North Carolina Community Foundation

March 2022

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 investment philosophy and 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 the current spending policy plus an administrative fee and inflation, 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 person, 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 IPS 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. On an as-needed basis, with or without the Investment Advisor, meet with an Investment Manager if concerns arise about investment performance, levels of risk, strategy, personnel, or organizational structure.
4. Determine the Foundation's investment objectives, risk tolerance and time horizon and communicate these to the Investment Advisor and Investment Manager(s).
5. Monitor investment objectives and evaluate portfolio performance to assure that the Investment Manager(s) adhere to policy guidelines.

6. Develop and enact proper control procedures to include the engagement, termination, and replacement of investment professionals.
7. 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.
8. 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

The Investment Advisor is responsible for all aspects of monitoring 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 reviews including account values, investment performance, benchmark comparisons and market commentary.
4. Provide the Finance Committee with views on important developments in the economy and the securities markets, and their potential effect on investment strategy, asset allocation, and account performance.
5. Inform the Finance Committee of contemplated changes in the Investment Advisor's investment philosophy, strategy, or performance.
6. 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.
7. Supply the Finance Committee with other reports or information as reasonably requested.
8. Represent that with respect to the performance of its duties under this IPS, it is a fiduciary and is registered as an investment advisor under the Federal Investment Advisors Act of 1940 (the "Advisors Act") and will perform the duties set forth hereunder consistently with the fiduciary obligations imposed under the Advisors Act, and regulations promulgated thereunder and any interpretations thereof by the U.S. Securities and Exchange Commission.

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.

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 plus any spending and administrative fee, thus protecting the purchasing power of the assets.

STRATEGY

The Foundation recognizes 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 residual to the investment process and used to meet short-term liquidity needs.

SPENDING POLICY

Growth and income from the investment portfolio will provide for annual grant making. Funds available to distribute are currently calculated on a calendar year basis based on 5% times the average of the previous 12 quarter-ending balances by fund.

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 portfolio, 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: Global Equity, Global Fixed Income/Credit, Real Assets and Diversifying Strategies. 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 defined in the Exhibit.

REBALANCING

The Investment Manager 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 Manager will use prudence in rebalancing the portfolio, either immediately or over the subsequent few months.

LIQUIDITY

A goal of the portfolio is to maintain a balance between investment objectives and liquidity needs. Liquidity is necessary to meet spending requirements and extraordinary events. Some appropriate investment options come with liquidity constraints. A discussion of liquidity categories is provided in the Exhibit.

Illiquid investments may include asset classes/styles such as private equity, private debt, private real estate, and private 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.

Discretion to invest in semi-liquid or illiquid opportunities is provided to managers with accounts <u>greater than $25 million</u>. Notification to Foundation staff is required prior to commitment.

PERFORMANCE MEASUREMENT

TIME HORIZON

The Finance Committee seeks to achieve the investment objective over a full market cycle. The Finance Committee does not expect that the investment objective 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.

COMPARISONS

Investment performance will be reviewed and evaluated on multiple criteria. First and foremost, investment performance must support the Foundation’s mission of building long-term charitable assets for the benefit of our communities, forever. The investment portfolio is invested to preserve fund principal while supporting meaningful annual distributions to our charitable partners. As this benchmark is not directly related to market performance, the success of this strategic criterion may be determined over decades.

A second assessment of investment performance of the Foundation is to that of our peers, both within North Carolina and across the nation. Multiple resources provide survey data needed to evaluate Foundation investment performance to other community foundations.

Lastly, investment performance is evaluated in reference to nationally recognized and available investment indices, such as the Russell 1000 equity index or the Bloomberg Barclays U.S. Aggregate bond index. Comparisons to investment indices will take two forms:

- Broad Policy Benchmark – exceed the total return of a mix of asset class benchmarks weighted by their long-term strategic allocation as outlined in the Exhibit. The Broad Policy Benchmark is comprised of mutually exclusive broad market asset class indices to measure broad policy decisions. This benchmark is intended to assess the long-term success of strategic portfolio construction decisions.

- Target Weighted Benchmark – achieve a total return in excess of Target Weighted Benchmarks, comprised of each asset style category benchmark weighted by its target allocation. This benchmark is intended to assess the long-term success of tactical and active manager decisions.

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 as individual or stand-alone investments or transactions:

Private Placements

Purchasing Options

Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs

Individual Mortgages

Lettered stock or other non-marketable securities

Unregistered Stock Transactions

Margin Transactions including, but not limited to:

Short Selling

Margin Transactions

Currency Hedging

ACKNOWLEDGEMENT

We recognize the importance of adhering to the mission and strategy detailed in this policy. We agree to work to fulfill the objectives stated herein, within the guidelines and restrictions, to the best of our ability. We acknowledge that open communications are essential to fulfilling this mission, and therefore, recognize that suggestions regarding appropriate adjustments to this policy or the manner in which investment performance is reviewed are expected. To assure continued relevance of this Investment Policy Statement, the Finance Committee shall review this Investment Policy Statement at least annually.

Kack Hardin	03/28/2022
North Carolina Community Foundation Chair of Finance Committee	Date
Steve Wangerin	03/28/2022
North Carolina Community Foundation Chair of Board of Directors	Date
Robert J Morris	3/30/2022
Graystone Consulting	Date
Investment Manager	Date

EXHIBIT - ASSET ALLOCATION

Asset Categories	Minimum	Target	Maximum
Global Equity			
Domestic Large Cap Growth/Value	16%	20.0%	45%
Domestic Mid Cap	0%	5.0%	15%
Domestic Small Cap	0%	5.0%	15%
International	16%	24.0%	45%
Private Equity*	0%	6.0%	10%
Total Equities	**32%**	**60.0%**	**85%**
Global Fixed Income			
Global Fixed	0%	4.0%	10%
Domestic Fixed	12%	14.0%	20%
Private Fixed Income*	0%	2.0%	5%
Total Fixed Income/Credit	**12%**	**20.0%**	**30%**
Real Assets			
Liquid Real Assets	0%	4.0%	10%
Private Real Assets*	0%	6.0%	10%
Total Real Assets	**0%**	**10.0%**	**20%**
Diversifying Strategies			
Liquid Alternative Strategies	0%	4.0%	10%
Illiquid Diversifying Strategies*	0%	6.0%	10%
Total Diversifying Strategies	**0%**	**10.0%**	**20%**
Cash & Equivalents			
Cash & Equivalents	0%	0.0%	10%
Total Cash & Equivalents	**0%**	**0.0%**	**10%**
Total		***100.0%***	

* Discretion is provided to managers with accounts greater than $25 million. Notification to Foundation staff is required prior to commitment.

EXHIBIT - ASSET ALLOCATION (cont'd)

ASSET ALLOCATION DEFINITIONS

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.

LIQUIDITY CATEGORIES

• CLASSIFICATION OF ASSET	• RANGE(S)	• TIME NEEDED TO LIQUIDATE
Liquid	At Least 55% of the Portfolio	≤ Monthly
Semi-Liquid*	No More Than 20% of the Portfolio	> Monthly to ≤ 3 Years
Illiquid**	No More Than 25% of the Portfolio	> 3 Years

* Excludes any initial, lock-up period(s) and/or redemption date(s).

** For illiquid investments, market movements could cause the Fund to move outside the ranges, in which case, rebalancing will not be necessary, but future illiquid commitments may need to be adjusted.