

INVESTMENT POLICY STATEMENT

For

The Charitable Gift Annuity Program

Of

**The Community Foundation
of South Alabama**

Approved on November 28, 2001

**By CFSA Investment Committee
And CFSA Board of Directors**

It is intended that this investment policy statement be reviewed and updated at least annually. Any change to this policy should be communicated in writing on a timely basis to all interested parties.

EXECUTIVE SUMMARY

Type of Client:	Tax Exempt, Community Foundation
Current Assets:	(1) Excess Reserve Fund: \$ 25,003.00 (2) Required Reserve Fund: \$ 23,447.00
Time Horizon:	(1) Excess Reserve Fund: Greater than 5 years (2) Required Reserve Fund: Less than 5 years
Historical Return *:	(1) Excess Reserve Fund: 12.08% (6.88% over CPI) (2) Required Reserve Fund: 8.48% (3.28% over CPI)
Historical Risk Level *:	(1) Excess Reserve Fund: -9.44% Historical loss tolerance for 1 yr. (2) Required Reserve Fund: -5.72% Historical loss tolerance for 1 yr.

Asset Allocation - Excess Reserve Fund	<u>Lower Limit</u>	<u>Strategic Allocation</u>	<u>Upper Limit</u>
Domestic Equities			
Large Cap	40%	45%	50%
Small Cap	0 %	5%	10%
International Equities	5%	10%	15%
Intermediate-Term Fixed Income			
Treasuries	14.50%	19.50%	24.50%
Corporates	14.50%	19.50%	24.50%
Cash Equivalents	0%	1%	6%

Asset Allocation - Required Reserve Fund	<u>Lower Limit</u>	<u>Strategic Allocation</u>	<u>Upper Limit</u>
Long-Term Fixed Income	15%	20%	25%
Intermediate-Term Fixed Income	45%	50%	55%
Short-Term Fixed Income	15%	20%	25%
Cash Equivalents	5%	10%	15%

* See Investment Policy of the Community Foundation of South Alabama, as amended from time to time, for historical returns and risk data. See also the Center for Research of Securities Prices for data on 5-year U. S. Treasury securities.

BACKGROUND and PURPOSE

Mission Statement

The Community Foundation of South Alabama was organized in 1974 to provide a flexible response to the changing needs of the counties in South Alabama. The Community Foundations serves as a link between donors, concerned about the future well-being of their community, and the charities they wish to benefit. It is a partnership forged to address the priorities of the community by giving donors the opportunity to invest their resources for now and for the future.

This Investment Policy Statement (“IPS”) has been prepared for the Foundation, a tax-exempt Community Foundation under IRS Code 501(c)(3) to specifically address the needs of its charitable gift annuity program.

A charitable gift annuity is a private arrangement between the charity and a donor which allows the donor to give an interest in property to charity but retain an income stream for himself or herself or another person. The annuity is a private annuity contract that is paid from and backed by the charity’s general assets.

There are two portfolios: (1) an Excess Reserve Fund with assets of approximately \$0. and (2) a Required Reserve Fund account with assets of approximately \$0. The Foundation has established a unique asset allocation strategy for each portfolio taking in to account contemplated annuity payments, operating expenses and mortality.

Key Information

Name of Foundation	Community Foundation of South Alabama
IRS Tax ID:	63-0695166
Custodian:	TIAA-CREF Trust Co., FSB
Investment Consultant:	Investment Committee
Legal Counsel:	Hand Arendall, LLC.
Accountant:	McKean & Associates, CPA’s

The purpose of this IPS is to assist the Foundation and Investment Committee (Committee) in effectively supervising, monitoring and evaluating the management of the Foundation’s assets. The Foundation’s investment program is defined in the various sections of this IPS by:

1. Stating in a written document the Foundation's attitudes, expectations, objectives and guidelines in the management of their assets.
2. Setting forth an investment structure for managing the Foundation's Charitable Gift Annuity assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon.
3. Establishing formal criteria to select, monitor, evaluate and compare the performance of money managers on a regular basis.
4. Encouraging effective communications between the Foundation, Committee and donors.
5. Complying with all applicable fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international political entities that may impact the Foundation's Charitable Gift Annuity Program.

