Updated: September 2016

STATEMENT OF INVESTMENT POLICY

RACINE COMMUNITY FOUNDATION, INC.
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I. INTRODUCTION

The Board of Directors (Board) of the Racine Community Foundation (Foundation) has appointed an Investment Committee (Committee) and delegated to it responsibility for administrative matters concerning the investment of the funds within the Foundation. Investment managers (the "Managers") for the Foundation funds will be selected by the Committee with the help and assistance of a Consultant/Advisor. The Consultant/Advisor (the "Consultant") will be recommended by the Investment Committee and approved by the Board. The Committee also is charged with establishing and monitoring spending related policies.

The Board acknowledges the historical importance of the performance of the capital markets in providing returns that will support the Foundation's charitable disbursements and help finance its growth. It is expected that the assets of the Foundation will be invested by the Managers with the care, skill, prudence and diligence that a person acting in a like capacity would exercise in similar circumstances with similar objectives. It is the intent of the Committee to review this document for compliance as changing circumstances may require its modification.

II. INVESTMENT PHILOSOPHY

The Board recognizes its long-term responsibility in overseeing the management of the Foundation's funds. Since the Foundation has perpetual life, the Foundation funds are permanent. The Board believes the most effective method for management of permanent funds is through a total return concept. Under this concept, investment objectives are established to provide the Foundation with income to meet its current needs and also provide reasonable opportunities for long-term growth in the asset base.

Each year, the Foundation will set its spending limits based on its review of the total investment return and the asset base (as per the Spending Policy). This allows the Managers to be less concerned with meeting current income requirements and gives them the flexibility, within the constraints defined in Section IV below, to increase the income and principal over a longer term.

III. INVESTMENT OBJECTIVES

The achievement of investment returns should be viewed in a long-term context recognizing that rates of return are volatile on a year-by-year basis and that achievement of the investment objectives will not progress uniformly over time.

However, unnecessary levels of risk taking are to be avoided in achieving the stated objectives as listed in this document. Diversification, insofar as it reduces portfolio risk, is encouraged as a strategy for longer-term relatively stable growth. The Committee recognizes that it may be necessary to forego opportunities for potential large capital gains to achieve a moderate risk posture.

The primary objective is growth relative to the Consumer Price Index (CPI). The Committee expects its investments to achieve the following objectives over the shorter period of a market cycle or five years. (A market cycle is defined as including a peak and a trough in the capital markets and usually covers a three-to-five-year period, although this varies.) Given the Committee's assumptions about current and projected capital market conditions, investment objectives for the Foundation are as follows:

Return Type:

Relative — The investments should produce a total return meeting or exceeding the median return from a universe of Managers with similar asset allocations.

Real — The total return after investment expenses should equal or exceed an average annual "real" rate of return of four percent. The "real" return is defined as a return above the rate of inflation as measured by the CPI.

Benchmark — The total return of the investments before investment expenses is expected to meet or exceed the composite performance of the relevant security markets on a three-to-five-year annualized basis.

The components of the security markets composite are defined in section IV-Investment Policy. These components will be weighted according to the policy mix also outlined in section IV.

IV. INVESTMENT POLICY

The Committee defines the policy as something which will control investment activity and measure its results. The major component of the policy is asset mix. The assets of the Foundation are to be diversified in order to minimize risk of large losses to it by any one or more individual investments. The Committee believes diversification is, in large part, accomplished through its selection of asset mix and Managers.

Investment policies serve as a framework to achieve investment objectives at a level of risk deemed acceptable. These policies are designed to minimize interfering with efforts to attain overall objectives and to minimize excluding any appropriate investment opportunities. This policy allows substantial discretion in the asset allocation and diversification of the assets for the purposes of increasing investment returns or reducing risk exposure.

A. **Fiduciary Standards:** The assets of the portfolios shall be invested in a manner that is consistent with generally accepted standards of fiduciary responsibility. The safeguards that would guide a prudent investor will be observed. All transactions that utilize the assets of the portfolios will be undertaken for the sole benefit of the Foundation.

B. **Securities Trading**: It is understood that all trading must be done at best-execution for the benefit of the Foundation at the lowest institutional trading rates applicable.

C. **Liquidity (Cash Requirement):** The Foundation maintains cash and cash equivalents in short term investments sufficient to satisfy operating and capital requirements. Therefore, Manager(s) should recognize they will be evaluated on the performance of all assets under their direction and cash is not required for liquidity to support the operations of the Foundation.

