



## **EAST TENNESSEE FOUNDATION INVESTMENT POLICIES**

### **I. MISSION AND INVESTMENT PHILOSOPHY**

East Tennessee Foundation (“the Foundation”) is a 501(c)(3) public community foundation established to serve a broad range of charitable purposes in the East Tennessee region. Its mission is building charitable resources to make communities stronger and lives better through thoughtful giving in East Tennessee. Because the Foundation expects to operate in perpetuity, wise stewardship of the funds entrusted to it is essential to the Foundation's mission. To ensure its accountability to donors, beneficiaries, and the region, the Board of the Foundation has adopted the following investment policies.

The goal of East Tennessee Foundation’s investment policies is to maintain or increase the real value of the endowment principal and its distributions over the long-term while funding current needs at an appropriate level. The Foundation has adopted a “total return” approach to investment management which allows the investment portfolio to be structured for maximum return within accepted risk parameters but without current yield constraints. Under the “total return” approach, the income plus the appreciation (total market value) of the Foundation’s assets, averaged over time, are taken into consideration in determining available grant dollars for each year’s distribution.

To achieve the investment goal within the philosophy of the Foundation, the Investment Committee will establish investment objectives and offensive and defensive market strategies employing equity, fixed income, cash, and non-traditional investments as appropriate.

### **II. INVESTMENT AUTHORITY, INVESTMENT COMMITTEE, DUTIES, AND FIDUCIARY RESPONSIBILITY**

The Board of Directors delegates full power and authority to the Investment Committee to make decisions related to and to manage the investments of the Foundation, consistent with the investment policy approved and adopted by the Board. Members of the Investment Committee will be chosen for their business, financial management, and investment management experience and expertise. A list of the current members of the Investment Committee will be available at all times from the Foundation.

The Investment Committee will be made up of five (5) members, appointed to staggered four-year terms. A member may be re-appointed to a second term, but after eight consecutive years of service must not be re-appointed until one year has elapsed. Exceptions to this appointment policy can be made, especially in cases where multiple vacancies may occur, to ensure continuity of Investment Committee experience, leadership, and expertise. The Chair of the Investment Committee will also be a member of the Foundation's Board and Executive Committee. The members will be recommended by the Investment Committee and approved by the full Board and will serve at the pleasure of the Board. The President/CEO will be an *ex officio*, non-voting member

and the Chair of the Board of Directors will be invited to serve as an *ex officio*, non-voting member of the Investment Committee.

The Investment Committee will meet at least quarterly. The Chair of the Investment Committee may also call special meetings of the Investment Committee as needed. Three (3) members of the Committee shall constitute a quorum for the transaction of business; the act of a majority of the members of the Committee present at any meeting at which a quorum is present shall be the act of the Committee. Members of the Investment Committee may participate in any meeting of the Committee by means of conference telephone or similar communications equipment so long as the equipment allows all members in the meeting to participate simultaneously. Participation in the meeting shall constitute presence in person at the meeting. Certain actions of the Committee, with consent of the Chair, may be approved by email.

The Investment Committee will oversee the investment program within the Policies described herein. Specifically, the Investment Committee shall:

- A. Formulate the Foundation's overall investment policies for approval by the Board of Directors and propose revisions to these policies as it deems appropriate;
- B. Review implementation of these investment policies and monitor achievement of the performance objectives quarterly, including reviewing the Foundation assets and the status of its investment accounts and making such adjustments as it deems necessary to achieve the Foundation investment objectives;
- C. Establish and revise as appropriate the target asset mix guidelines;
- D. Recommend to the Board of Directors a spending plan consistent with investment objectives;
- E. Approve selection and dismissal of and manage relationships with investment managers, custodians, and other professionals engaged to assist with the Foundation's investments;
- F. Determine investment performance objectives and guidelines for each investment manager;
- G. Where appropriate, provide relevant information to investment managers concerning the Foundation's resources and any special considerations pertaining to any particular assets of the Foundation;
- H. Monitor investment performance in comparison to investment objectives as well as manager performance versus established absolute and relative benchmarks; and
- I. Oversee the Investment Alliance Program, including approving selection and dismissal of, determining performance objectives for, and monitoring investment performance of Investment Alliance Partners.

All members of the Investment Committee must observe the Foundation's Confidentiality and Conflict of Interest policies, and new members will be given copies of said policies before their terms of service. Members of the Committee must provide full and fair disclosure to the Committee of all material facts regarding any potential conflicts of interest.

