

THE COMMUNITY FOUNDATION FOR SOUTH CENTRAL NEW YORK, INC.

INVESTMENT POLICY STATEMENT

August 1, 2008



Amended from March 19, 2002

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THE COMMUNITY FOUNDATION FOR SOUTH CENTRAL NEW YORK, INC.
EXECUTIVE SUMMARY
August 1, 2008

Foundation Name: THE COMMUNITY FOUNDATION FOR SOUTH CENTRAL NEW YORK, INC.

Inception Date: 1997

Primary Objective: Primary emphasis on moderate capital growth with some focus on income while maintaining the purchasing power of the endowment

Target Rate of Return: Inflation (as measured by the Consumer Price Index 'CPI') +5%

Time Horizon: More than 10 Years

Asset Allocation:	Asset Class	Minimum	Maximum	Preferred
	U.S. Equities – Large Cap	15%	40%	18%
	U.S. Equities – Small Cap	5%	25%	15%
	International Developed Countries	10%	35%	15%
	Emerging Markets Countries	0%	10%	5%
	U.S. Core Bonds	10%	40%	14%
	High Yield Bonds	0%	15%	5%
	Hedge Funds	0%	30%	17%
	Cash & Cash Equivalents	5%	5%	10%
	Commodities	0%	10%	3%

-The maximum allowable allocation of the aggregate portfolio to illiquid securities is 30%.

-The maximum allowable allocation of the aggregate portfolio to international equities is 35%.

-The maximum allowable allocation of the aggregate portfolio to Fixed Income (Bonds) is 40%.

Rebalancing Procedures: Portfolio is rebalanced at least quarterly to maintain the portfolio's position within the minimum and maximum limits. Tactical rebalancing positioning the portfolio to benefit from the current market environment may be presented to committee at any time.

Cash Limits: The Investor wishes to maintain a minimum of 5% of total investments in cash/cash equivalents.

Restrictions: Bond quality rated average of AA or better for the investment grade allocation
 Maximum Average Bond Maturity: 10 years
 Maximum Individual Bond Maturity: 15 years
 Maximum Security Portion: 10%
 Maximum Investment Manager Portion: 40%

Meeting Frequency: Quarterly

INVESTMENT POLICY DISCUSSION

Guiding Principals

The Uniform Management of Institutional Funds Act ("UMIFA") was originally promulgated in 1972 with revisions in 2004 and provides guidance to institutional nonprofits of investment authority, permits delegation of authority to independent financial advisors, and authorizes the expenditure of appreciation of investment funds.

The **Uniform Prudent Investor Act ("UPIA")** was approved for use in all states at the 1994 annual Conference of Commissioners on Uniform State Law and by the American Bar Association in 1995.

Key provisions of the UPIA include:

- ❖ No investment is inherently prudent or imprudent, except in how its inclusion or exclusion impacts the portfolio as a whole.
- ❖ Members are expected to use all reasonably available strategies to improve the risk-reward relationship of the portfolio.
- ❖ Under most circumstances, the assets must be diversified.
- ❖ Members are obliged to spread portfolio investments across asset classes to enhance performance and reduce risk.
- ❖ The possible effect of inflation must be considered as part of the investment strategy. As a result, use of equities is encouraged to allow the possibility that the portfolio's growth will outpace inflation.
- ❖ Fiduciaries have a duty to either demonstrate investment skill in managing trust assets or to delegate investment management to another, more qualified party.

Definitions

1. "Investment Committee" shall refer to the decision making body established to administer the portfolio as specified by applicable ordinance.
2. "Investment Manager" shall mean any individual, or group of individuals, employed to manage the investments of all or part of the portfolio's assets.
3. "Advisor" shall mean any individual, or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search and performance monitoring.

Purpose of Investment Policy Statement:

- ❖ Establishes the Investment Committee's expectations, objectives and guidelines in the investment of the Portfolio's assets.
- ❖ Creates the framework for a well-diversified asset mix that can be expected to generate acceptable long-term returns at a level of risk suitable to the Investment Committee, including:
 - describing an appropriate risk posture for the investment of the Portfolio
 - specifying the target asset allocation policy
 - establishing investment guidelines regarding the selection of investment managers, permissible securities and diversification of assets
- ❖ Defines the responsibilities of the Investment Committee, Advisor and Investment Manager(s).
- ❖ Encourages effective communication between the Investment Manager(s) and the Investment Committee, via the Advisor.

