Berks County Community Foundation
Investment Policy Statement

I. DEFINITIONS

A. Purpose

The purpose of this Investment Policy Statement is to establish a clear understanding of the investment objectives and philosophy for the Berks County Community Foundation (hereinafter, "Foundation"). This document will describe the standards utilized by the Investment Committee (hereinafter, "Committee") in monitoring investment performance, as well as, serve as a guideline for any investment manager retained.

While shorter-term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term distributions with preservation of the real, inflation-adjusted value of assets, is crucial to the long-term success of the Foundation.

B. Scope

This document applies to assets that are a part of the Foundation and for which the Committee and investment manager have discretionary authority.

C. Investment Objective

The primary investment objective of the Foundation is to achieve an annualized total return (net of fees and expenses), through appreciation and income, equal to or greater than the rate of inflation (as measured by the broad, domestic Consumer Price Index) plus any spending and administrative expenses thus, at a minimum maintaining the purchasing power of the Foundation. The assets are to be managed in a manner that will meet the primary investment objective, while at the same time attempting to limit volatility in year-to-year spending.

D. Fiduciary Duty

In seeking to attain the investment objectives set forth, the Committee shall exercise prudence and appropriate care in accordance with the Uniform Prudent Investor Act (UPIA). UPIA requires fiduciaries to apply the standard of prudence "to any investment as part of the total portfolio, rather than to individual investments". All investment actions and decisions must be based solely on the interest of the Foundation. Fiduciaries must provide full and fair disclosure to the Board/ Committee of all material facts regarding any potential conflicts of interests.

As summarized for the purposes of this Investment Policy Statement, the UPIA states that the Committee is under a duty to the Foundation to manage the funds as a prudent investor would, in light of the purposes, scope, objectives and other relevant circumstances. This standard requires the exercise of reasonable care, skill, and caution while being applied to investments not in isolation, but in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Foundation. In making and implementing investment decisions, the Committee has a duty to diversify the investments unless, under special circumstances, the purposes of the Foundation are better served without diversifying.

In addition, the Committee must conform to fundamental fiduciary duties of loyalty and impartiality. This requires the Committee to act with prudence in deciding whether and how to delegate authority, in the selection and supervision of agents, and incurring costs where reasonable and appropriate.

E. Description of Roles

1. **Board of Directors**
   The Board of Directors is responsible for adopting the provisions of this Investment Policy Statement.

2. **Investment Committee**
   The Investment Committee is responsible for approving investment strategy; hiring and firing of investment managers, custodians, and investment consultants; monitoring performance of the Foundation on a regular basis (at least quarterly); and maintaining sufficient knowledge about the Foundation and its managers to be reasonably assured of their compliance with the Investment Policy Statement.

3. **Chief Financial Officer**
   The CFO has daily responsibility for administration of the Foundation and will consult with the Committee and the investment consultant on matters relating to the investment of the Foundation. The CFO will serve as primary contact for the Foundation's investment managers, investment consultant, and custodian.

4. **Investment Consultant**
   The investment consultant is responsible for assisting the Committee and CFO in all aspects of managing and overseeing the investment portfolio. The consultant is the primary source of investment education and investment manager information. On an ongoing basis the consultant will:
   a. Provide proactive recommendations
   b. Supply the Committee with reports (e.g. asset allocation studies, investment research and education) or information as reasonably requested
   c. Monitor the activities of each investment manager or investment fund
   d. Provide the Committee with quarterly performance reports
   e. Review this Investment Policy Statement with the Committee

F. Spending Policy

The purpose of this policy is to insure that the distributions from permanent funds entrusted to the Community Foundation are managed in a way that preserves the purchasing power over time of each fund; integrates with the Community Foundation's investment guidelines and provides a predictable flow of charitable support for the community.

In general any fund of the foundation with an expected life of ten years or more will be covered by this policy, unless otherwise provided for in the fund agreement. Such funds will be invested in the Community Foundation's endowment pool.

General Policy on Distribution

- Unless otherwise provided for by the fund agreement, minimum dollar amount to establish an endowment fund is $10,000 and distributions for the charitable purposes of the fund shall be limited to five percent of the fair market value of the fund annually, as determined by the provisions of this policy. Such amounts, after being drawn from the endowment pool shall be transferred to the distribution grant making savings account.

- All allocations of income and changes in market value shall be made before investment management fees are deducted from the portfolio.