The Foundation has determined it is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which the State of Tennessee adopted effective July 1, 2007. In seeking to attain the investment objectives set forth, the Investment Committee shall exercise prudence and appropriate care in accordance with the UPMIFA. As summarized for the purposes of this Investment Policy, the UPMIFA states that the Investment 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 Investment 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. All investment actions and decisions must be based solely on the interest of the Foundation. Fiduciaries must provide full and fair disclosure to the Investment Committee of all material facts regarding any potential conflicts of interests.

Except as a donor's gift instrument otherwise requires, and consistent with the UPMIFA, the following factors must be considered, if relevant, in managing and investing the investment portfolio, including the requirements of any specific institutional funds:

- A. General economic conditions;
- B. The possible effect of inflation or deflation;
- C. The expected tax consequences, if any, of investment decisions or strategies;
- D. The role each investment plays within the Foundation's overall investment portfolio;
- E. The total expected return from income and appreciation of investments;
- F. Other resources of the Foundation;
- G. The needs of the Foundation and a given institutional fund to make distributions and to preserve capital;
- H. The risk-return profile of each investment; and
- I. An asset's special relationship or special value, if any, to the purpose of the Foundation.

### **III. INVESTMENT OBJECTIVES AND DIVISION OF ASSETS FOR INVESTMENT MANAGEMENT**

Because annual income from its funds is of utmost importance to the Foundation and the community, the Foundation's investment priorities are:

- A. Preservation of principal;
- B. Moderate growth in principal to offset the effects of inflation; and,
- C. Sufficient income commensurate with safety of principal and current program needs.

Overall investment objectives for long-term funds are:

- A. Achievement of a total annual return, measured on a five-year moving average basis equal to the spending rate (including administrative fees) as determined by the Foundation plus the inflation rate; and,
- B. Within the total return objective, achievement of a reasonably stable level of current income consistent with the need and opportunity of long-term capital appreciation.

Definitions:

- A. Total annual return equals the sum of dividends, interest, realized gains, and other income plus the net impact of market value changes, time adjusted for capital additions and withdrawals, after all transaction costs and management fees, for a given year.

- B. Spending rate, which is equivalent to the sum distributed annually to programs supported by the endowment fund, is to be calculated at the percentage of average market value of the fund as determined by the Foundation. From time-to-time the Board of Directors reviews the financial status of the Foundation and its funds and sets a spending level based on a recommendation of the Investment Committee. This level is set to balance current needs with growth for the future. It is directly related to the Foundation's asset allocation and is generally based on an analysis of historical asset class returns. The Foundation's current spending policy is included in Appendix A.
- C. Inflation rate is the consumer price index as calculated and reported by the U.S. Department of Commerce.

The investment funds of the Foundation are divided into several distinct pools for purposes of investment management: the long-term commingled fund, life income funds, and Investment Alliance funds. The Foundation has adopted a policy of investing endowment and other funds over which it has full investment discretion in commingled management accounts. The returns of all commingled accounts shall be averaged for purposes of allocations to individual funds. This pooling of investments supports closer supervision of the investment portfolio and makes available to all eligible endowment and other funds regardless of size, the advantages of participation in a diversified portfolio of investments.

- A. *Long-Term Commingled Fund (LT)* – The long-term commingled fund represents the major portion of the funds for long-term investment. Within the overall investment objectives, the investment performance goal for management of the long-term commingled fund is to provide better than average returns on investments over the longer term. Moderate volatility in the principal value of the portfolio will not significantly impact the current income distributions, and therefore the portfolio should be designed to emphasize the total return of the fund. It is recognized that returns are cyclical and will vary by assets depending on economic, political, and monetary conditions. To capture the highest level of return with an acceptable level of risk, the investment portfolio shall be balanced to include a wide range of qualified assets. The Foundation's current target asset allocation for the long-term commingled fund, which is reviewed quarterly and revised as deemed appropriate by the Investment Committee, is included in Appendix B. Accordingly, a "total return" approach allows for the distribution of a prudent portion of realized investment gains in addition to current income.
- B. *Life Income Funds (LI)* - Each life income agreement is a separately-invested entity requiring detailed accounting to reflect specific compliance with terms of the trust and applicable federal regulations. The investment objectives as reflected in such agreements vary widely since they are affected by the age, income levels, and needs of the beneficiaries as well as the motives and objectives of the donor. Trusts that require an annual payment of an annuity (a set dollar amount) or a percentage of market value at defined measurement dates are invested for total return. Total return consists of two elements: current yield and capital appreciation. For these trusts, asset allocation and portfolio risk are determined after considering the investment time horizon, required payout, and ability to preserve and enhance the real value of trust corpus. Other trusts, usually "net income trusts", are invested to maximize current yield or donor considerations so as to satisfy, to the extent possible, trust income requirements.

