manager has discretion to manage the assets in their portfolio to best achieve the investment objectives and requirements, within the guidelines set forth in this policy statement (including appendices). The Foundation may also utilize select mutual funds that fall within the overall asset allocation, quality total return and cost parameters. All investment managers, firms and mutual funds will be reviewed and approved by the Finance Committee and the Board of Directors of the Foundation as they are added and at least annually. A formal written agreement will be negotiated with each investment manager. Investment returns that vary more than 2% from the performance index are subject to review. The Board authorizes the Finance Committee to approve and sign agreements, resolutions and necessary signature cards on behalf of the Foundation.

## E. COMPOSITION

The overall character of the Foundation's investments should be one of above average quality, possessing, at most, an average degree of investment risk. The investment objective shall be to seek a reasonable balance between current income, growth of income, and longer-term capital appreciation.

## ATHENS AREA COMMUNITY FOUNDATION

Taking into account the Foundation's grant-making process and its long term goals for growth, investments are classified into five types: Equity Accounts, Fixed Income Accounts, Money Market Accounts, Alternative Investments, and Balanced Accounts. Mutual Funds should reflect the same asset allocations, structure, return expectations and cost parameters.

1. Money Market Accounts ensure safety of principal, and provide relative liquidity and cash availability for the Foundation's grant making operations.
2. Fixed Income Accounts provide current income, contribute to total return, to reduce the overall volatility of the Foundation's total investments, and to provide a hedge against deflation.
3. Equity Accounts provide a total return that will result in growth in principal and income while preserving the purchasing power of the Foundation's assets. It is recognized that the Equities Accounts entail the assumption of greater market volatility and risk.
4. Alternative Investments, which may include commodities, real estate, private equity, or other investments, can provide added diversification benefits and inflation protection that may not be possible from traditional equity or fixed income investments. As with equity investments, alternative investments involve specific risks and market volatility.
5. Balanced Accounts provide for the long-term growth and income of the Foundation's assets through a blend of Fixed Income and Equity Accounts.

### F. ASSET ALLOCATION

The Foundation recognizes that asset allocation is the most important factor affecting the return on investments. If a fund is designed for use of income over the long term then a plan that has a greater weight towards income should be utilized. If the fund is designed for short term uses and the assets will be used for grants in less than one year then a weight towards short-term investments will be used. For overall long-term endowments a long term balanced fund approach will be used. Appendix A outlines approved allocation plans.

1. Additions to principal will be allocated so as to maintain these ratios.
2. It is the policy of the Foundation to maintain 5% of an individual fund's value in money market accounts. This accomplishes several purposes. (1) Identifies funds readily available for grants, (2) Provides liquidity for grants, and (3) Conserves value in the other investment accounts. This also supports the basic premise of the Foundation to make grants to worthy and qualified recipients on a continuing basis.
3. To conserve value, grants and expenses from funds will be made in the following order: Money Market Accounts, Fixed Income Accounts, Balanced Accounts and Equity Accounts.
4. The Foundation's investments will be diversified by investment style, asset class (e.g., equities, bonds, and cash equivalents) and within asset classes (e.g., within equities by country of origin, economic sector, industry, style (growth/value), and size). The purpose of diversification is to provide reasonable assurance that no single security or

## ATHENS AREA COMMUNITY FOUNDATION

class of securities will have a disproportionate impact on the performance of the Foundation's Funds.

5. The Finance Committee may change any of these ratios, but it is anticipated that such changes will be infrequent. Individual funds within the Foundation may vary from these ratios as needed to meet spending and investment objectives.
6. Asset Allocations will be reviewed quarterly.

### G. GUIDELINES FOR MONEY MARKET ACCOUNTS

The investment objective of the Money Market Accounts is to outperform (net of fees) the 91-day U.S. Treasury Bill Index. Performance will be monitored on a regular basis and evaluated over a running three-to-five year period.

### H. GUIDELINES FOR FIXED INCOME ACCOUNTS

1. The investment objective of the Fixed Income Accounts is to outperform (net of fees) the Barclays Capital Aggregate Bond Index. Performance will be monitored on a regular basis and evaluated over a running three-to-five year period.
2. Money market instruments as well as bonds may be used in the Fixed Income Accounts, but equities and convertibles are excluded. Fixed Income managers are expected to employ active management techniques without excessive trading. Changes in average maturity should be moderate and incremental.
3. Quality should be above average. Fixed income securities shall have a minimum quality rating of "Baa" by Moody's or "BBB" Standard & Poor's. No more than 30% of the portfolio may be invested in Single "A" rated issues. Overall, the average quality must be "AA". These guidelines do not apply to Treasury issues; United States agency issues, or issues whose payments the United States Government guarantees. Due attention will be paid to callable securities and their vulnerability to changing market conditions.
4. Maturities should generally be of intermediate length (5-15 years) but may emphasize shorter or longer maturities depending on yield differentials.
5. Current coupon securities should be emphasized.
6. Individual foreign bonds, except for Canadian bonds, are not eligible investments.
7. Preference will be given to local CD investments when rates are competitive.
8. T.I.P.S. (Treasury Inflation-Protected Securities) will also be strongly considered for investment due to their unique combination of inflation protection and U.S. government guarantee of principal.

