

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE

FINANCIAL POLICIES AND INVESTMENT GUIDELINES

(Revised 4/14/10)

The Foundation has been organized as a vehicle for flexible charitable giving. A principal objective is the acceptance of donations to establish permanent endowment funds that will produce income to enhance the quality of life in Middle Tennessee. This objective dictates that The Foundation conserve and prudently manage its endowment funds. The purpose of this document is to establish guidelines and policies for acquiring endowment funds as well as the management and investment of those funds.

I. TYPES OF GIFTS

The directors of The Foundation may accept outright or testamentary gifts of various kinds of property for Foundation endowments, including but not limited to: cash, securities, life insurance, interest in or gifts from trusts, real property, or in any other form. Proposed gifts of real estate (see revised Real Estate Gift Acceptance Policies) and stock of privately held corporations owning real estate will not be accepted without specific Board approval after appropriate environmental assessment. The Directors retain the option to decline any gift that they deem not to be in the best interest of The Foundation.

II. TYPES OF FUNDS AND ADMINISTRATIVE FEES

Donors may designate gifts for the following types of funds. In all cases, however, the Board retains the absolute right and discretion to give or withhold final approval regarding the disposition of funds or related income.

1. Unrestricted Endowment Funds. Income from these funds will be used to support special service programs of The Foundation and to meet the most pressing community needs as they arise. Within this category donors may wish to establish Named funds, with a minimum donation of \$5,000. A fee of 1.25% of the assets of the fund will be charged per annum.
2. Field of Interest Endowment Funds. Income from these funds will be used to support programs in specific broad areas of community needs. Named Funds may be established with a minimum donation of \$5,000. Scholarship Funds may be established with a minimum donation of \$10,000. A fee of 1.25% of the assets of the fund will be charged per annum.

3. Designated Funds. Income from these funds will be used to support one or more specific charitable organizations or programs. Funds may be established with a minimum donation of \$5,000. A fee of 1.25% of the assets of the fund will be charged per annum.
4. Agency Endowment Funds. Income from these funds will be used to support a specific charitable organization. Funds may be established with a minimum amount of \$5,000. A fee of .4% of the assets of the fund will be charged per annum.
5. Donor Advised Funds. Donors may establish an Advised Fund where both principal and income may be used to benefit one or more qualified charitable entities or uses of their choice and may recommend different recipients from time to time. However, all such beneficiaries must meet eligibility criteria as established by The Foundation's charter, and the Board retains the right of final approval. Funds may be established with a minimum donation of \$5,000. A fee of 1.25% of the assets of the fund will be charged per annum.
6. Administrative/Operating Fund. Contributions to this fund are made to support the operation of The Foundation and its community activities. Income from this fund in excess of current needs of The Foundation may be used to augment the income from the Unrestricted Endowment Funds. The principal and income of this fund may be used to defray current operating expenses at the discretion of the Board of Directors. No management fee will be charged to this fund.
7. Supporting Organizations. A supporting organization is a separate entity from The Community Foundation of Middle Tennessee, can have its own board of directors, make its own decisions, and has its own 501(c)(3) tax exempt status from the Internal Revenue Service. Supporting organization status under IRC Section 509(a)(3) gives an organization many of the advantages of private foundation status with few of its disadvantages. The favorable tax status results from the relationship between the supporting organization and The Community Foundation of Middle

Tennessee, Inc. A supporting organization must be set up with a contribution of cash, securities or other assets valued at \$5 million or more, or anticipation of \$5 million in the future. A fee of 1.25% of the assets of the fund will be charged per annum.

8. Special Project Funds. From time to time administration of a Fund will require more significant Foundation staff involvement than is typical of component funds. In such cases, The Foundation Chairman and/or President will be authorized to charge a fee based on those special needs but agreed upon by the Donor. Such fee will be over and above the customary 1.25% of the assets of the fund charged per annum and beyond any out-of-pocket expenses associated with the Fund. Anytime, after the one-year anniversary of the establishment of the Fund, The Foundation reserves the right to change this fee upon 30 days written notice to the Donor, if she/he is still living, to ensure the fees charged reasonably compensate The Foundation for its administrative activities with respect to the charitable Fund.