- C. *Investment Alliance Funds* – Each Investment Alliance fund consists of the long-term assets of a particular component fund (or possibly a pooled group of funds) managed by selected investment firms approved through the Foundation’s Investment Alliance Program. Each Investment Alliance Program manager must comply with these Investment Policies as well as with the policies and procedures specific to the Investment Alliance Program, which are described in Appendix C.

There may be situations where donor restrictions, income requirements, a short investment time horizon or other considerations make certain funds inappropriate for commingling with endowment assets. In such cases, the President, with the concurrence of the Investment Committee, will have the discretion to administer the investment of those assets in accordance with the constraints imposed. Likewise, the President has the discretion to invest idle operating funds in accordance with the existing Board resolution.

#### **IV. SELECTION AND EVALUATION OF AND STANDARDS FOR INVESTMENT MANAGERS**

##### Selection:

It is the policy of the Foundation to seek out the best investment management available compatible with the investment objectives for each type of fund. Each manager will be expected to provide a quarterly report in the format specified by the Investment Committee and to be available to meet with the Investment Committee at least once a year. Managers may be replaced at the discretion of the Investment Committee. The Investment Committee will select the best proposal(s) from qualified investment cooperatives, money management firms, and/or trust divisions of major banks displaying the following attributes among other pertinent factors:

- A. Well-defined investment philosophy that gives the manager a discernable competitive advantage;
- B. Verifiable record that the firm has faithfully executed its philosophy over time;
- C. Stable and cohesive management team;
- D. Reasonable amount of assets under management for the philosophy;
- E. Access to a continuous stream of suitable investment opportunities;
- F. Proven capacity to deliver reasonably uniform results to all clients’ assets to which the philosophy is applied;
- G. Satisfactory returns versus a relevant benchmark;
- H. Proven capacity to adapt to changes in financial markets;
- I. Proven willingness to invest adequately in its own business (including technological resources);
- J. Competitive fee structure;
- K. A custodian for the assets which is acceptable to the Investment Committee; and,
- L. Adequate commitment to the Foundation.

##### Evaluation:

Managers’ investment performance will be compared to an appropriate benchmark most closely aligned with the fund’s objectives and style. Such benchmark indices may include, but are not limited to, the S&P 500 Index, the Wilshire 5000 Index, the Russell Indices, the MSCI indices, the

Barclay's Aggregate Bond Indices, the Bank of America/Merrill Lynch Bond Indices, the FTSE indices, or a blended benchmark such as The Investment Fund for Foundations (TIFF) Constructed Index. The portfolio performance will also be evaluated over the longer term in comparison to an absolute benchmark, such as CPI plus 5%.

Investment managers will be reviewed on an ongoing basis to ensure continued adherence to the above stated selection criteria. With the exception of private investment vehicles which have longer investment horizons, investment managers will be evaluated on their ability to meet or exceed the total return of their relevant benchmarks over a five-year moving period, net of investment management fees.

Standards:

Investment managers retained by the Foundation must agree that;

- A. The Foundation is the sole owner of assets held in the fund;
- B. All such assets are and must remain under the Foundation's sole control;
- C. The manager's actions and performance will be overseen by the Investment Committee;
- D. The manager will adhere to the Foundation's asset allocations, risk tolerance, and rebalancing requirements;
- E. The manager will not purchase securities on margin or sell securities short without the advance approval of the Investment Committee;
- F. The manager will rebalance as necessary to fall within the described target ranges for the investment pool or fund under management. The manager will review the need for rebalancing at least quarterly.
- G. The manager agrees to fees that are reasonable and consistent with what the Foundation pays other money managers for similar services;
- H. The agreement may be terminated at any time and assets will be transferred to the Foundation immediately upon termination.
- I. The manager and/or the custodian will provide monthly statements including asset and transactions reports to the Foundation not later than the tenth business day following month end. The statements shall include the current market value of the assets, the cost basis and date of acquisition, income received, distributions made, fees paid, and securities transactions. The statement shall also include gains and losses, both realized and unrealized. The manager and/or custodian shall also provide periodic (typically quarterly) statements of performance net of fees, including performance relative to appropriate benchmarks. The Foundation may request additional information from time to time as it deems necessary to measure performance; the manager and/or custodian will provide special reports as reasonably requested.
- J. The manager must agree to distribute to the Foundation such sums as the Foundation may request from time to time, including the Foundation's administrative fee for any fund under separate management and distributable income.
- K. The Foundation will not pay any investment professional or any other party for referring a donor to the Foundation and no existing funds of the Foundation will be transferred to such a person as compensation for a referral.
- L. The manager will advise the Foundation promptly of any event that is likely to adversely affect the management, professionalism, integrity, or financial position of the manager's firm or its progress toward the goals and objectives of this policy.

