March 2015

North Carolina Community Foundation

INVESTMENT POLICY STATEMENT

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NORTH CAROLINA
COMMUNITY FOUNDATION

OVERVIEW

PURPOSE

This Investment Policy Statement (IPS) was adopted by the North Carolina Community Foundation to establish a clear understanding of the Foundation's philosophy and investment objectives. This document has been established between the Finance Committee of the North Carolina Community Foundation (hereafter referred to as the "Finance Committee" and the "Foundation") acting on behalf of the Board of Directors of the Foundation and the Investment Advisor and other investment managers engaged to invest assets of the Foundation under conditions set forth herein.

The overall investment objective of the Foundation is to preserve and protect fund principal while achieving a long-term net rate of return sufficient to cover a 5% spending policy plus an average 1% administrative fee plus inflation, as measured by the CPI index, over a complete market and economic cycle. Achieving these objectives will require assuming a moderate level of risk, a long-term investment horizon and asset diversification.

SCOPE

This Policy applies to all assets that are included in the Foundation's investment portfolio for which the Investment Advisor and Finance Committee have discretionary investment authority.

FIDUCIARY DUTY

In seeking to attain the investment objectives set forth in the policy, the Finance Committee, the Investment Advisor and other investment managers shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). All investment actions and decisions must be based solely in the interest of the Foundation. Fiduciaries must provide full and fair disclosure to the Finance Committee of all material facts regarding any potential conflict of interest. Investment managers must be a Bank, Trust Company, Insurance Company or Registered Investment Advisor (RIA) or another entity specifically approved by the Board of Directors.

DEFINITION OF DUTIES

BOARD OF DIRECTORS / FINANCE COMMITTEE

The Board of Directors is responsible for the management of the assets of the Foundation. The Board of Directors shall discharge its duties solely in the interest of the Foundation, with the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent man, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.

Within the broad framework of this Investment Policy Statement set by the Board of Directors, the Finance Committee shall have direct responsibility for the oversight and management of the Foundation's investments and for the establishment of investment policies and procedures. The following are responsibilities of the Finance Committee:

1. Establish reasonable and consistent investment objectives, policies, asset allocation, and guidelines.
2. Select qualified investment professionals, including Investment Managers, Investment Advisors, and Custodians.
3. Determine the Foundation's investment objectives, risk tolerance and time horizon and communicate these to the Investment Advisor and Investment Manager(s).
4. Evaluate portfolio performance to assure that the Investment Manager(s) adhere to policy guidelines and monitor investment objectives.

5. Develop and enact proper control procedures to include the engagement, termination and replacement of investment professionals.
6. Review of investment performance by the Board of Directors will be done annually or more frequently if desired, however, the review of performance by the Finance Committee will be quarterly.
7. Recommend to the Board of Directors proposed changes and revisions to this Investment Policy Statement from time to time.

The Finance Committee may engage Investment Managers whose disciplines require investments outside the asset allocation guidelines. However, if the Finance Committee wishes to consider assets not approved in this Investment Policy Statement, they may do so only with the approval of the Board of Directors.

INVESTMENT ADVISOR (FEG)

The Investment Advisor is responsible for all aspects of managing and overseeing the Foundation's portfolio. On an ongoing basis the Investment Advisor will:

1. Implement the overall investment strategy, including the selection/termination of securities and/or investment professionals, within these investment policy guidelines;
2. Monitor the asset mix and allocate assets of each investment strategy within these investment policy guidelines and should the allocation be out of range at calendar year-end, work with the Investment Manager(s) to rebalance as soon as reasonably possible;
3. Provide the Finance Committee with quarterly performance reports, benchmark comparisons and market commentary;
4. Assist the Finance Committee periodically, with a review of the Investment Policy Statement, including an assessment of the current asset allocation and investment objectives; policies, goals and/or guidelines and;
5. Supply the Finance Committee with other reports or information as reasonably requested.
6. Execute all duties provided for in the Investment Advisory Agreement.

INVESTMENT MANAGERS

Investment Managers will have full discretion to make all investment decisions within the limitations set forth in this Investment Policy Statement. Specific responsibilities of the Investment Manager(s) include:

1. Perform discretionary investment management including decisions to buy, sell, or hold various securities.
2. Provide the Investment Advisor with copies of all available statements, documents, and reports in a timely manner after the close of each period.
3. Communicate any major changes to economic outlook, investment strategy, or any other factors, which would affect expected performance or process to the Investment Advisor and the Finance Committee.
4. When appropriate, vote proxies and keep all records that will be governed by the Investment Manager's client agreement.
5. Comply with applicable law, report any discrepancies, and notify the Investment Advisor and the Finance Committee of any legal action taken against the Investment Manager(s), any arbitration involving the Investment Manager(s), or any judgments against the Investment Manager(s) or any of its employees.
6. Implement this Investment Policy Statement to achieve the investment objectives.
7. Notify the Investment Advisor and the Finance Committee should circumstances occur which the Investment Manager believes would require a modification of this Investment Policy Statement in order to achieve the Foundation's stated objectives.