This IPS is intended to be a summary of an investment philosophy and the procedures that provide guidance for the Investment Committee. The investment policies described in this IPS should be dynamic. These policies reflect the Investment Committee's current status and philosophy regarding the investment of the Portfolio. These policies will be reviewed and revised periodically to ensure they adequately reflect any changes related to the Portfolio, to the Investment Committee or the capital markets.

It is understood that there can be no guarantee about the attainment of the goals or investment objectives outlined herein.

INTRODUCTION

One of the important purposes of this Investment Policy Statement (IPS) is to establish a clear understanding as to the investment goals, objectives and management policies applicable to the COMMUNITY FOUNDATION FOR SOUTH CENTRAL NEW York's investment portfolio ("Portfolio").

OVERVIEW COMMENTARY

Investor Information:

The COMMUNITY FOUNDATION FOR SOUTH CENTRAL NEW YORK was established in 1997 with a \$1 million challenge grant from a private foundation whose Board had noted the lack of a community foundation to serve Broome, Chenango, Cortland, Delaware, Otsego and Tioga counties. Bolstered by the success and strong presence of the community foundation model in other parts of the country, the idea to create such an organization for our region took hold, and a Board of Directors comprising active community volunteers was formed.

Mission:

Community Foundation offers caring individuals an effective way to endow their community in a manner that is responsible, responsive, and lasting.

Authorized Decision Makers

The authorized decision maker(s) for the assets under this IPS and their capacity are detailed in the Corporate Resolution.

Any single authorized decision maker is authorized to act alone, without limitation.

Advisor Information:

Marc R. Fischer, CIMA
Senior Vice President-Investments
Institutional Consulting Director
Senior Advisor

John F. Bordages
Second Vice President of Wealth Management
Financial Planning Specialist



Graystone Consulting

INVESTMENT OBJECTIVES

The investment objectives addressed in this investment policy statement represent the portfolio's aggregate investment objectives.

The Investment Committee's **objective for this investment portfolio is to produce a stream of investment returns that, over the long term, provides sufficient revenue to support an average spending rate of 5% per annum while maintaining the purchasing power of the endowment.**

The long-term objective for the assets under this policy is to achieve after fees and expenses, a pre-tax: **absolute return of a return in excess of the CPI+5%.**

TIME HORIZON

The COMMUNITY FOUNDATION FOR SOUTH CENTRAL NEW York's objectives for this portfolio are currently anticipated to continue without significant modification for a period of: **More than 10 years.**

SPENDING POLICY

Goal of Foundation/Endowment

The Investor feels that grants **to be made in the future are as important as grants made today.** This is consistent with the philosophy that this Foundation/Endowment is to **exist in perpetuity**, and therefore, should provide for grant making in perpetuity. To attain this goal, the overriding objective is to **maintain purchasing power.** That is, net of spending, the objective is to grow the aggregate portfolio value at the rate of inflation over the investment horizon.

Attitude toward Gifts

Future giving (contributions) is expected to be inconsistent, and therefore, unpredictable. As a result, the Investor has set an investment strategy with the objective of maintaining purchasing power of the assets before consideration of gifts. Accordingly, future giving will serve to increase purchasing power. Therefore, expectations may be expressed by the following equation:

Total Return = Spending + Inflation + Expenses,

while Giving = Increase in Purchasing Power

Capital values fluctuate, especially so over shorter periods of time. The

Investment Committee recognizes that the possibility of capital loss does exist. However, historical data suggests that the risk of principal loss can be minimized if the long-term investment mix employed under this Investment Policy Statement is maintained over a **holding period of at least three to five years.**

RISK TOLERANCE

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of investment risk assumed and the level of return that can be expected. In general, in order to attain higher returns one must accept higher risk (e.g. volatility of return).

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Portfolio is the determination of the amount of risk the Investment Committee can tolerate.

The Investment Committee desires long-term investment performance sufficient to meet the objectives. The Investment Committee understands that to achieve such performance the portfolio may experience periods of decline. The Investment Committee further understands that in a severe market, the potential recovery period could be extensive.

Although the **Investment Committee prefers to limit the portfolio's volatility, they are comfortable with moderate fluctuations in their portfolio, and are willing to accept short-term loss, in order to seek to grow their portfolio over time.**

ASSET ALLOCATION

	Minimum	Maximum	Preferred
U.S. Equities – Large Cap	15%	40%	18%
U.S. Equities – Small Cap	5%	25%	15%
International Developed Countries	10%	35%	15%
Emerging Markets Countries	0%	10%	5%
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Portfolio Returns and Volatility

The Investment Committee's willingness to accept risk and their expectation for investment growth have a direct bearing on the rate of return objective for this portfolio.