- M. The manager and/or custodian will communicate immediately any concerns regarding portfolio transactions or valuation, or material changes in personnel, procedures, or organizational structure.
- N. The manager will not invest any part of the Foundation's assets through transactions that involve self-dealing or an actual or perceived conflict of interest.

Additional responsibilities and requirements for Investment Alliance partners are included in Appendix C.

Managers will signify their acceptance of these standards and the entire investment policies (including applicable appendices) by signing the certification included in Appendix D of these polices. This requirement will not apply to investments in vehicles such as hedge funds, funds of funds, or private investments governed by their own participation agreements or to the Foundation's direct investments in mutual funds or exchange traded funds.

## V. ELIGIBLE SECURITIES AND INVESTMENT RESTRICTIONS

The following types of instruments will be eligible investments for inclusion in the various pools as indicated:

<b>Type of Security</b>	<b>LT Fund</b>	<b>LI Funds</b>	
Common and preferred stocks and convertible securities traded on U.S. security exchanges or publicly available in the U.S. over-the-counter market, including mutual funds, exchange-traded funds and other pooled assets comprised of these securities	Yes	Yes	
Derivative instruments including but not limited to swaps, options, and futures.	Yes	Yes	
Private investments including but not limited to hedge funds and limited partnerships (such as venture capital, buyout, and long-short equity hedge funds)	Yes	No	
Fixed-income or other debt securities	Yes	Yes	
Pooled real estate and resource investments	Yes	No	
Pooled investments in foreign equity or fixed-income securities	Yes	Yes	

LT Fund = Long-Term Commingled Fund

LI Funds = Life Income Funds

### Investment Restrictions:

Except by approval in advance by the Foundation's Investment Committee, investment managers may not invest directly:

- A. More than 5% at cost of the portfolio of the pool in the securities of any one issuer except securities issued by the U.S. Government or its agencies;
- B. For the purpose of exercising control of management; and,
- C. In commodities, warrants, or letter stock.

Managers of registered mutual funds or funds of mutual funds selected by the Investment Committee are not subject to these restrictions.

Non-permanent, short-term funds of the Foundation are to be invested in only short-term investment vehicles whereby the principal is subject to minimal risk.

Excess Business Holdings:

The Pension Protection Act of 2006 amended the Internal Revenue Code to limit ownership of closely-held business interests in a donor advised fund. The Foundation's policy to ensure compliance with these restrictions is included in the Asset Development Policy.

Liquidity:

The Investment Committee will monitor the liquidity of the portfolio to ensure the Foundation has sufficient cash for its grantmaking and operations.

**VI. REPORTING**

In order to ensure the Board of Directors and the Committee are able to fulfill their duties with respect to prudent management of the portfolio, the Foundation's designated staff liaison for the Investment Committee will provide detailed reports at least quarterly to the Committee. Such reports shall include, though not be limited to, performance of the investment portfolio, actions taken with respect to the investment portfolio, and expected changes in investments.

The Chair of the Committee (or designee) will report to the Board of Directors on the status of the investment portfolio and any actions taken by the Committee at each Board meeting.

**VII. Approval Dates**

Date of Board Approval – original policy:	August 14, 1986
Date of Board Approval – revision:	December 8, 1992
Date of Board Approval – revision:	February 10, 2003
Date of Board Approval – revision:	March 21, 2006
Date of Board Approval – revision:	December 15, 2011
Date of Board Approval – revision:	December 17, 2015
Date of Board Approval – this revision:	May 19, 2016



**APPENDIX A**  
**EAST TENNESSEE FOUNDATION**  
**INVESTMENT POLICIES**  
**TOTAL RETURN CONCEPT AND SPENDING RATE**

**Overview:** East Tennessee Foundation is entrusted with the investment management of its funds and with carrying out the grantmaking wishes of its donors in the best interests of East Tennessee communities. East Tennessee Foundation seeks through its investment policy to maintain or increase the real value of the endowment principal and its distributions over the long-term while funding current needs at an appropriate level.

