Arizona Community Foundation

Investment Policies and Guidelines for Investment Advisors of Individual Funds

Adopted by the ACF Audit & Compliance Committee
April 21, 2011

I. OBJECTIVE

The overall objective is to develop, implement and monitor policies that help ensure the prudent investment management of the Foundation's capital market assets in order to attain, over reasonable time periods, acceptable inflation and risk-adjusted rates of return for the assets managed by external investment advisors. These returns must be consistent and competitive in order to fund the Foundation's spending policy and expenses, to preserve the asset base and enhance the asset base through capital appreciation.

II. DELEGATION OF RESPONSIBILITIES

Responsibilities of Audit & Compliance Committee

- Establish, and revise as appropriate, these Guidelines to be consistent with the overall investment guidelines of the Foundation.
- Establish, and revise as appropriate, the target asset allocation to ensure consistency with the allocation for the ACF Long Term Pool.
- Establish appropriate and reasonable investment performance benchmarks for the management of the authorized asset classes.
- Establish mutually acceptable fee schedules with individual external advisors and, with the assistance of ACF staff, monitor the adherence to stated fee schedules.
- Ensure that each external advisor has been provided with specific investment objectives and guidelines and periodically evaluate the investment performance of each external advisor relative to the objective of the applicable Fund.
- Have staff meet with advisors periodically to review investment performance and stewardship as fiduciaries and review the reports prepared by the staff on the advisors at the Audit & Compliance Committee meetings.

Responsibilities of the External Investment Advisors

- Manage individual funds assets in accordance with the investment objectives and guidelines stated herein.
- Provide detailed monthly account statements directly to ACF.
- Charge account management fees that do not to exceed 1% of assets annually.
- Communicate at least quarterly with staff regarding all significant matters including investment returns, net-of-fees, for all managed portfolios.
- Comply with all laws and regulations that pertain to the investment advisor's duties, functions, and responsibilities as a fiduciary of the Foundation.
- Vote proxies on the securities held in the Foundation's portfolio in accordance with the advisor's fiduciary duties and professional judgement.
- Advisors are to provide, in writing, proof of liability and fiduciary insurance.
- Non-bank advisors must be registered under the Investment Company Act of 1940.
- Meet with the Audit & Compliance Committee and/or ACF Staff at least annually, as requested.
- All advisors must sign an "Investment Management Agreement" with ACF.
- Take trading instructions only from authorized ACF employees.

Responsibilities of Arizona Community Foundation Staff

- Monitor each individual investment advisor's performance relative to the objective of the applicable fund and report results to the Audit & Compliance Committee on a quarterly basis.
- Meet with the investment advisors at least annually.
- Provide the Audit & Compliance Committee with evaluations of advisors, as requested by the Committee.

III. RETURN AND RISK PARAMETERS

The Arizona Community Foundation has established the following return and risk parameters reflecting a long time horizon.

- The primary investment objective is to maximize long-term real (after inflation) investment returns recognizing established risk parameters and the need to preserve capital.
- The possibility of short-term declines in market value is acceptable in order to achieve potentially higher long-term investment returns.
- Assets will be strategically allocated within asset classes and investment styles in order to enhance investment returns.
- The investment program's assets are to be sufficiently diversified to reduce volatility.
- The time frame for evaluating the performance of investment advisors will be rolling one, three, five, and ten-year periods.

IV. TARGET ASSET ALLOCATION

The target asset allocation reflects the desired risk/reward position of the Foundation. The allocation should be rebalanced periodically to reflect the target asset allocation and ranges detailed below.

Donors can choose one of the three following asset allocations. Donors may recommend to ACF changes to their asset allocation no more frequently than once every calendar year.

Capital Preservation Portfolio

Invested 100% money market funds and fixed income instruments.

Balanced Portfolio

Invested in 50% equities and 50% fixed income instruments.

Growth Portfolio

Invested in 70% equities and 30% fixed income instruments.

The equity/fixed income mix within the Balanced Portfolio and Growth Portfolio shall not vary more than 10% from the target weights listed above. For example, the equity percentage of the Balanced Portfolio shall remain between 40% and 60% of the total portfolio.

V. REBALANCING PROCEDURE

Fund assets will be rebalanced on a periodic basis to bring the asset allocations of the various asset classes in line with the target asset allocation. In general, the rebalancing will occur annually.

VI. PERFORMANCE BENCHMARKS

Performance benchmarks are necessary to properly measure and evaluate the success of the Foundation. Performance should be based on quarterly time-weighted returns, net of investment management fees.

Based on a donor's target asset allocation, a "roll-up" Total Fund Benchmark will be established. For example, if a donor has chosen the Growth Portfolio, that donor's "roll-up" benchmark is comprised of 70% MSCI World Index and 30% Barclays Aggregate Bond Index.

VII. INVESTMENT RESTRICTIONS

Following are the investment restrictions for separate account investment advisors. In the case of pooled investment vehicles (mutual funds), the investment guidelines and restrictions defined and detailed by the vehicle will apply.

All Managers

The following asset classes and investment strategies are prohibited for purchase:

- Short sales, or any transaction on margin (borrowing)
- Venture capital
- Non-negotiable securities
- Private placements
- Oil and gas and real estate limited partnerships
- Leveraged transactions
- ETI's (Economically Targeted Investments)
- A manager's own stock or debt
- Any transaction prohibited under ERISA
- Equity real estate
- Commodities (including precious metals)
- Letter stock
- Variable annuities
- Options
- Futures
- Derivatives

Equity Segment for Separately Managed Funds (not mutual funds)

- The portfolio shall be invested in equity securities, or securities convertible to equities, at all times. The only exception is that cash (fixed income instruments with maturity not to exceed one year) may be held by the manager not to exceed 10% of the portfolio market values.
- Unless specified otherwise in writing, equity holdings should be readily marketable and diversified by issuer, industry, and sector.
- An individual security position may not exceed 10% of an equity manager’s portfolio market value.
- Domestic investment managers may not hold more than 25% of their portfolio’s market value in American Depository Receipts and foreign securities except with the prior written approval of the Audit & Compliance Committee.
- Convertible equity securities are restricted to 10% of the portfolio market value and must be direct obligations of the issuing corporation.

Fixed-Income Segment for Separately Managed Funds (not mutual funds)

- Fixed income securities should be readily marketable and diversified by issuer, sector, coupon and quality.
- An individual bond issuer, except for U.S. Treasury and Agency obligations, may not exceed 5% of a fixed-income manager’s portfolio market value.
- Fixed income portfolios must have a minimum average quality rating of A3/A-.
- Investments in derivatives are limited to collateralized mortgage obligations (CMOs) and asset-backed securities (ABS).

Advisors should transition newly established funds to the above mentioned parameters within 90 days of receipt. Investment Advisors shall immediately sell all shares of publicly traded stock upon receipt from the donor.