8. Notify the Investment Advisor and the Finance Committee of any material change in the investment philosophy, management, key personnel or ownership of the Investment Manager, within 45 days of occurrence.

COMMUNICATIONS

The Investment Manager and/or the Investment Advisor is required to give the Finance Committee quarterly account reviews detailing investment performance against predetermined benchmarks (time-weighted and dollar-weighted), market outlook, account value, and comparisons with established benchmarks.

Meetings may be held on an as-needed basis with the Finance Committee, the Investment Manager, and/or the Investment Advisor. Topics to be discussed may include:

1. The Investment Manager's relative investment performance and risk levels in light of stated Foundation policies and objectives.
2. The Investment Manager's views on important developments in the economy and the securities markets, and their potential effect on investment strategy, asset allocation, and account performance.
3. Any contemplated changes in the Investment Manager's organization on investment philosophy, strategy, and performance.
4. Proposed amendments to the policies and objectives presented in this Investment Policy Statement.

The Finance Committee and/or the Investment Advisor may choose to meet more frequently with the Investment Manager if concerns arise about the Investment Manager's performance, strategy, personnel, or organizational structure.

OBJECTIVES

The overall, long-term investment goal of the Foundation is to achieve an annualized total return (net of fees and expenses), through appreciation and income, greater than the rate of inflation (as measured by the Consumer Price Index) plus any spending, thus protecting the purchasing power of the assets.

STRATEGY

The Board and Finance Committee agree that investing in securities with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities, including real assets (real estate and natural resources). Real assets also provide the added benefit of inflation protection.

Fixed income and diversifying strategies will be used to lower short-term volatility and provide stability, especially during periods of deflation and negative equity markets. Cash is not a strategic asset of the portfolio, but is a residual to the investment process and used to meet short-term liquidity needs.

SPENDING POLICY

Earnings from the investment portfolio will provide for annual grant making. Funds available to grant are calculated on a calendar year basis based on 5% times the average of the previous 12 quarter-ending balances by fund as of 9/30.

ASSET ALLOCATION

Asset allocation will likely be the key determinant of the Foundation's returns over the long-term. Therefore, diversification of investments across multiple markets that are not similarly affected by economic, political, or social developments is highly desirable. A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories shall be based on the impact to the total Foundation, rather than judging asset categories on a stand-alone basis.

The target asset allocation should provide an expected total return equal to or greater than the primary objective of the Foundation, while avoiding undue risk concentrations in any single asset class or category, thus reducing risk at the overall portfolio level.

Investments will generally fall into one of four asset categories. Each category serves a specific role within a portfolio. An allocation to all four categories can provide diversification to major market risk factors and provides a simple framework to review the exposures within the portfolio. The categories are as follows:

GLOBAL EQUITY	Intended to be the primary source of long-term growth for the portfolio, as equities historically have produced high real rates of return. While having higher expected returns, they also have higher volatilities. Includes both long-only and liquid hedged equity mandates.
GLOBAL FIXED INCOME/CREDIT	Intended to offset the volatility of equities, particularly during market downturns, as well as provide deflation protection. These investments are comprised primarily of fixed income (debt) securities, and can be further categorized as interest rate sensitive and credit sensitive.
REAL ASSETS	Intended to insulate the portfolio from inflation shocks and to provide a source of non-correlating returns with other asset categories. Includes real estate investment trusts (REITs), natural resources (e.g., Energy, Master Limited Partnerships), and commodities.
DIVERSIFYING STRATEGIES	Intended to provide diversification from systematic market risk, as the primary determinant of returns are typically from manager skill (alpha) rather than market return (beta). Includes liquid non-directional strategies that seek low correlations to the public equity and fixed income markets.

To achieve these goals, the asset allocation will be set with the target percentages and within ranges as documented in the exhibit.

REBALANCING

The Investment Advisor will actively manage the asset allocation based on their determination of market valuations, but remain within the ranges at all times. Should any category move out of acceptable range due to market movements, the Investment Advisor will use prudence in rebalancing the portfolio, either immediately or over the subsequent few months.

ACTIVE AND PASSIVE MANAGEMENT

The asset allocation will be implemented using both active and passive investment managers. Highly efficient areas of the capital markets may be managed using index funds and enhanced index/portable alpha strategies.