It should be recognized that the portfolio will invest in a variety of securities and that the actual weighting of these securities can and will vary. It is also important to note that future returns of the securities with the portfolio and the portfolio itself can be expected to vary from the historical returns.

The portfolio's historical rate of return is not a guarantee of future investment returns. Future returns could differ significantly and capital loss is possible. This Investment Policy Statement shall not be construed as offering a guarantee.

Updated Allocations

Over time, it may be desirable to amend the basic allocation. When such changes are made, updates will be considered part of this Investment Policy Statement.

Rebalancing Procedures

From time to time, market conditions may cause the Portfolio's investment in various asset classes to vary from the approved allocation.

This portfolio will be rebalanced periodically as follows:

Portfolio is rebalanced at least quarterly to maintain the portfolio's position within the minimum and maximum limits.

Tactical rebalancing to position the portfolio to benefit from the current market environment may be presented to committee at any time.

Adjustment in the Target Allocation

Modifications to the approved allocation may be needed from time to time for a variety of reasons. When such a change to the approved allocation needs to occur, it shall only be made with the concurrence of the Investment Committee.

INVESTMENT PHILOSOPHY

The basic tenets under which this Policy will be managed include the following:

1. **Modern Portfolio Theory**, as recognized by the 1990 Nobel Prize, will be the philosophical foundation for how the portfolio will be structured and how subsequent decisions will be made. The underlying concepts of Modern Portfolio Theory include:
 - ❖ Investors are risk averse. The only acceptable risk is that which is adequately compensated by potential portfolio returns
 - ❖ Markets are efficient. It is virtually impossible to anticipate the future direction of the market as a whole or of any individual security. It is, therefore, unlikely that any portfolio will succeed in consistently "beating the market"
 - ❖ The design of the portfolio as a whole is more important than the selection of any particular security within the portfolio. The appropriate allocation of capital among asset classes (stocks, bonds, cash, alternative investments, etc.) will have far more influence on long-term portfolio results than the selection of individual securities. Investing for the long term (preferably longer than ten years) becomes critical to investment success because it allows the long-term characteristics of the asset classes to surface
 - ❖ For a given risk level, an optimal combination of asset classes will seek to maximize returns. Diversification helps reduce investment volatility. The proportional mix of asset classes determines the long-term risk and return characteristics of the portfolio as a whole
 - ❖ Portfolio risk may be decreased by increasing diversification of the portfolio and by lowering the correlation of market behavior among the asset classes selected. (Correlation is the statistical term for the extent to which two asset classes move in tandem or opposition to one another)

2. **Investing globally** helps to minimize overall portfolio risk due to the imperfect correlation between economies of the world. Investing globally has also been shown historically to enhance portfolio returns, although there is no guarantee that it will do so in the future.
3. **Equities** have historically offered the potential for higher long-term investment returns than cash or fixed income investments. Equities are also more volatile in their performance. Investors seeking higher rates of return must increase the proportion of equities in their portfolio, while at the same time accepting greater variation of results (including occasional declines in value).
4. Picking individual securities and **timing the purchase or sale of investments** in the attempt to “beat the market” are highly unlikely to increase long-term investment returns; they also can significantly increase portfolio operating costs. Such **practices** are, therefore, **to be avoided**.

Given these tenets, the underlying approach to managing this Policy shall be to optimize the risk-return relationship appropriate to the Investor’s needs and goals. The Policy will be diversified globally employing a variety of asset classes.

LIQUIDITY

Investor's liquidity requirements are:

A minimum of 5% of total investments in cash/cash equivalents

No more than 30% of aggregate portfolio can be invested in illiquid investments.

DIVERSIFICATION AND INVESTMENT CONSTRAINTS

Allowable Investments/Transactions:

Assets Classes

Money Market Funds
U.S. Short Term Taxable Bonds
U.S. Intermediate Term Taxable Bonds
U.S. Long Term Taxable Bonds
U.S. Short Term Tax-Free Bonds
U.S. Intermediate Term Tax-Free Bonds
U.S. Long Term Tax-Free Bonds
U.S. Corporate Bonds
U.S. Government Bonds
U.S. High Yield Bonds
Non-U.S. Bonds
Total U.S. Equities Market
U.S. Large-Cap Companies
U.S. Mid-Cap Companies
U.S. Small-Cap Companies
World Stocks (Ex. U.S.) Developed and Emerging Market Countries
Real Estate Securities/REITS
Convertible Securities
Hedge Funds
Commodities
Private Equity