**Total Return Concept:** East Tennessee Foundation believes the Total Return Concept (TRC) is the most effective way to invest permanent funds - that there is more to successful investing than merely maximizing current income and that capital appreciation over time can be significant. Under the TRC, the income plus the appreciation (total market value) of the Foundation's assets, averaged over time, are taken into consideration in determining available grant dollars for each year's distribution. The TRC allows East Tennessee Foundation to set a spending level that is independent of the income earned by the Foundation's funds and which may be more or less than the actual income earned by interest and dividends in any one year.

Averaging each fund's total market value over time smoothes out market volatility and the effects of new donations. Spending rates calculated in this manner do not produce inordinately high levels of distributions because of high market rates nor do they produce detrimental low levels because of market declines. New funds and unusually large donations will be taken under advisement for possible adjustments to the average market value on which distributions are calculated.

**Primary Benefits of the Total Return Concept:**

**Donors** can be assured that their funds are being managed in an effective manner that balances current demands and future needs.

**The Investment Committee and Investment Managers** will be encouraged to design long-term strategies aimed at providing a proper balance between income and long-term growth and not subject to sudden shifts in interest rates or market value. Investment managers will not be forced to focus their investment strategy on required distributions from income alone.

**The Community and Grant Recipients** will have a predictable flow of funds to respond to East Tennessee's charitable needs and interests. Because distributions are based on a rolling average of the market value of the Foundation's assets, the amount available for distribution should slowly increase over time due to contributions and a responsible spending rate.

In summary, the TRC allows the Foundation to be consistently responsive to near-term needs while positioning its funds to maintain purchasing power and grantmaking capability over the longer term.

## **Determination of the Spending Level and the Current Rate:**

From time-to-time the Board of Directors reviews the financial status of the Foundation and its funds and sets a spending level based on a recommendation of the Investment Committee. This level is set to balance current needs with growth for the future. The Board adopted the current 4½% annual spending level for grant distributions (not including administrative fees) to be calculated on a rolling average of twelve quarters of ending market values. This rate is directly related to the Foundation's asset allocation and is generally based on an analysis of historical asset class returns. The spending rate will be reviewed annually by the Investment Committee.

Two separate analyses are conducted in determining and monitoring the current spending rate. A thorough review is periodically made of spending policies and rates of other community foundations across the country as well as other endowed institutions. The majority of community foundations with assets over \$5 million spend a fixed percentage each year, and 68% of public and private institutions of higher learning spend a pre-specified percentage of a moving average of market values. Most institutions have set that level at 4 – 5½% of asset value. Also, more specifically for East Tennessee Foundation, analyses are performed of the Foundation's purchasing power and payout rate using a hypothetical model that applies various spending rates to historical returns and administrative fees. Nominal and real (after inflation) ending values are calculated.

**APPENDIX B**  
**EAST TENNESSEE FOUNDATION**  
**INVESTMENT POLICIES**  
**LONG-TERM COMMINGLED FUND TARGET ASSET ALLOCATION**

Asset allocation, as a percent of the total market value of the long-term commingled fund, ensures a balanced and diversified investment portfolio to capture the highest level of return within an acceptable level of risk. The Investment Committee is responsible for setting the target asset allocation among the major categories of investments and for monitoring that the commingled fund’s investments are within permissible ranges. The target allocation is subject to change from time-to-time by the Investment Committee as it deems prudent and consistent with Foundation investment objectives.

The Investment Fund for Foundations (TIFF) Multi-Asset Fund (MAF) has been the Foundation’s primary investment vehicle since November, 2011. In October 2015, TIFF instituted a new, simpler framework (called the Constructed Index) for presenting the Multi-Asset Fund’s asset allocation. The new Constructed Index includes three broad investment categories that use terms familiar to constituents that make it simpler to describe investment decisions and results. At its March 31, 2016 meeting, the Foundation’s Investment Committee recommended that ETF adopt a similar framework for its Target Asset Allocation. This Target Asset Allocation was adopted by the ETF Board of Directors at its meeting of May 19, 2016.

The actual asset allocation will vary from both the TIFF Constructed Index and the ETF Target because of tactical decisions by the Investment Committee or by TIFF and asset managers within the MAF and other investment vehicles.