STATEMENT of OBJECTIVES

The objectives of the Foundation have been established in conjunction with a comprehensive review of current and projected financial requirements of the Charitable Gift Annuity program. The objectives are:

1. To invest the entire gift, not just the Required Reserve, in order to make the required annuity payments.
2. To invest the Required Reserve in a series of U.S. Treasury obligations, or mutual funds/common trust funds that invest in U.S. Treasury obligations, in order to ensure the fixed stream of payments to annuitants.
3. To invest the Excess Reserve in order to maintain its purchasing power. The objective is to maintain the level of support for the Required Reserve to further ensure that the required annuity payments are made to the annuitants. This requires establishing an equilibrium-spending rate of 5%.
4. To maximize return within reasonable and prudent levels of risk.
5. To maintain an appropriate asset allocation based on a total return policy that is compatible with the required annuity payments, while still having the potential

to produce returns that will, on average, accrue at least 50% of the initial gift to the charity if the annuitant(s) live just to their life expectancy(ies).

Risk Tolerances

The Foundation recognizes and acknowledges that some risk must be assumed in order to achieve the long-term investment objectives of the Excess Reserve Fund portfolio, and that there are uncertainties and complexities associated with contemporary investment markets.

In establishing the risk tolerances for this IPS, the Foundation's ability to withstand short and intermediate term variability (through the Required Reserve Fund portfolio) was considered. The Foundation's prospects for the future, current financial condition, and level of funding in the Required Reserve Fund portfolio suggest collectively that some interim fluctuations in market value and rates of return may be tolerated with the Excess Reserve Fund portfolio in order to achieve longer-term objectives.

Time Horizon

The investment guidelines for the Excess Reserve Fund portfolio are based upon an investment horizon of greater than five years; therefore interim fluctuations should be viewed with appropriate perspective. The Excess Reserve Fund will distribute 5% of its value to the Required Reserve Fund annually. Annuity payments will be made on a monthly basis from the Required Reserve Fund, so short-term liquidity requirements are anticipated to be met with the Required Reserve Fund portfolio.

Expected Return

In general, the Foundation would like the Excess Reserve Fund portfolio to earn at least a targeted return of 8.0%. It is understood that an average return of 8.0% will require superior performance to: (1) retain principal value; and, (2) purchasing power. Furthermore, the objective is to earn a long-term rate of return that is at least 5.0% greater than the rate of inflation as measured by the Consumer Price Index (CPI).

In general, the Foundation would like the Required Reserve Fund portfolio to earn at least a targeted return of 4.0%. The objective is to earn a long-term rate of return that is at least 1.0% greater than the rate of inflation as measured by the Consumer Price Index (CPI).

The Foundation recognizes that market performance varies and that 8.00% and 4.00% rates of return may not be meaningful during some periods. Accordingly, relative performance benchmarks for investment managers/mutual funds are set forth in the section on Control Procedures.

ASSET CLASS GUIDELINES

The Foundation believes that long-term investment performance, in large part, is primarily a function of asset class mix. The Foundation has reviewed the long-term performance characteristics of the broad asset classes, focusing on balancing the risks and rewards.

History shows that while interest-generating investments, such as bond portfolios, have the advantage of relative stability of principal value, they provide little opportunity for real long-term capital growth due to their susceptibility to inflation. On the other hand, equity investments, such as common stocks, clearly have a significantly higher expected return but have the disadvantage of much greater year-by-year variability of return. From an investment decision-making point of view, this year-by-year variability may be worth accepting, provided that the time horizon for the equity portion of the portfolio is sufficiently long (five years or greater).

The performance expectations (both risk and return) of each asset class are contained in Appendix A. The following six asset classes were selected, ranked in ascending order of “risk” (least to most).