- The Community Foundation's investment policy seeks to maximize the investment returns using a "total return" approach. Accordingly, distributions from the endowment pool shall be made without regard to their status as income or principal.

- No distribution shall be made from any fund unless the fund has existed for at least three full calendar quarters prior to the distribution.

- The fair market value of the fund shall be determined by calculating the average fair market value for each of the preceding twelve calendar quarters. For funds with less than twelve calendar quarters of history, as many quarters as are available shall be used in the calculation.

- Charitable purpose distributions from the endowment pool shall be drawn no more than twice a year using the trailing twelve quarters ending June 30th and/or December 31st.

- In the event that any fund receives a contribution exceeding twenty percent of the fair market value of the fund, the CFO may, in his or her discretion, begin to treat the fund as though it were new for the purposes of calculating the appropriate number of quarters to use in determining the amount to be drawn from the fund.

Exceptions: Exceptions to this policy may be made through the establishing fund agreement (as provided herein) or by the Board of Directors.

II. INVESTMENT PHILOSOPHY

A. Strategy

The Committee understands the long-term nature of the Foundation and believes that investing in assets 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). Real assets provide the added benefit of inflation protection.

Fixed income and absolute return 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 Foundation, but is a residual to the investment process and used to meet short-term liquidity needs.

B. 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. To achieve these goals, the asset allocation will be set with the following target percentages and within the following ranges:

ASSET CATEGORY	TARGET	RANGE
GLOBAL EQUITY	**75.0%**	**50-90%**
Public	***70***	***50-85***
U.S. Equities	50	35-80
Large Cap	*37*	*0-45*
Mid Cap	*0*	*0-20*
Small Cap	*13*	*0-20*
International Equities	20	5-30
Developed Large Cap	*10*	*0-15*
Developed Small Cap	*5*	*0-10*
Emerging Markets	*5*	*0-10*
Hedge Funds - Directional	***5.0***	***0-10***
Private	***0.0***	***0-10***
Venture Capital	0	0-5
Buyout	0	0-5
Special Situations	0	0-5
GLOBAL FIXED INCOME	**17.5**	**10-40**
Interest Rate Sensitive	***11.67***	***5-40***
Investment Grade	11.67	0-40
Inflation Protected (TIPS)	0	0-10
Credit	***5.83***	***0-15***
High Yield	0	0-10
Bank Loans	5.83	0-10
REAL ESTATE	**2.5**	**0-10**
ABSOLUTE RETURN	**5.0**	**0-10**
CASH	**0**	**0-10**

C. Active vs. Passive Management

The asset allocation will be implemented using both active and passive investment managers. Highly efficient areas of the capital markets will be managed using primarily index funds and enhanced index/portable alpha strategies due to the low probability of traditional active management outperforming an appropriate benchmark.

D. Investment Styles

The Committee understands investment styles (growth and value) are cyclical, but believes that over the long-term, value stocks outperform growth stocks and this is more pronounced for smaller market capitalization (cap) stocks. Therefore, the Foundation will employ a strategic overweight to value stocks, with a larger value overweight to mid and small cap stocks. Additionally, the Foundation will employ a strategic tilt towards smaller market cap stocks, due to the Committee's belief that over the long-term, small cap stocks outperform large cap stocks, although with higher volatility relative to larger cap stocks.

E. Rebalancing

The CFO will monitor the asset allocation structure of the Foundation and attempt to stay within the ranges allowed for each asset category. If the portfolio moves outside of the ranges the CFO, with advice from the investment consultant, will develop a plan of action to rebalance. In many cases the additions of new money or withdrawals for spending will be used to rebalance in a cost effective manner.

F. Liquidity

A goal of the Foundation 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. The Committee understands that in many instances, the most appropriate investment option is one that comes with liquidity constraints. The tradeoff between appropriateness and liquidity will be considered throughout the portfolio construction process.

G. Illiquid and Semi-Liquid Investments

Illiquid investments include private equity, private real estate, and natural resources. Hedge funds are considered semi-liquid due to lock-up periods, redemptions, restrictions, and in some cases, illiquidity of the underlying investments.

1. **Private Equity**

   The objective of the private equity allocation is to outperform, over the long-term, the public equity markets by 3-5% points, net of fees. The return premium exists due to the lower cost of capital, higher risk, lack of liquidity, and the uneven distribution of information and access inherent in private markets.