INVESTMENT STYLES

The Investment Advisor will allocate between styles based on market valuations. Because value stocks are expected to outperform growth stocks over the long-term (as they have historically), and this is more pronounced for smaller market capitalizations, the Investment Advisor expects to employ a strategic overweight to value stocks, with a larger value overweight to small cap stocks.

LIQUIDITY

A goal of the Fund is to maintain a balance between investment goals and liquidity needs. Liquidity is necessary to meet the spending policy payout requirements and any extraordinary events. In many instances, the most appropriate investment option is one that comes with liquidity constraints.

Illiquid investments include private equity, private debt, private real estate, and natural resources. Hedge funds are considered semi-liquid due to lock-up periods, redemption restrictions, and in some cases, illiquidity of the underlying investments. The tradeoff between appropriateness and liquidity may be considered throughout the portfolio construction process, but with the following limits:

CLASSIFICATION OF ASSET	LIMITS
Liquid	At least 55% of the portfolio
Semi-Liquid	No more than 20% of the portfolio
Illiquid	No more than 25% of the portfolio

Any investments in less than liquid strategies require the approval of the Finance Committee and the authorized signature of the Foundation President.

PERFORMANCE MEASUREMENT

TIME HORIZON

The Finance Committee seeks to achieve the investment objectives over a full market cycle. The Finance Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, the portfolio may produce significant over or under performance relative to the broad markets. For this reason, long-term investment returns will be measured net of fees over a 5-year moving period.

PRIMARY BENCHMARK

The primary objective of the Foundation is to achieve a total return, net of fees, in excess of spending, administrative fees, and inflation. The Primary Benchmark is the minimum return needed to achieve the portfolio's objectives.

Total Return greater than the Consumer Price Index + 6%

BROAD POLICY BENCHMARK

The secondary objective is to achieve a total return in excess of the Broad Policy Benchmark, comprised of each broad asset class benchmark weighted by its long-term strategic allocation. The Broad Policy Benchmark is comprised of mutually exclusive broad market asset class indices to measure broad policy decisions. The benchmark is intended to assess the long-term success of strategic, tactical, and active manager decisions.

WEIGHT	INDEX	ASSET CATEGORIES
70%	MSCI ACWI	Equity / Real Assets
30%	Barclays Aggregate	Fixed Income / Diversifying Strategies

TARGET WEIGHTED BENCHMARK

Another investment objective is to achieve a total return in excess of the Target Weighted Benchmark, comprised of each asset category benchmark weighted by its target allocation.

RISK PARAMETERS

The volatility (beta) is expected to be no greater than 1.20 versus the Target Weighted Benchmark.

GUIDELINES AND RESTRICTIONS

GENERAL

In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such list is likely to be too inflexible to be suitable of the market environment in which investment decisions must be made. Therefore, the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner in which investment risk is managed, will determine whether an appropriate standard of reasonableness, care, and prudence has been met for the Foundation's investments. Notwithstanding the foregoing, the following are prohibited:

1. Assets including, but not limited to:
    a. Private Placements
    b. Purchasing Options
    c. Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs
    d. Individual Mortgages
    e. Lettered stock or other non-marketable securities
    f. Unregistered Stock Transactions
2. Margin Transactions including, but not limited to:
    a. Short Selling
    b. Margin Transactions
    c. Currency Hedging

The Investment Advisor shall:

1. Have full investment discretion with regard to security selection, consistent with this Investment Policy Statement;
2. Immediately notify the Finance Committee in writing of any material changes in the investment outlook, strategy, portfolio structure, ownership or senior personnel; and
3. Vote proxies and share tenders in a manner that is in the best interest of the Fund and consistent with the investment objectives contained herein.

EXHIBIT: ASSET ALLOCATION – INVESTMENT MANAGERS

Asset Categories	Minimum	Target	Maximum
Global Equity			
Domestic Large Cap Growth	15%	17.5%	30%
Domestic Large Cap Value	15%	17.5%	30%
Domestic Mid Cap	5%	10.0%	20%
Domestic Small Cap	5%	10.0%	20%
International	5%	15.0%	25%
Total Equities	**45%**	**70.0%**	**80%**
Global Fixed Income			
Global Fixed	0%	5.0%	20%
Domestic Fixed	15%	15.0%	40%
Total Fixed Income/Credit	**15%**	**20.0%**	**40%**
Real Assets			
Real Assets	0%	5.0%	20%
Total Real Assets	**0%**	**5.0%**	**20%**
Diversifying Strategies			
Alternative Strategies	0%	5.0%	20%
Total Diversifying Strategies	**0%**	**5.0%**	**20%**
Cash & Equivalents			
Cash & Equivalents	0%	0.0%	10%
Total Cash & Equivalents	**0%**	**0.0%**	**10%**
Total		***100.0%***	