D. **Rebalancing Procedures and Cash Flow/Liquidity Management**: The ranges around the allocation policy have been established to provide a balance between the benefits of maintaining compliance to the policy and the costs of rebalancing. A range around the policy allocation targets has been instituted to serve as rebalancing guidelines to maintain the overall structure of the Foundation. When normal cash flows occur, they will be used to move actual allocations toward the target policy allocations. When market value changes are so significant that they result in actual allocations outside the policy allocation ranges, the Foundation Accountant, in consultation with the investment committee chair, will be responsible for working with the Consultant to re-allocate assets in a prudent, timely and cost effective manner to move the Foundation back in compliance. The Foundation's Consultant will assist in monitoring Manager allocations and recommending rebalancing of Manager allocations, as necessary.

E. **Measurement Period:** In most cases, a market cycle of 3 to 5 years duration is required for judging whether the rate of return and the relative performance objectives have been met.

F. **Asset Allocation:** With a long term perspective, the Foundation's investments should be broadly diversified by class, style, and capitalization.

The following mix is for the Foundation as a whole. The Committee is responsible for maintaining investments within the established ranges.

Asset Class	Target Asset Mix	Asset Mix Range
Equities	65%	50-80%
Alternatives	10%	0-15%
Real Estate	5%	0-7.5%
Fixed Income (inc. cash)	20%	15-30%

The deployment of equity assets to specific asset classes (e.g., Large Cap, Small Cap, International Equities, etc.) shall be the responsibility of the Committee in conjunction with counsel and/or recommendations received from the Consultant.

Managers will be evaluated against their respective benchmark reflective of their investment style.

Asset Class	Benchmark
Small Cap Value	Russell 2000 Value
Small Cap Growth	Russell 2000 Growth
Mid Cap Value	Russell Mid-Cap Value
Mid Cap Growth	Russell Mid-Cap Growth
Large Cap Value	Russell 1000 Index Value
Large Cap Growth	Russell 1000 Index Growth
International Equities	MSCI EAFE Index
S&P 500 Index Funds	S&P 500 Index
Alternative Investments	HFRI Fund of Funds Index
Global Tactical Allocation	CPI +4%
Real Estate Investments	NCRIEF Index
Fixed Income Mgrs	**Barclays Int. Gov/Credit**

V. INVESTMENT GUIDELINES

Investment guidelines are the parameters within which the Committee and its Managers should operate in executing strategies relative to the Foundation's funds. Review procedures represent the manner for controlling this process.

These guidelines will be monitored by the Committee:

Risk Guidelines

A. Risk levels (as measured by the standard deviation of quarterly returns over a three-year period) of a Manager should be within 10 percent of a comparable universe and/or the benchmark index. That guideline applies to the investments of the Foundation taken as a whole, weighted by the policy asset mix (65 equities/35 fixed income mix).

B. To minimize the likelihood of the erosion in asset value due to declining security markets, a loss greater than 10% in any one year may result in a review and possible change to the investment policy

Investment Manager Selection

The Board of Directors has delegated to the Investment Committee the authority to hire and terminate Investment Managers. The Committee will exercise its authority, recognizing that potential investment manager candidates are unlikely to have familiarity with the Investment Policy of the Foundation; it is incumbent upon the Committee, with the assistance and recommendations from the Investment Advisor, to select appropriate investment managers that meet the minimum criteria established by the Committee, as follows:

- An upstanding reputation in the financial services industry.
- A proven track record of at least five years in the strategy under consideration.
- At least $100 million in assets under management, as a reflection of stability and commitment.
- Proven administrative capabilities.
- Registration compliance.
- A highly qualified management team, with sufficient time and experience with the firm.
- Present employment of those involved in creating the product's record.
- Low turnover rate among the management team.
- Definable investment philosophy.
- Disciplined investment process (i.e. logical and defined buy strategy and sell strategy).
- Consistent investment strategy relative to the manager's stated investment style and performance.
- Above-average return relative to investment style, risk levels, market indices, and other managers over a market cycle which is defined as five years.
- Absolute versus Relative returns.
- Returns measured over various time horizons: quarterly, 1, 3, 5 years and longer periods.
- Volatility, largest losses, and percentage of losing performance periods.
- Portfolio fit within the Asset Allocation and Diversification with other investment managers.
- Fees, trading expenses, liquidity, market-to-market, transparency, and disclosure.
- Correlation to similar style peer group.