- Money Market (MM)
- Short Bond (SB)
- Intermediate Bond (IB)
- Large Cap Blend (LCB)
- Small Cap Blend (SCB)
- International Equity (IE)

Rebalancing of Strategic Allocation

Due to their varying objectives, the Required Reserve and the Excess Reserve will have different asset mixes. The Required Reserve will be invested exclusively in obligations of the U.S. Treasury or mutual funds/common trust funds that invest exclusively in obligations of the U. S. Treasury. The Excess Reserve will invest via the Foundation’s Moderate Portfolio, which is designed to accommodate a 5% spending policy.

The percentage allocation to each asset class may vary as much as plus or minus 5% depending upon market conditions. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Portfolio. If there are no cash flows, the allocation of the Portfolio will be reviewed quarterly.

If the Foundation judges cash flows to be insufficient to bring the Portfolio within the strategic allocation ranges, the Foundation shall decide whether to effect transactions to bring the strategic allocation within the threshold ranges.

DUTIES and RESPONSIBILITIES

Foundation Investment Committee

As fiduciaries, the primary responsibilities of the Foundation's Investment Committee are to:

1. Prepare and maintain an investment policy statement.
2. Prudently diversify the accounts assets to meet an agreed upon risk/return profile.
3. Prudently select investment options.
4. Control and account for all investment, record keeping and administrative expenses associated with the accounts.
5. Monitor and supervise all service vendors and investment options.
6. Avoid prohibited transactions and conflicts of interest.

Investment Managers/Investment Funds

As distinguished from the Foundation, which is responsible for managing the investment process, investment managers are co-fiduciaries responsible for making investment decisions (security selection and price decisions). The specific duties and responsibilities of each investment manager are:

1. To manage the assets under their supervision in accordance with the guidelines and objectives outlined in their respective Prospectus or Trust Agreement.
2. To exercise full investment discretion with regards to buying, managing, and selling assets held in the portfolios.
3. If managing a separate account (as opposed to a mutual fund or a commingled account), to seek approval from the Foundation prior to purchasing and/or implementing the following securities and transactions:
 - ◆ Letter stock and other unregistered securities; commodities or other commodity contracts; and short sales or margin transactions.
 - ◆ Securities lending; pledging or hypothecating securities;
 - ◆ Investments in the equity securities of any company with a record of less than three years' continuous operation, including the operation of any predecessor.

- ◆ Investments for the purpose of exercising control of management.
- 4. To vote promptly all proxies and related actions in a manner consistent with the long-term interest and objectives of the Accounts as described in this IPS. Each investment manager shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.
- 5. To communicate with the Foundation all significant changes pertaining to the fund it manages or the firm itself. Changes in ownership, organizational structure, financial condition, and professional staff are examples of changes to the firm in which the Foundation is interested.
- 6. To effect all transactions for the Portfolio subject “to best price and execution.” If a manager utilizes brokerage from the Portfolio assets to effect “soft dollar” transactions, detailed records will be kept and communicated to the Foundation.
- 7. To use the same care, skill, prudence, and due diligence under the circumstances then prevailing that professional investment managers acting in a like capacity and fully familiar with such matters would use in like activities for like Portfolios with like aims in accordance and compliance with applicable laws, rules, and regulations.

Custodian

Custodians are responsible for the safekeeping of the Portfolio’s assets. The specific duties and responsibilities of the custodian are:

1. To maintain separate accounts by legal registration.
2. To value the holdings.
3. To collect all income and dividends owed to the Portfolio.
4. To settle all transactions (buy-sell orders) initiated by the Investment Manager.
5. To provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall portfolio since the previous report.

INVESTMENT MANAGER SELECTION

The Foundation will apply the following due diligence criteria in selecting each money manager or mutual fund.