Occasionally, as circumstances change and at the sole discretion of The Foundation, a previously established component Fund which seeks to undertake programmatic or fundraising initiatives which require more significant Foundation staff involvement than is typical of component Funds will be notified that these Special Project Fund rules now apply and that it is subject to the above. In every case, the Donor, if she/he is still living, will receive written notice 30 days prior to the change.

Similarly, from time to time, Funds which were deemed Special Project Funds by The Foundation may revert from that designation because of a reduction of the aforementioned special needs. In such cases, as the Fund requires staff involvement more typical of component funds, the fee may revert to the customary 1.25% of the assets of the Fund charged per annum or such greater amount as may be agreed upon. The Donor, if she/he is living, may request a return to this fee structure but the ultimate authority and control of the Fund and any fees assessed thereto remains with The Foundation.

Fees on all funds will be collected quarterly in arrears on an accrual basis on the average value of the Fund during the preceding quarter.

NOTE: The above listing of Funds provides only some of the salient features of the respective Funds. Because it is the intent of The Foundation to be flexible in providing the opportunity to donors to establish customized gifts, donors, should contact the Foundation office to obtain more detailed information on the available possibilities.

III. ADMINISTRATION

The Foundation will provide administration, management, and accounting for the funds and may contract with financial institutions to act as agents for various funds as it deems appropriate.

The Board of Directors, by approval of this document, authorizes the Investment and Finance Committee of The Foundation, to act on behalf of the Board in order to accomplish the above functions. The Committee shall consist of a minimum of three members selected from the current Board of Directors. Members of the Committee are appointed by the Board Chairperson, in consultation with the Executive Committee of The Foundation Board with ultimate responsibility retained by the Board.

The responsibilities, duties and authority of the Investment and Finance Committee include the following:

1. Initiate and manage investments representing the assets of The Foundation, including selection, purchase, oversight, and sale of investments according to the guidelines and principles enumerated below.
2. Hire outside professional investment advisor(s) at the Committee's discretion.
3. Conduct regular meetings to assess The Foundation's investment position and modify it if appropriate.
4. Provide the Board a quarterly report monitoring The Foundation's investments and an annual more detailed report giving a summary of transactions, income, and comparison of performance against accepted indices, such as the Standard and Poor's 500 for Equities and the Shearson-Lehman Index for Fixed Income Securities.
5. Provide consultation to donors and the board concerning specific contracts governing endowments.

Deferred Gifts. Vehicles for planned gifts are made available through The Community Foundation of Middle Tennessee and can be used to create or add to any type of Fund. Pooled Income Funds and Insurance Policies will be administered without administrative fees until such time as the principal/remainder flows into funds within The Foundation.

IV. INVESTMENT POLICY AND GUIDELINES

- I. Investment Philosophy. The Board of Directors of The Community Foundation of Middle Tennessee holds the assets of The Foundation's Endowment funds to apply income therefrom both for long-term development purposes as well as for responding to current and changing charitable needs in Middle Tennessee. These circumstances require a growing asset base as well as a growing annual return on that base and dictate the following general philosophy guiding The Foundation's investments:
 - A. Primary emphasis shall be placed on safety of principal by minimizing risks from either market or credit factors, and
 - B. Moderate growth of principal and total return will be expected, consistent with maintaining safety of principal.
- II. Investment Objective. The objective of The Foundation's investment management is to earn a real total rate of return (interest and dividend payments plus realized and unrealized capital appreciation, expressed as a percent of market value and adjusted for inflation) averaging at least 4% per annum measured over a full market cycle (usually three to five years). The total fund objective is to compare favorably with the upper end (e.g., top 40%) performance of balanced fund managers, averaged over a full market cycle.
- III. Investment Strategies.
 - A. In order to obtain economies of scale of management costs, The Foundation shall manage the Unrestricted Endowment, Field of Interest Endowment, Designated, Agency Endowment, Donor Advised, Administrative/Operating, and the funds of Supporting Organization, on a commingled basis. The Foundation will maintain the necessary sub-accounting on all commingled funds. Exceptions to this policy shall be: separate funds totaling more than \$500,000 in assets may be treated as separate investment entities with separate investment strategies and/or managers, should this be desired by either the donor or The Foundation; and, donations of any assets not freely traded or covered by a request from the donor that the assets be retained.
 - B. Investments of The Foundation will be diversified to prevent adverse effects of any given investment from unduly penalizing the overall portfolio performance. Diversification is interpreted to include different types, characteristics, and numbers of investments.