In order to preserve Consultant independence and objectivity, and to avoid the appearance of any potential conflict of interest or self-dealing, the Consultant is to recommend investment managers from an open architecture of managers outside of the Consultant's firm.

Portfolio Characteristic Guidelines

A. The Managers will have full discretion relative to their investment style. There are no diversification guidelines suggested as to issuer, industry or security except that investment in any one issuer shall not exceed five percent of the total market value of the portfolio, with the exception of issues of the U.S. Government and its Organizations. Manager-sponsored common trust funds and mutual funds will not be considered a single issue for the purposes of this guideline, but the guideline will apply to the composition of the fund.

   If a Manager deems it desirable to vary from these investment guidelines or invest in a security not included above, the Manager shall obtain written approval from the Committee.

B. Acceptable equity securities include the following:

   1. Stock traded on major U.S. exchanges, including the New York or American stock exchanges or the National Association of Securities Dealers Automated Quotations (NASDAQ) system.

   2. Convertible equity securities.

   3. Equity mutual funds.

C. Acceptable Alternative Investment securities include the following:

   1. Hedge Fund of Funds must meet the following criteria:
      a) They must be registered with the Security Exchange Commission.
      b) Funds must be invested in multiple products and strategies to ensure adequate diversification and lessen the exposure of the Foundation to event risk.

   2. The Foundation should never have more than 15 percent of their total allocation to Alternative Investments invested in any underlying single fund. This is designed to minimize exposure to event risk caused by any fund defaults. It will be the responsibility of the Consultant to review aggregate fund exposure.

D. Acceptable fixed income securities include the following:

   1. Securities issued or backed by the U.S. Government and its Organizations, as well as taxable or nontaxable securities of domestic and state and local government units.

2. Debt instruments issued by domestic corporations with quality at least equivalent to that of the Barclays Capital Government/Corporate Index.

3. Fixed income mutual funds approved by the Committee. In addition, all fixed income funds or individual securities shall be of investment grade with the exception of investments which; are made by the Manager(s) into high-yield vehicles and are limited to no more than 10 percent of assets under the fixed income Manager's advisement.

E. Short-term funds and cash will be invested at the Manager's discretion. Commingled funds may be utilized. If commercial paper is used, quality must be A1 - P1. Certificates of deposit must be those of FDIC-insured U.S. financial institutions, up to the FDIC insurance limit per institution or combination thereof.

F. The following categories of securities or security transactions are <u>not</u> permissible within the Foundation's portfolio with the exception of pooled investment vehicles, mutual funds, and alternative investment partnerships that are governed by a separate agreement (in those situations it is understood that the essence of the agreements meet the investment objectives of the Foundation):

1. Short sales.

2. Put and Call Options (except that calls may be written against securities owned.)

3. Margin purchases or lending or borrowing money, except for publicly traded corporate debt.

4. Letter stock, private placement, or direct placements.

5. Equity securities of any company that has a record of less than three years continuous operation, including the operation of any predecessor.

6. Purchase for purposes of exercising control of management.

7. Securities of any portfolio manager, its parent, or subsidiaries (excluding money market funds and common trust/mutual funds).

8. Stock loans.

9. Fixed income derivative securities are not allowed except for those securities commonly found in the index.

10. Any security that utilizes leverage.

G. Investment transactions and commissions are to be governed by negotiation for execution on a "best realized price" (best net price) basis. Managers are expected to negotiate competitive discounts.

H. Unique Assets, which may not be considered "marketable securities," may be contributed to the Foundation. "Marketable securities" refers to securities in an active trading market, which generally can be converted readily to cash. Unique assets may include, but are not limited to, stock in closely held companies, real estate, limited partnership interests and personal property. These assets shall be classified as unique and will not be subject to the guidelines established by this policy statement. The normal procedure will be to use an independent third party to liquidate the securities in the most prudent manner.

VI. SPENDING POLICY

The Foundation welcomes the opportunity to collaborate with the many non-profit organizations and donors in the Racine area in the creation of sustainable endowment value that also provides a stream of annual available dollars to help them carry out their philanthropic community efforts. Our ability to collaborate effectively is built on a common understanding of the role the Foundation plays in value creation for the non-profit organizations and donors. The Foundation has a spending policy which will be considered in the management of the Foundation’s assets.