1. *Regulatory oversight:* Each investment manager should be a regulated bank, an insurance company, a mutual fund organization, or a registered investment adviser.
2. *Correlation to style or peer group:* The product should be highly correlated to the asset class of the investment option. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the manager to the appropriate peer group.
3. *Performance relative to a peer group:* The product's performance should be evaluated against the peer group's median manager return, for 1, 3 and 5-year cumulative periods.
4. *Performance relative to assumed risk:* The product's risk-adjusted performance (Alpha and/or Sharpe Ratio) should be evaluated against the peer group's median manager's risk-adjusted performance.
5. *Minimum track record:* The product's inception date should be greater than three years.
6. *Assets under management:* The product should have at least \$75 million under management.
7. *Holdings consistent with style:* The screened product should have no more than 20% of the portfolio invested in "unrelated" asset class securities. For example, a Large Cap Growth product should not hold more than 20% in cash, fixed income and/or international securities.
8. *Expense ratios/fees:* The product's fees should not be in the bottom quartile (most expensive) of their peer group.
9. *Stability of the organization:* There should be no perceived organizational problems –the same portfolio management team should be in place for at least two years.

CONTROL PROCEDURES

Performance Objectives

The Foundation acknowledges that fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Recognizing that short-term fluctuations may cause variations in performance, the Foundation intends to evaluate manager performance from a long-term perspective.

The Foundation is aware that the ongoing review and analysis of the investment managers is just as important as the due diligence implemented during the manager selection process. The performance of the investment managers will be monitored on an ongoing basis and it is at the Foundation's discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

On a timely basis, but not less than quarterly, the Foundation will meet to review whether each manager continues to conform to the search criteria outlined in the previous section; specifically:

1. The manager's adherence to the Portfolio's investment guidelines;
2. Material changes in the manager's organization, investment philosophy and/or personnel; and,
3. Any legal, SEC and/or other regulatory agency proceedings affecting the manager.

The Foundation has determined that it is in the best interest of the Portfolio's participants that performance objectives be established for each investment manager. Manager performance will be evaluated in terms of an appropriate market index (e.g. the S&P 500 stock index for large cap domestic equity manager) and the relevant peer group (e.g. the large cap growth mutual fund universe for a large cap growth mutual fund).

Asset Class/ Peer Group	Index	Peer Group Universe
Large Cap Equities	S&P 500	Large Cap Blend
Small Cap Equities	Russell 2000	Small Cap Blend
International Equity	MSCI EAFE	Foreign Stock
Fixed Income		
Intermediate Treasury	Lehman Int. Treas.	Intermediate Govt.
Intermediate Corporate	Lehman Int. Corp..	Intermediate Bond
Money Market	90 day T-Bills	Money Market Database

A manager may be placed on a Watchlist and a thorough review and analysis of the investment manager may be conducted, when:

1. A manager performs below median for their peer group over a 1, 3 and/or 5-year cumulative period.
2. A manager's 3-year risk adjusted return (Alpha and/or Sharpe) falls below that of the peer group's median risk adjusted return.

3. There is a change in the professionals managing the portfolio.
4. There is a significant decrease in the product's assets.
5. There is an indication that the manager is deviating from his/her stated style and/or strategy.
6. There is an increase in the product's fees and expenses.
7. Any extraordinary event occurs that may interfere with the manager's ability to fulfill their role in the future.

A manager evaluation may include the following steps:

1. A letter to the manager asking for an analysis of their underperformance.
2. An analysis of recent transactions, holdings and portfolio characteristics to determine the cause for underperformance or to check for a change in style.
3. A meeting with the manager, which may be conducted on-site, to gain insight into organizational changes and any changes in strategy or discipline.

The decision to retain or terminate a manager cannot be made by a formula. It is the Foundation's confidence in the manager's ability to perform in the future that ultimately determines the retention of a manager.

Measuring Costs

The Foundation will review at least annually all costs associated with the management of the Portfolio's investment program, including:

1. Expense ratios of each investment option against the appropriate peer group.
2. Custody fees: The holding of the assets, collection of the income and disbursement of payments.
3. Whether the manager is demonstrating attention to "best execution" in trading securities.

The Foundation will review this IPS at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

Prepared:

June 2001

Investment Committee

Approved:

November 28, 2001

Foundation Board