- C. Asset allocation between equities, fixed income instruments and alternative investments shall be one method of diversification of investments of Endowment Funds. The portfolio shall be structured to consist of 40% to 80% equity securities, 60% to 20% fixed income securities, and up to 20% in alternative investment strategies.

For these purposes, the term equities includes common stock, convertible bonds and convertible stock; fixed income instruments include Treasury and corporate bonds, other debt instruments with full backing of the U. S. Government, preferred stocks and other instruments having a fixed maturity date; and alternative investment strategies might include private equity, private real estate, long/short equity funds and arbitrage funds. Investments in mutual funds shall be analyzed according to average stock/bond ratios of these funds. Although money-market funds are not considered appropriate investments for endowment funds in the long term, they nevertheless can often be useful and proper investments for Foundation funds over shorter periods, and as such will be considered as fixed income investments for purposes of this analysis.

- D. Further diversification guidelines are provided by the following investment parameters:

Investments in any class of securities of any one issuer may not exceed 5% of the portfolio at cost, except donated stocks and obligations of the U. S. Government or its agencies may be held in any amounts (within the stock/bond guidelines).

- E. Further guidelines for equity securities:

- i. No letter stock may be purchased.
- ii. No short sales are permitted.
- iii. Only publicly traded securities are permitted.
- iv. Purchases on margin are not permitted.

- F. Further guidelines for fixed income securities:
 - i. Investments will tend to be in higher quality instruments, with ratings by S & P no lower than BBB (or equivalent by other rating systems); no more than 10% of the fixed income portfolio shall be rated as low as BBB.
 - ii. No short sales are permitted.
 - iii. No purchases on margin are permitted.
 - iv. No futures contracts are permitted.
- G. The Investment and Finance Committee should make every reasonable effort to avoid investments which will generate Unrelated Business Income subject to taxation under current or future IRS regulations. However, the Committee has full authority to make prudent investment decisions including making investments that generate Unrelated Business Income after weighing all the relevant factors.
- H. In an effort to obtain desired diversification and employ the most capable firms, the Committee may utilize commingled funds (e.g. mutual funds, limited partnerships, etc.) for investment purposes. Any such investment will be reviewed for compliance with these guidelines, notwithstanding the fact that such vehicles may have the latitude to invest outside the aforementioned constraints. Thus, should the Committee decide to utilize these funds, they will not be bound by guideline sections D, E, and F above.
- I. Investment of operating funds and pass through accounts shall be determined by the general guidelines of safety of principal but shall be confined to interest-bearing bank accounts, money-market funds, CDs, U. S. Treasury Bills, and other short-term investments yielding reasonable rates of return.

- J. Asset donations, not specifically requested by the donor to be held, shall be converted to cash as soon as practical for reinvestment, unless the donated assets are deemed suitable according to these guidelines or may be used in kind to the purposes and functions of The Foundation, in the discretion of the Committee. In the latter case the assets may be directly transferred to The Foundation's portfolio.

- K. The Investment Committee shall present a formal review of portfolio performance, including the above parameters, at the annual meeting of the Board of Directors.

V. SPENDING POLICY

Each year the Board of Directors will review the financial status of The Foundation and the spending level. This level will be set to balance current needs with growth for the future. Adjustments to the current spending level can be approved, as needed, based on a recommendation of the Investment and Finance Committee. For 1996 and thereafter, 5% has been targeted.