### I. GUIDELINES FOR EQUITY ACCOUNTS

1. The investment objective for the Equity Accounts is to outperform (net of fees) the S&P 500. Performance will be monitored on a quarterly basis and evaluated over a

## ATHENS AREA COMMUNITY FOUNDATION

running three-to-five year period. Other indices may be used as varied equity styles are selected.

2. The Equity Accounts will be broadly diversified according to economic sector, industry, number of holdings, and other investment characteristics. It is recognized, however, that in order to achieve its investment objective, the Equity Accounts must be actively managed and therefore cannot be fully diversified. Excessive trading is discouraged. To produce overall diversification, equity managers may be selected to employ different equity management philosophies, which together achieve the desired degree of diversification. Portfolios will be monitored for adherence to these philosophies.
3. Decisions as to individual security selection, security size and style, number of industries and holdings, current income levels, turnover and the other tools employed by active managers are left to broad manager discretion, subject to the usual standards of fiduciary prudence.
4. International developed and emerging market investments can provide important country and currency diversification and should be very carefully considered. It is also recognized that globalization will create mergers and new companies whose base may no longer be in the United States. Therefore, investment in foreign equities is allowed up to 50% of equity portfolios.
5. Equity managers may at their discretion hold investment reserves of either cash equivalents or bonds, with the understanding that performance will be measured as described in this policy. Balanced managers are free to set the allocation to equities in their accounts up to the maximum allowed equity weighting as stipulated in the individual manager guidelines.

### J. GUIDELINES FOR BALANCED ACCOUNTS

The investment objective of the Balanced Accounts is to outperform the composite return of the proportional benchmarks for the Money Market, Fixed Income and Equity components.

### K. GENERAL GUIDELINES FOR MANAGERS

1. No more than 5% of the Foundation's total portfolio may be invested in any one issuer.
2. A single industry sector shall not represent more than 25% of the Foundation's portfolio value.
3. No securities may be purchased on margin and no short selling is permitted.
4. Futures and options are not permitted.
5. The use of leverage (borrowing) will not be allowed in any of the foundation's investments.
6. If a manager's Foundation portfolio includes 5% or more of the voting stock of a single issuer, the manager must advise the Athens Area Community Foundation immediately.

## ATHENS AREA COMMUNITY FOUNDATION

7. Cash equivalents should be placed with issuers whose commercial paper is rated "A-1" or "P-1" or bond ratings of "A" or better.
8. Proxy voting is at the investment manager's discretion, although the manager might be asked to vote in a particular way under certain circumstances. In general, the manager should vote all proxies so as to enhance or protect the Foundation's assets.
9. Each manager is expected to act in a prudent manner at all times with respect to the investment of the Foundation's assets. Each manager must recognize that he/she is a Fiduciary with respect to the assets of the Foundation and that he/she will follow all applicable rules, laws and regulations governing their investment.
10. Each manager shall notify the Foundation if he/she feels that any of these guidelines hinder his/her ability to meet the account's investment objectives. If temporary market conditions mandate the disposition of any asset under these guidelines which the investment manager believes should be retained, upon such notice from the investment manager, the Foundation may waive the requirement to dispose of said asset.

### L. GUIDELINES FOR TRANSACTIONS AND COSTS

1. As a general guideline that should apply to all assets managed, transactions should be entered into based on best execution, which is interpreted normally to mean best-realized price. Notwithstanding the above, the Finance Committee may direct the investment managers to utilize soft dollar brokerage commissions to pay for service-based fees incurred by the Foundation in the management of the Endowment.
2. Excessive trading which will result in higher cost to the fund is discouraged.
3. As a general rule, management fees and commissions should not exceed 1% of the funds managed. It is expected that individual managers will give discounts for size and volume.
4. It is the policy of the Foundation to sell all gifts of stock immediately upon receipt, except when it is more cost efficient to retain the stock because it meets all criteria for holding shares and has the approval of one of the Foundation's investment managers. The Foundation will not speculate on the future of a stock, all decisions to hold investments are the responsibility of the investment managers.
5. Receipts for stock gifts will show the number of shares received and the high and low for the date of the gift. The investment manager will provide this information to the Foundation. Credit for any gift of stock will be applied net of any cost to sell or convert the asset to cash.