<u>Category</u>	<u>Function in ETF Portfolio</u>	<u>ETF Target Range</u>	<u>TIFF Constructed Index</u>	<u>Benchmark</u>
Equity-oriented Assets, including: <ul style="list-style-type: none"> <li>• Global Equity</li> <li>• High Yield Bonds</li> <li>• Resource-Related Equity</li> <li>• REITs</li> </ul>	Primary driver of long-term returns	55-75%	65%	MSCI All Country World Index
Diversifying Strategies, including: <ul style="list-style-type: none"> <li>• Hedge Funds</li> <li>• Asset-Backed Securities</li> <li>• Commodities</li> <li>• Opportunistic Credits</li> </ul>	Generate meaningful returns while reducing sensitivity to equity market	15-25%	20%	Merrill Lynch Factor Model
Fixed Income, including: <ul style="list-style-type: none"> <li>• Cash</li> <li>• Conventional Bond</li> <li>• TIPS (inflation-protected securities)</li> </ul>	Provide diversification, liquidity, and income	10-20%	15%	<ul style="list-style-type: none"> <li>• 2/3 Barclays US Intermediate Treasury Index</li> <li>• 1/3 BofA Merrill Lynch US 6-Month Treasury Bill Index</li> </ul>
			100%	CPI + 5% TIFF Constructed Index

**MSCI All Country World Index** tracks large-capitalization stocks worldwide.

**Merrill Lynch Factor Model** seeks to approximate hedge fund beta by tracking the S&P 500, Russell 2000, MSCI EAFE, MSCI Emerging Markets, euro-dollar spot exchange rate, and cash, allocated via an algorithm.

**Barclays US Intermediate Treasury Index** tracks Treasuries of 1- to 10-year maturities.

**BofA Merrill Lynch US 6-Month T-Bill Index** tracks the current 6-month US Treasury bill.

**APPENDIX C**  
**EAST TENNESSEE FOUNDATION**  
**INVESTMENT POLICIES**  
**INVESTMENT ALLIANCE PROGRAM**

**I. PURPOSE**

The purpose of the Investment Alliance Program is to increase charitable giving in East Tennessee through a cooperative effort between the Foundation and selected investment management firms. The Investment Alliance Program consists of a formal business relationship between the Foundation and each Investment Alliance partner whereby both the Foundation and each partner will provide its clients and customers with new product offerings. It is the goal of the Foundation that it and the Investment Alliance partners will market the Alliance Program in ways that will increase and broaden philanthropy in East Tennessee. Through training sessions, seminars, special events, and marketing materials, Investment Alliance partners are encouraged to grow and increase assets for investment management.

**II. SELECTION AND EVALUATION OF AND STANDARDS FOR INVESTMENT ALLIANCE PARTNERS**

Selection:

The Board has authorized the Investment Committee to approve investment managers (including Investment Alliance Program managers). Potential Investment Alliance partners must complete the “Request for Information” Form to be considered for participation in the Program. The Investment Committee will review the Form at its quarterly meeting and determine whether or not to approve the application. The Investment Alliance applicant will be contacted by staff regarding the Committee’s decision. Approval of the Investment Alliance partner is contingent upon their acceptance of these investment policies (including applicable appendices), indicated by signing the certification included in Appendix D. Investment Alliance relationships may be discontinued at the sole discretion of the Investment Committee.

Evaluation of Investment Performance:

Although the standards for investment performance are specifically stated in this policy, the relationship with each Investment Alliance partner will be subject to many other variables. The final judgment on retention of any relationship shall include not only the quantitative aspects of performance as determined by this policy statement but also any qualitative aspects of the business alliance as determined by the Investment Committee and Board of Directors from time to time.

The primary investment objective of the long-term Investment Alliance funds is stated in the Investment Policies, III. The secondary objective for the Investment Alliance funds is to outperform a blended index weighted 70% in the Wilshire 5000 Index and 30% in the Barclay’s Capital US Aggregate Bond index. Individual Investment Alliance partners may be assigned other benchmarks that are more closely aligned to their objectives and style.

Individually managed Investment Alliance fund portfolios will be monitored on a continual basis for consistency in each manager’s investment philosophy, return relative to objectives, investment risk as measured by asset concentrations, exposure to extreme economic conditions, and market volatility.

Portfolios will be reviewed by the Investment Committee on a quarterly basis, but results will be primarily evaluated over rolling five-year periods. The Committee will regularly review managers in order to confirm that the factors underlying performance expectations remain in place.