Investment Types

Individual Stocks or Bonds
Open-ended Mutual Funds
Closed-end Mutual Funds
Exchange Traded Funds
Managed Separate Accounts
Investment Partnerships
Futures, Options, Puts, Short Sales or other derivative investments

Prohibited Investments/Transactions:

Investment Types

Illiquid Investments that are not outlined in Allowable Investments Section

NON-TRADITIONAL/ALTERNATIVE INVESTMENTS

Definition:

Non-Traditional/Alternative Investments are often structured as private investments and are generally formed as limited partnerships or limited liability companies and, in many cases, organized in low or no tax jurisdictions. The managers of these investments generally are allowed to operate with greater flexibility than most traditional investment managers and their compensation usually includes substantial performance incentives.

Objective:

Investment in alternatives may be considered by this organization within the context of an overall investment plan. The objective of such investments will be to seek to diversify the portfolio, complementing traditional equity and fixed-income investments and improving the overall performance consistency of the portfolio. It is acknowledged that there is no guarantee that this objective will be realized.

Transparency and Liquidity:

It is acknowledged that these investments are less transparent than traditional investments and that liquidity in such investments is usually significantly limited. Liquidity constraints, including lockup provisions and redemption or withdrawal fees, must be taken into consideration when making allocations to such investments.

Allowable Strategies:

Since alternative investments generally seek to provide diversification by investing in strategies that do not correlate directly with traditional equity and/or fixed-income investments, investments strategies may include, but are not limited to, the following:

- Statistical Arbitrage
- Merger Arbitrage
- Momentum Trading
- Debt/Equity Financing
- Leveraged Buyouts
- Venture Capital
- Mezzanine Debt
- Equity Market Neutral
- Convertible Arbitrage
- Real Estate
- Distress Securities
- Special Situations
- Fixed Income Arbitrage
- Equity Long/Short
- Global macro
- Short Selling
- Commodities and Futures
- Structured Credit Products

The foregoing allowable strategies may be pursued in any manner including through collective investment vehicles such as hedge funds, funds of hedge funds, private equity (i.e. LBO,

Venture, Mezzanine Debt, etc) funds and funds of funds, real estate funds and funds of funds, commodity pools, and structured credit products such as equity CDOs.

Allowable Investments:

The above referenced strategies may include, but are not limited to, investments (directly or indirectly) in the following: common and preferred stocks, options, warrants, convertible securities, foreign securities, foreign currencies, commodities, commodity futures, financial futures, derivatives, mortgage-backed and mortgage-related securities, real estate, bonds (both investment-grade and non-investment-grade, including high-yield debt, distressed or other securities) and other assets. Strategies may utilize short-selling and leverage.

RISK ACKNOWLEDGEMENT

The organization acknowledges that: (1) alternative investments can be highly illiquid and may engage in leveraging and other speculative investment practices, which may involve volatility of returns and significant risk of loss, including the potential for loss of the principal invested; (2) that there is no secondary market currently available for interests in most alternative investments and that there may be restrictions imposed by the fund on transferring such interests as stated in the fund's private placement memorandum or prospectus; (3) that investing in alternative investments is only suitable for experienced and sophisticated investors who are willing to bear the high economic risks of the investment and that this organization qualifies as such an investor; (4) that it will carefully review and consider all potential risks before investing including the following specific risks:

- *loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices;*
- *lack of liquidity in that there may be no secondary market for the fund and none is expected to develop;*
- *volatility of returns;*
- *restrictions on transferring interests in the Fund;*
- *potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;*
- *absence of information regarding valuations and pricing;*
- *complex tax structures and delays in tax reporting;*
- *less regulation and higher fees than mutual funds; and*
- *advisor risk.*

SELECTION/RETENTION CRITERIA FOR INVESTMENTS

Investment Management Selection

Investment managers shall be chosen using the following criteria, but not limited to:

- ❖ Past performance, considered relative to other investments having the same investment objective. Consideration shall be given to both performance rankings over various time frames and consistency of performance
- ❖ Costs relative to other funds with like objectives and investment styles
- ❖ The manager's adherence to investment style and size objectives
- ❖ Size of the proposed fund
- ❖ Length of time the fund/manager has been in existence and length of time it has been under the direction of the current manager(s) and whether or not there have been material changes in the manager's organization and personnel
- ❖ The historical volatility and downside risk of each proposed investment
- ❖ How well each proposed investment complements other assets in the portfolio
- ❖ The current economic environment
- ❖ The likelihood of future investment success, relative to other opportunities

INVESTMENT MONITORING AND CONTROL PROCEDURES

Benchmarks

The following benchmark will be used to evaluate aggregate portfolio performance:

Broad Market Blend of 56% Russell 3000 Index/ 20% MSCI All World Ex-U.S. Index/ 24% Lehman Brothers Aggregate Bond Index.