   For the private equity allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to top-quality managers and be diversified. Individual funds may be concentrated in a particular sector, stage, or geographic region, but the overall private equity allocation should be diversified. A prudent investment strategy will consider the following areas for diversification.

   a. **Sub-Category**
      The target allocations to venture capital, buyout, and special situations (distressed, mezzanine, infrastructure etc.) will serve as a guideline for committing capital. As commitments to private equity are drawn down and invested over a period of years, and distributions are returned, the committed capital will be greater than the target allocation in order to reach the target market value.

   b. **Vintage Year**
      Capital should be committed continuously and thoughtfully over time. Returns are highly dependent on market cycles and stage of the investment cycle. A portfolio diversified by vintage years will reduce unnecessary risk and provide more consistent long-term returns.

   c. **Manager**
      Investments should be considered with several private partnerships (or a fund of funds) to mitigate manager specific, as well as deal specific risk.

   d. **Stage**
      Investments should be considered across the life cycle of businesses. Within venture capital, this includes early, mid, and late stage companies. Buyout investments consist of small, mid, and large market firms, and may be in the form of traditional buyouts, growth equity, recapitalizations, or restructuring.

   e. **Geography**
      Investments should be considered across the U.S. and internationally (developed and emerging markets).

f. **Sector**
The portfolio should be diversified by sector, as well as across industries within a sector.

2. **Hedge Funds**
The objective of the hedge fund allocation is to diversify the Foundation and provide returns with low correlation to the public equity and fixed income markets via structural advantages, including controlling market exposure through hedging and increased exposure to manager skill through unconstrained investment management and opportunistic investing.

Hedge funds are not an asset class, but rather an investment vehicle. The majority of hedge funds will have a "lock-up" period of 1-3 years from the date of investment, during which time money generally cannot be withdrawn. Once the lock-up period expires, most hedge funds will then allow redemptions only at scheduled intervals (quarterly, semi-annually, etc.). Hedge funds, therefore, are semi-liquid investments due to the structure of the vehicle rather than the underlying investments (which may or may not be liquid).

For the hedge fund allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to skilled managers and be diversified. Individual hedge funds may be concentrated on a particular strategy, market or geographic region, but the overall allocation should be diversified. A prudent investment strategy will consider the following areas for diversification.

a. Strategy
The hedge fund universe can be divided into two broad categories: Absolute Return and Directional. Below are the definitions and examples of these strategies.

i. **Absolute Return**
These strategies are generally non-directional (not correlated to the markets) and tend to utilize multiple strategies that seek to exploit idiosyncratic (unique, non-market) risks that are not impacted by broad economic, political, or social events. Examples of these strategies include: Equity Market Neutral, Fixed Income Arbitrage, Merger Arbitrage, Convertible Arbitrage, and Relative Value Arbitrage.

ii. **Directional (Equity Hedge)**
These strategies tend to opportunistically invest in a broadly defined market with few constraints. As directional strategies, these funds will tend to be somewhat correlated with market movements, but generally do not closely track a market benchmark. These funds will take both long and short positions, use leverage, and actively manage market exposure. Examples of these strategies include Equity Hedge, Event-Driven, Global Macro, Distressed Securities, Emerging Markets, and Short Selling.

b. Manager Diversification
A "core-satellite" approach of combining a core allocation of fund of funds, with satellite investments in direct funds mitigates manager specific, as well as strategy specific risk.

III. Evaluation & Performance Measurement

A. Total Fund Benchmarks
The Committee seeks to outperform its benchmarks over full market cycles and does not expect that all investment objectives will be attained in each year. Furthermore, the Committee recognizes that over various time periods, the Foundation may produce significant

deviations relative to the benchmarks. For this reason, investment returns will be evaluated over a full market cycle (for measurement purposes: 5 years).

1. The primary objective of the Foundation is to achieve a total return, net of fees, equal to or greater than spending, administrative fees, and inflation. The primary objective of the Foundation is:

   Total Return greater than Consumer Price Index + Spending Policy + Administrative Fees

2. A secondary objective is to achieve a total return in excess of the Broad Policy Benchmark comprised of each broad asset category benchmark weighted by its target allocation.