VII. REVIEW PROCEDURES

The Custodian and/or Managers of the funds will provide the Foundation Accountant with account reviews, no less than quarterly, detailing investment activity.

Committee meetings with the Managers will be held as needed to review performance and any changes in their organization, strategy or philosophy. Managers will be reviewed for compliance with the Foundation objectives and guidelines

Monitoring of Managers

1. All objectives and policies are in effect until modified by the Committee and will be reviewed annually for their continued appropriateness.

2. If at any time a Manager believes that any guidelines inhibit its investment performance, it is the Manager's responsibility to clearly communicate this view to the Committee.

3. Portfolios will be reviewed by the Committee on a quarterly basis, but results will be evaluated over running three to five year periods. However, the Committee will regularly review Managers with the Consultant in order to confirm that the factors underlying performance expectations remain in place.

4. The Committee wishes to adopt standards by which objective judgments of the ongoing performance of a Manager may be made. Upon violation of any of the following, the Manager will be warned of the Committee's serious concern for the Foundation's continued safety and performance. The Committee expects the Consultant to make the Committee aware of any violations. **Violation of three individual guidelines may result in a probation recommendation, while violation of five individual guidelines may result in a termination recommendation**:

    - 4 consecutive quarters of relative under-performance verses benchmark index.
    - 3 and 5 year trailing returns below the 40th percentile and underperforming the index.
    - Downside volatility greater than index, measured by up/down market capture ratio.
    - Style Consistency or purity drift from the mandate.
    - Management turnover in portfolio team or senior management.
    - Investment process change, including varying the index or benchmark.
    - Failure to adhere to the Investment Manager Guidelines or other compliance issues.
    - Investigation of the firm by the SEC.
    - Significant asset flows into or out of the company.
    - Merger or sale of firm.
    - Fee increases outside of standards.
    - Servicing issues – Key personnel stop servicing the account without proper notification.

Nothing in this section shall limit or diminish the Committees' right to terminate the Manager at any time for any reason.

VIII. INVESTMENT COMMITTEE ADMINISTRATION

The Committee will consist of no less than 6 and no more than 12 members. The Nominating Committee will determine the Committee Chair; and will appoint other members in consultation with Investment Committee chair per Board approval.

Additional participants in the regular meetings of the Committee will be the Executive Director and Accountant (staff) of the Foundation along with the Consultants.

The successful execution of this policy requires effective dialogue and collaboration between the Committee, our various Managers and the Consultants. The roles of each are attached to this policy; see Exhibit 1.

Exhibit 1

Investment Responsibilities

It is the common objective of the Committee, the Managers and the Consultant, to make sound and prudent decisions concerning the assets of the Foundation. To this end,

The Committee believes its responsibilities are to:

1. Develop reasonable and consistent investment guidelines and objectives for approval by the Foundation Board.

2. Communicate regularly with the Manager and Consultant on duties and responsibilities.

3. Monitor and evaluate investment results on an ongoing basis to assure that policy guidelines are being adhered to and that objectives are appropriate.

4. Select investment analysts and consultants to be used, as needed, to assist in carrying out the duties and responsibilities of the Committee. Monitor the performance of such investment analysts and Consultants.

5. Review assets which are not included in the managed asset pools.

6. Report to the Board any actions taken relative to Items 1-5 above, and provide the Board with adequate information for items where Board action is required.

Each Manager is expected to:

1. Exercise complete investment discretion within current guidelines including the selection of securities and the implementation of the purchase and sale of those securities.

2. Provide a written statement acknowledging the manager's fiduciary role and acceptance of the objectives and guidelines set forth in this statement.

3. Communicate frequently and openly with the Consultant and the Committee on all matters of significance regarding the changes in management organization/structure.

4. Provide reports of the investment portfolio on a timely basis.

The Consultant is expected to:

1. Help in the development and review the appropriateness of the guidelines, policies, and objectives.

2. Provide objective advice on all investment matters relating to the Foundation.

3. Monitor and evaluate the existing Managers on an ongoing basis and, where necessary, help in the selection of new Managers.

4. Follow the due diligence policies and procedures as outlined in this statement in presenting Managers to the Investment Committee for consideration.

5. Be available as needed to assist in the investment administration of the Foundation.

6. Provide timely reports and recommendations to the Investment Committee.

Approved by the Investment Committee
May 10, 2016