### M. MONITORING OF OBJECTIVES AND RESULTS

1. All objectives and policies are in effect until modified by the Board of Directors. They will be reviewed at least annually for their continued appropriateness.

## ATHENS AREA COMMUNITY FOUNDATION

2. If at any time a manager believes that any guideline inhibits its investment performance, it is the manager's responsibility to clearly communicate this view to the Foundation.
3. The portfolio will be monitored on a continual basis for consistency in each manager's investment philosophy, return relative to objectives, investment risk as measured by asset concentrations, exposure to extreme economic conditions, and market volatility. Portfolios will be reviewed on a quarterly basis, but results will be evaluated over running three- to five-year periods.
4. Each investment manager will report the following information quarterly: total return net of all commissions and fees, returns for the equity and fixed income portions of the account, additions and withdrawals from the account, current holdings at cost and at market value, and purchases and sales for the quarter. Regular communication concerning investment strategy and outlook is expected. Additionally, managers are required to inform the Athens Area Community Foundation of any significant change in firm ownership, organizational structure, professional personnel, account structure (e.g., number, asset size and account minimums), or fundamental investment philosophy.

### N. INCLUSION

1. This entire document is referenced and made a part of any and all agreements developed between the Foundation and its investment managers.
2. Additional Guidelines for individual investment managers may be included in the Appendix to this policy.
3. The Finance Committee must approve exceptions to this policy.

ATHENS AREA COMMUNITY FOUNDATION

**APPENDIX A**

**FOUNDATION ASSET ALLOCATION SCHEDULE**

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Long Term BALANCED Allocation

Money Market	5%
Fixed	30%
Equity	65%
TOTAL	100%

Long Term EQUITY Allocation

Money Market	5%
Equity	95%
TOTAL	100%

Long Term INCOME Allocation

Money Market	5%
Fixed	95%
TOTAL	100%

Short Term Allocation

Money Market	100%
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Short Term INTERMEDIATE Allocation

Money Market	10%
Intermediate Bond Fund	90%
TOTAL	100%

CRT Allocation

Money Market	5%
Equity	80%
Fixed Income	15%
TOTAL	100%

\*Allocations may vary no more than 5% without review

ATHENS AREA COMMUNITY FOUNDATION

**APPENDIX B**

**AMERICAN FUNDS INVESTMENT STRATEGY**

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The Board of Directors and the Finance Committee have approved the following strategy for investments using American Mutual Funds.

The preferred vehicle for individually managed accounts with a long term outlook is the American Balanced Fund. Individual Equity, Fixed Income and Balanced Accounts may also be used provided that they follow the approved fund mix. Accounts should be opened so that the Foundation will receive statements directly from American Funds. The broker should obtain from the Foundation a special American Funds Account Application so that correct name and account registration can be accomplished.

Attached Appendix C is the current fund allocation for the Equity, Fixed Income, Balanced and CRT accounts. These are rebalanced quarterly by the broker with notice to the Foundation.

The Foundation will make all deposits/contributions through the broker and will process all withdrawals via fax and wire transfer directly with American Funds.

All accounts are reconciled monthly except for the CRT accounts which are reconciled quarterly.

ATHENS AREA COMMUNITY FOUNDATION

APPENDIX C

AMERICAN FUNDS INVESTMENT ALLOCATION SCHEDULE

**NGCF EQUITY POOL**

AMCPX	AMCAP	15%
AGTHX	Growth Fund of America	15%
ANCFX	Fundamental Investors	20%
ANEFX	New Economy	10%
ANWPX	New Perspective	10%
SMCWX	Small Cap World	10%
AWSHX	Washington Mutual	20%
	<i>*BENCHMARK: S&amp;P 500</i>	

**NGCF FIXED INCOME POOL**

ABNDX	Bond Fund of America	100%
	<i>*BENCHMARK: Barclays Capital Aggregate Bond</i>	

**NGCF SHORT TERM POOL**

CTAXX	Cash Management Trust	10%
AIBAX	Intermediate Bond Fund	90%
	<i>*BENCHMARK: T-bill - 3 Month Yield</i>	

**NGCF BALANCED POOL**

Equity Pool		65%
Fixed Income Pool		35%
or		
ABALX	American Balanced Fund	100%
	<i>*BENCHMARK Blend 60% S&amp;P 500 - 40% LB Aggregate</i>	

**NGCF CRT POOL**

AGTHX	Growth Fund of America	15%
AMECX	Income Fund of America	35%
ANEFX	New Economy	15%
AWSHX	Washington Mutual	35%
	<i>*BENCHMARK: S&amp;P 500</i>	