   The current Broad Policy Benchmark is:

WEIGHT	INDEX	ASSET CATEGORIES
55%	Russell 3000	U.S. Equity / Real Assets
20	MSCI ACWI ex-US	International Equity / Real Assets
25	LB Aggregate Bond	Global Fixed Income / Absolute Return / Real Assets

B. Manager Evaluation

1. Each active liquid (and hedge fund) investment manager will be reviewed by the Committee on an ongoing basis and evaluated upon the criteria listed below. The Committee expects the managers to outperform the benchmarks over a full market cycle (for measurement purposes: 5 years). The Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, investment managers may produce significant underperformance. Each investment manager will be reviewed on an ongoing basis and evaluated on the following criteria:

   Maintaining a stable organization
   1. Retaining key personnel
   2. Avoiding regulatory actions against the firm, its principals, or employees
   3. Adhering to the guidelines and objectives of this Investment Policy Statement
   4. Avoiding a significant deviation from the style and capitalization characteristics defined as "normal" for the manager
   5. Exceeding the return of the appropriate benchmark and, for equity managers, produce positive alpha (risk-adjusted return) within the volatility limits set in the "Summary of Quantitative Performance Objectives" table
   6. Exceeding the median performance of a peer group of managers with similar styles of investing

2. Although there are no strict guidelines that will be utilized in selecting managers, the Committee will consider the criteria above, as well as, the length of time the firm has been in existence, its track record, assets under management, and the amount of assets the Foundation already has invested with the firm.

C. Summary of Quantitative Performance and Risk Objectives

1. **Liquid and Semi-Liquid Active Managers**
   The following table summarizes the quantitative performance objectives for the liquid and semi-liquid (hedge fund) active managers. Managers failing to meet these criteria over a full market cycle will undergo extensive qualitative and quantitative analysis. This analysis will focus on the manager's personnel, philosophy, portfolio characteristics, and peer group performance to determine whether the manager is capable of implementing their defined portion of the overall portfolio structure. These managers are expected to outperform their primary benchmark, and the equity (and REIT) managers are expected to maintain a beta (vs. the primary benchmark) of less than 1.20.

ASSET CATEGORY	PRIMARY BENCHMARK	PEER UNIVERSE
Global Equity		
U.S. Large Cap	S&P 500	Top 50%
U.S. Mid Cap	Russell Midcap	Top 50%
U.S. Small Cap	Russell 2000	Top 50%
International Developed	MSCI EAFE	Top 50%
International Small Cap	MSCI EAFE Small Cap	Top 50%
Emerging Markets	MSCI Emerging Markets	Top 50%
Global Fixed Income		
Investment Grade Bonds	LB Aggregate Bond	Top 50%
TIPS	LB TIPS	Top 50%
High Yield	Merrill Lynch High Yield	Top 50%
Bank Loans	CSFB Leveraged Loan	Top 50%
Real Estate		
REITs	S&P / Citi BMI World PPTY Index ex US	Top 50%
Hedge Funds		
Directional	HFRI Fund of Funds	-
Absolute Return	HFRI Fund of Funds	-

2. **Public Liquid Passive Managers**
   Passive (or index) managers are expected to approximate the total return of its respective benchmark. The beta for passive equity managers should approximate 1.00.

3. **Private Illiquid Managers**
   The majority of private equity, private real estate, and natural resource funds will be invested with private partnerships. These partnerships typically range from 7-15 years in life, during which time the Foundation may not be able to sell the investment. Additionally, the partnership may not produce meaningful returns for 3-5 years (depending on the strategy). New investments will create a drag on fund performance in the early years (3-5 years) until these investments begin to mature. This drag on performance is often referred to as the J-curve, due to the shape created by plotting a line graph with performance on the y-axis and time on the x-axis. Private, illiquid manager performance will be measured utilizing internal rate of return (IRR) calculations and compared to an appropriate peer group. An IRR calculated from the inception of the partnership will be the primary performance measurement tool utilized for all private equity, private real estate, and natural resource managers.

   a. **Private Equity**
      Returns will be compared to the appropriate peer group in the Thompson Financial Venture Economics universe of similar style (buyout or venture capital) and vintage year.

IV. GUIDELINES & RESTRICTIONS

A. Overview

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 evaluated. 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.