#### Standards and Responsibilities:

Investment Alliance partners retained by the Foundation must agree that;

- A. The Foundation is the sole owner of assets held in the fund;
- B. All such assets are and must remain under the Foundation's sole control;
- C. The Investment Alliance partner's actions and performance will be overseen by the Investment Committee;
- D. The Investment Alliance partner will adhere to the Foundation's asset allocations, risk tolerance, and rebalancing requirements;
- E. The Investment Alliance partner will not purchase securities on margin or sell securities short without the advance approval of the Investment Committee;
- F. The Investment Alliance partner will rebalance as necessary to fall within the described target ranges for the investment pool or fund under management. The manager will review the need for rebalancing at least quarterly.
- G. The Investment Alliance partner agrees to fees that are reasonable and consistent with what the Foundation pays other money managers for similar services;
- H. The agreement may be terminated at any time and assets will be transferred to the Foundation immediately upon termination.
- I. The Investment Alliance partner and/or the custodian will provide monthly statements including asset and transactions reports to the Foundation not later than the tenth business day following month end . The statements shall include the current market value of the assets, the cost basis and date of acquisition, income received, distributions made, fees paid, and securities transactions. The statement shall also include gains and losses, both realized and unrealized. The Investment Alliance partner and/or custodian shall also provide periodic (typically quarterly) statements of performance net of fees, including performance relative to appropriate benchmarks. The Foundation may request additional information from time to time as it deems necessary to measure performance; the Investment Alliance partner and/or custodian will provide special reports as reasonably requested.
- J. The Investment Alliance partner must agree to distribute to the Foundation such sums as the Foundation may request from time to time, including the Foundation's administrative fee for any fund under separate management and distributable income.
- K. The Foundation will not pay any investment professional or any other party for referring a donor to the Foundation and no existing funds of the Foundation will be transferred to such a person as compensation for a referral.
- L. The Investment Alliance partner will advise the Foundation promptly of any event that is likely to adversely affect the management, professionalism, integrity, or financial position of the Investment Alliance partner's firm or its progress toward the goals and objectives of this policy.
- M. The Investment Alliance partner and/or custodian will communicate immediately any concerns regarding portfolio transactions or valuation, or material changes in personnel, procedures, or organizational structure.
- N. The Investment Alliance partner will not invest any part of the Foundation's assets through transactions that involve self-dealing or an actual or perceived conflict of interest.
- O. The Investment Alliance partner understands that failure to comply with any requirement of this investment policy will lead to termination of the Investment Alliance partnership.

### III. ASSET ALLOCATION AND INVESTMENT GUIDELINES

The Investment Committee will determine which types of instruments may be utilized by each Investment Alliance Partner after reviewing their application and/or performance history. The following types of instruments will be eligible investments for inclusion in Investment Alliance funds and pools:

Type of Security	Investment Alliance Funds
Common and preferred stocks and convertible securities traded on U.S. security exchanges or publicly available in the U.S. over-the-counter market, including mutual funds, exchange-traded funds and other pooled assets comprised of these securities	Yes
Derivative instruments including but not limited to swaps, options, and futures (except as utilized in mutual funds, exchange-traded funds, and other pooled assets as described above)	No
Private investments including but not limited to hedge funds and limited partnerships (such as venture capital, buyout, and long-short equity hedge funds)	No
Fixed-income or other debt securities	Yes
Pooled real estate and resource investments	No
Pooled investments in foreign equity or fixed-income securities	Yes

#### Asset Allocation:

The Investment Committee has established long-term allocation targets (and permissible ranges) for the following asset classes:

Asset Class	Target Allocation	Range
Equities	70%	60% - 80%
Fixed Income	30%	20% - 40%

There is not a target allocation for non-U.S. equities or fixed income securities for the Investment Alliance funds. Investment Alliance partners may, at their discretion, invest their portfolio in pooled investments in foreign equities or fixed income securities up to a maximum of 15% of the total portfolio.

Investment Alliance partners are to keep the allocations within the defined ranges, rebalancing to within the range if the limits are exceeded. It is recommended to use cash additions and withdrawals to the Investment Alliance funds to rebalance whenever possible, avoiding unnecessary transaction costs or manager disruption.