Reports

- ❖ The investment custodian shall provide Investment Committee with monthly statements for each account held by the COMMUNITY FOUNDATION FOR SOUTH CENTRAL NEW YORK and subject to this Investment Policy Statement. Such reports shall show values for each asset and all transactions affecting assets within the portfolio, including additions and withdrawals.
- ❖ The Advisor shall provide Investment Committee the following management reports on a periodic basis:
 - Portfolio performance results over varying time periods
 - Performance results of comparative benchmarks over varying time periods
 - Review of current asset allocation versus policy guidelines
 - Any recommendations for changes of the above

Meetings and Communication between Investment Committee and Advisor

As a matter of course, the Advisor shall keep Investment Committee apprised of any material changes in the Advisor's outlook, recommended investment policy, and tactics.

In addition, Advisor shall meet with Investment Committee approximately quarterly to review and explain the Portfolio's investment results and any related issues. Advisor shall also be available for telephone and email communication as needed.

DUTIES AND RESPONSIBILITIES

The Advisor

The Advisor is a Registered Investment Advisor and shall act as the investment advisor to the Investment Committee until the Investment Committee decides otherwise.

Advisor shall be responsible for:

- ❖ Assisting in the development and periodic review of investment policy.
- ❖ Designing and implementing an appropriate asset allocation plan consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this statement.
- ❖ Advising the Investment Committee about the selection of and the allocation of asset categories.
- ❖ Identifying specific assets and investment managers within each asset category.
- ❖ Providing “due diligence”, or research, on the Investment Manager(s)
- ❖ Monitoring the performance of all selected assets the advisor consults to.
- ❖ Recommending changes to this investment policy statement.
- ❖ Periodically reviewing the suitability of the investments for the Investment Committee.
- ❖ Being available to meet with the Investment Committee.
- ❖ Preparing and presenting appropriate reports.

Discretion and Title

- ❖ Advisor will not have any discretionary control.
- ❖ Advisor shall have no authority to withdraw funds from COMMUNITY FOUNDATION FOR SOUTH CENTRAL NEW YORK's accounts, except to cover payment of previously agreed to fees or at Investor's specific direction.
- ❖ Advisor may not change COMMUNITY FOUNDATION FOR SOUTH CENTRAL NEW YORK's investment policy, including the targeted asset allocation, without Investment Committee's prior approval.

The Investment Committee

Investment Committee shall be responsible for:

- ❖ The oversight of the Portfolio with assistance provided by the Advisor .
- ❖ Defining the investment objectives and policies of the Portfolio as outlined within this policy.
- ❖ Directing Advisor to make changes in investment policy and to oversee and to approve or disapprove Advisor's recommendations with regards to policy, guidelines, and objectives on a timely basis.
- ❖ Providing Advisor with all relevant information on the COMMUNITY FOUNDATION FOR SOUTH CENTRAL NEW YORK's financial conditions and risk tolerances and shall notify Advisor promptly of any changes to this information.
- ❖ Understanding the investments in the Portfolio.

The Investment Manager(s)

Each Investment Manager will have full discretion to make all investment decisions for assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the Investment Manager(s) include:

- ❖ Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
- ❖ Communicating any major changes to economic outlook, investment strategy, or any other factors, which affect implementation of investment process, or the investment objective progress of the Fund's investment management.
- ❖ Informing the Advisor regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment policy, etc.
- ❖ Voting proxies, if requested by the Investment Committee, on behalf of the COMMUNITY FOUNDATION FOR SOUTH CENTRAL NEW YORK.

FREQUENCY OF IPS REVIEW

The Investment Committee recognizes that all investments go through cycles and therefore there will be periods of time in which the investment objectives are not met or when specific managers fail to meet their expected performance expectations. The Investment Committee accepts the principle that, in the absence of specific circumstances requiring immediate action, patience and a longer-term perspective will be employed when evaluating investment performance.

The Advisor and Investment Committee will meet at least annually to review and update this IPS.

Adopted 9/17/08

Reviewed and Updated 8/12/09 – Name change to Graystone Consulting