The requirements stated below apply to investments in non-mutual and non-pooled funds, where the investment manager is able to construct a separate, discretionary account on behalf of the Foundation. Although the Committee cannot dictate policy to pooled/mutual fund investment managers, the Committee's intent is to select and retain only pooled/mutual funds with policies that are similar to this Investment Policy Statement. All managers (pooled/mutual and separate), however, are expected to achieve the performance objectives. Each traditional equity and fixed income investment manager shall:

1. Have full investment discretion with regard to security selection consistent with this Investment Policy Statement
2. Immediately notify the CFO and consultant in writing of any material changes in the investment philosophy, strategy, portfolio structure, ownership, or senior personnel
3. Make no purchase that would cause a position in the portfolio to exceed 5% of the outstanding voting shares of the company or invest with the intent of controlling management

B. Public Equity Manager Guidelines (including REITs)

Each active equity investment manager shall:

1. Assure that no position of any one company exceeds 8% of the manager's total portfolio as measured at market
2. Vote proxies and share tenders in a manner that is in the best interest of the Foundation and consistent with the investment objectives contained herein
3. Maintain a minimum of 25 positions in the portfolio to provide adequate diversification;
4. Construct a properly diversified portfolio across sectors and industries
5. U.S. equity managers should have no more than 20% of the total portfolio invested in foreign stocks or American Depository Receipts (ADRs)

C. Public Fixed Income Manager Guidelines

1. Each investment grade fixed income investment manager shall:
    a. Maintain an overall weighted average credit rating of A or better by Moody's and Standard & Poor's
    b. Hold no more than 10% of the portfolio in below investment grade (Baa/BBB) securities. Split rated securities will be governed by the lower rating
    c. Maintain a duration within +/-20% of the effective duration of the appropriate benchmark (does not apply to TIPS managers)
    d. Assure that any one issuer does not exceed 5% of the manager's portfolio, as measured at market value, except for securities issued by the U. S. government or its agencies

2. Each high yield/bank loan investment manager shall:
    e. Maintain an overall weighted average credit rating of B or better by Moody's and Standard & Poor's
    f. Hold no more than 20% of the portfolio in investments rated below B. Split rated securities will be governed by the lower rating
    g. Assure that any one issuer does not exceed 5% of the manager's portfolio, as measured at market value, except for securities issued by the U. S. government or its agencies

D. Illiquid and Semi-Liquid Investment Guidelines

Each investment will require a signed Subscription Agreement and Limited Partnership Agreement. The Foundation may wish to have these documents reviewed by independent legal counsel. As these investments are typically private limited partnerships or offshore corporations, the Committee cannot dictate policy. The Committee, however, can request side letters for revisions or addendums to the Limited Partnership Agreement. The manager is ultimately responsible to manage investments in accordance with the Private Placement Agreement (PPM) and Limited Partnership Agreement.

The Foundation is a tax-exempt organization, but certain investments may be subject to taxation on Unrelated Business Taxable Income (UBTI). Given that net risk-adjusted returns are the primary objective of the Foundation, potential tax ramifications must be considered during the investment analysis and selection process. The Foundation shall seek to minimize UBTI by selecting investment structures and geographic locations most beneficial to the Foundation.

E. Derivative Security Guidelines

1. For definition purposes, derivative securities include, but are not limited to, structured notes, lower class tranches of collateralized mortgage obligations (CMOs), collateralized loan obligations (CLOs), principal only (PO) or interest only (IO) strips, inverse floating rate securities, futures contracts, forward contracts, swaps, options, short sales, and margin trading. Before allowing managers to utilize derivative instruments, the Committee shall consider certain criteria including, but not limited to, the following:
    1. Manager's proven expertise
    2. Value added by utilizing derivatives
    3. Liquidity of instruments
    4. Amount of leverage
    5. Management of counterparty risk
    6. Manager's internal risk controls and procedures

2. The strategies in which derivatives can be used are:
    1. Index Funds – Derivatives (typically futures contracts) will be used to securitize cash in order to fully replicate the performance of the index being tracked.
    2. Portable Alpha – Derivatives (typically futures or swaps) will be used to generate "beta", while the notional exposure amount is actively managed to generate "alpha".
    3. Fixed Income – Derivatives will be used as a cost efficient means to control and/or hedge risks such as duration, credit, and currency.
    4. Overlay/Transition Management – Derivatives (typically futures contracts) will be used to securitize cash to maintain the target asset allocation without buying and selling physical securities.
    5. Hedge Funds – Derivatives will be used for many purposes. These uses include hedging, risk management, leverage, and market exposure. Due to the wide variety of

strategies in which hedge funds employ, broad policies regarding prudent use of derivatives cannot be easily defined.