#### Investment Guidelines:

- A. The Investment Alliance partner will be responsible for making all investment decisions on a discretionary basis regarding all assets placed under their management and will be accountable for achieving the investment objectives indicated herein. Such discretion shall include decisions to buy, hold, and sell securities in amounts and proportions reflective of their current investment strategies and compatible with Foundation investment guidelines
- B. It shall be the policy of the Foundation to be fully invested to the maximum extent possible. Any excess cash and short-term fixed income holdings should be minimized except as required to meet distribution needs. It is recognized that at any point in time an Investment Alliance fund may not be fully invested. For asset allocation purposes these cash investments shall be considered in the asset classes with which they are associated. In turn, the Investment Alliance partner's performance will be evaluated on the total amount of funds in each portfolio, including any cash component, against the appropriate benchmark that has no cash component.
- C. The purchase and sale of securities will be made through nationally recognized, licensed brokers in a manner designed to achieve the best combination of executed prices and competitive commission rates.
- D. The equity portfolio is expected at all times to be prudently and statistically diversified to avoid undue exposure to any single economic sector, industry group, or individual security.
- E. The fixed income portfolio shall: maintain an overall weighted average credit rating of "A" or better by Moody's or "AA" or better by Standard & Poor's, hold no more than 15% of the portfolio in investments rated below investment grade (below Baa/BBB); or maintain a duration within +/-20% of the effective duration of the benchmark index.
- F. Custody – The custodian for assets under an Investment Alliance partner's management will be determined by the Investment Committee at the time the partner relationship is established.

East Tennessee Foundation Investment Policies apply to the Investment Alliance funds. The Investment Alliance partners are expected to respect and observe the specific limitations, guidelines, attitudes, and philosophies stated in the Investment Policies and this Appendix, or as expressed in any written amendments or instructions. Signature of the certification included in Appendix D will constitute a ratification of these policies, affirming the belief that Investment Alliance partners are realistically capable of achieving the objectives within the stated guidelines and limitations.

#### **IV. ADDITIONAL REQUIREMENTS AND RESTRICTIONS**

Additional requirements, investment guidelines, and restrictions for the Investment Alliance Program are as follows:

- A. Minimum Account Size: The minimum amount for participation as an Investment Alliance partner is \$1,000,000.
- B. New Funds Only: Only new gifts to the Foundation are eligible to be included in an Investment Alliance Program account.
- C. Endowed Funds Only: Only endowed funds of the Foundation are eligible to be included in an Investment Alliance Program account.
- D. Fees: The Foundation's base administrative fee ranges from 1.25% to 1.5% depending on the size and type of fund. A tiered structure of reduced fees is in place on balances

greater than \$250,000. For example, the annual administrative fee for a donor advised fund of \$1,000,000 is \$8,125 (81.25 bps). The investment management and custodial fee charged in the Investment Alliance Program are in addition to the Foundation's administrative fee. It is expected that Investment Alliance partners will charge a competitive investment fee, preferably at an institutional rate, depending on the size of the account and the nature of the Investment Alliance partner.

- E. Alliance Relationship after Death of Donor: Upon the death of the fund's original donor, the agreement between the Foundation and the Investment Alliance partner will normally terminate upon the death of the donor.
- F. Self-Dealing: Donors and fund advisors may not act as investment managers and the Investment Committee will not approve any investment manager who is a member of the donor's family or any investment firm controlled by the donor or fund advisor either individually or together with members of the donor/advisor's family.
- G. Fee Disclosure: The Investment Alliance Partner must disclose all fees that the Investment Alliance Partner and his/her firm will receive either directly or indirectly related to this account.

## **V. ACCOUNT STRUCTURE**

Without special arrangement and approval by the Investment Committee, Investment Alliance partners will invest the total assets of the Investment Alliance relationship, not each individual gift or trust. The Foundation will be responsible for the unitized accounting on the Foundation Funds within the Investment Alliance. The Foundation's database will allocate the percentage investment allocations on a pro-rata basis among the Funds within the pool



**APPENDIX D  
EAST TENNESSEE FOUNDATION  
INVESTMENT POLICIES  
CERTIFICATION OF ACCEPTANCE BY INVESTMENT PROFESSIONALS**

I have received, read, and understand the East Tennessee Foundation's Investment Policies, including appendices A-D, dated December 17, 2015. I will abide by the Investment Policies with respect to the assets for which I am the investment manager, investment consultant, custodian, or other investment professional.

I will notify the Foundation's Investment Committee, or its designee, in advance of any proposed investment that is inconsistent with these Policies, and I will not make such investment without the advance written approval of the same.

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Title