

CENTRE COUNTY COMMUNITY FOUNDATION, INC.

Statement of Investment Objectives and Policies

Approved July 29, 2004

Revision Approved February 9, 2006

I. DESCRIPTION OF THE FOUNDATION

The Centre County Community Foundation, Inc. (the “Foundation”) is a collection of donations from private citizens and organizations that, in aggregate, form a fund. The fund supports grant making to selected charities within the community and the operating expenses of the Foundation.

The Foundation is a publicly supported charitable organization under Section 501(c)(3) of the Internal Revenue Code. Its purpose is to be a vehicle to receive and accept gifts to be administered for charitable purposes primarily in and for the Centre County Region of Pennsylvania.

II. PURPOSE OF STATEMENT

This Statement of Investment Objectives and Policies (the “Statement”) is intended to:

- A. Outline the investment-related responsibilities of the Board of Directors, the Investment Committee, the Foundation staff and the providers of investment services retained to assist with the management of the Foundation.
- B. Establish formal investment guidelines incorporating prudent risk parameters, appropriate asset guidelines and realistic return goals.
- C. Provide a framework for regular constructive communication between the Board, the Committee, the staff and the Foundation’s providers of investment services.
- D. Create standards of investment performance by which the Investment Managers agree to be measured over a reasonable time period.
- E. Review this statement periodically by the Board of Directors and the Investment Committee to ensure the relevance of its contents to current capital market conditions and the needs of the Foundation.

III. INVESTMENT COMMITTEE

The Board of Directors of the Foundation (the “Board”) has established an Investment Committee (the “Committee”). While the Board bears the overall fiduciary responsibility for the Foundation, the Committee shall recommend to the Board the specific investment policy for the Foundation and shall be responsible for its day-to-day guidance, monitoring and oversight.

A. RESPONSIBILITIES

The specific duties and responsibilities of the Committee shall be to:

1. Recommend investment objectives and policies to the Board of Directors as outlined in this statement;
2. Recommend investment service providers for the Foundation and monitor performance;
3. Provide the Board with information regarding fund investment structure and performance against established objectives and policies;
4. Monitor the investments with regard to the Foundation’s fiduciary considerations;
5. Recommend specific asset allocation percentage targets;
6. Establish specific asset allocation targets for each investment agent;
7. Periodically review and recommend withdrawal policy to the Board for grant-making;
8. Periodically review and recommend withdrawal policy to the Board for operating costs.
9. Recommend removal of investment service providers;
10. Negotiate and recommend to the Board compensation arrangements for investment service providers;
11. Receive, review and retain the reports of the investment service providers and other external reports on the financial condition of the Foundation, including receipts, disbursements and investment performance.

B. COMMITTEE OPERATION

1. The Committee shall meet as required, but not less than four times each year.
2. The actions of the Committee shall be recorded in formal minutes.

3. The Committee may adopt procedures necessary to conduct its affairs.
4. The Committee may authorize members or agents to execute or deliver any instrument on its behalf.
5. The staff of the Foundation is authorized to carry out all administrative functions required by Committee action.

IV. INVESTMENT POLICY

A. LONG-TERM GOALS

The long-term goals of the Foundation's investment and spending policy will be:

1. To protect the assets of the Foundation and strive to maximize the total return to the extent possible without assuming excessive risk;
2. To provide a relatively predictable, stable and inflation adjusted payout stream for grant-making and operations;
3. To maintain a balance between spending and protecting the real (i.e., inflation adjusted) value of the Foundation's assets.

B. INVESTMENT RETURN AND RISK PARAMETERS

1. Annualized Return

The objective is to achieve an annualized total return that, at a minimum, will grow the assets by the rate of inflation, after having allowed for grant-making and operating expenses.

2. Total Return

Investment objectives will be achieved using a total return strategy, where long-term return may come from both market value increases (realized and unrealized capital appreciation) and/or from current yield (interest and dividends).

3. Volatility

In light of the Foundation's long-term horizon and limited liquidity needs over and above withdrawal policies, the fund can assume volatility consistent with a long-term investment return objective. The asset allocation and investment agent guidelines are designed to provide a balance that will avoid concentrations in any single asset class, risk level and manager style.

C. INVESTMENT CONSIDERATIONS

1. Liquidity

Liquidity needs are low. Except for investment purposes and spending requirements, the fund requires no sizable liquid reserves. In addition, investing in marketable securities will enable the fund to raise cash on short notice as necessary. The lack of liquidity needs would permit investments in assets not readily liquid should the Board deem it appropriate.

2. Time Horizon

The funds have a long time horizon, which is typical for most foundations. The horizon extends well beyond a normal market cycle, and for the purposes of investment strategy, can be considered to be in “perpetuity.”

3. Laws and Regulation

Historically, most endowment and foundation funds were governed by state regulations, which embraced the Prudent Man Rule. The Prudent Investor Rule has gradually replaced this standard, and on June 25, 1999, Pennsylvania enacted this rule. The Prudent Investor Rule places greater emphasis on investment decisions in the context of the whole portfolio or strategy; no specific investment or course of action, taken alone, is considered inherently prudent or imprudent. By contrast, for the outdated Prudent Man Rule, each investment would individually be judged prudent or imprudent. The Prudent Investor concept is consistent with the goals of the Committee.

4. Tax Consideration

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Consequently, tax considerations are not a meaningful constraint, other than the fact that securities with tax-exempt features should be avoided.

5. Other

Guided by the Prudent Investor Rule, the Investment Committee and the Foundation’s investment agents shall consider only financial criteria in formulating investment policies and decisions, unless specifically directed to do otherwise in a definitive manner by the Board of Directors.

V. WITHDRAWAL POLICY

A. WITHDRAWALS FOR GRANT-MAKING

1. The Committee's recommendation regarding withdrawals for grant-making will be formula based and consistent with donor instruction.
2. For the purpose of this formula, the asset base will be equal to a five-year moving average of quarterly market values, ending the third quarter of each year.
3. The entire allocation will be available on the first business day of the following year.
4. Any amounts from the prior year's allocation which remain unspent may be carried forward.

B. WITHDRAWALS FOR OPERATIONS

The Board may use a percentage of the Foundation's asset base for operations. The same conditions outlined above (2 - 4) in grant-making apply to operations.

VI. ASSET ALLOCATION AND REBALANCING GUIDELINES

Asset allocation is widely recognized as the single most important determinant of long-term returns. The asset allocation guidelines and targets are designed to strike a balance among several competing objectives: Maximizing long-term investment returns, hedging against disasters (inflation and deflation) and moderating year-to-year volatility.

The Investment Committee will recommend to the Board specific percentage asset allocation targets. The major asset categories will be: Equities, Fixed Income, Cash, Discretionary, and Other Assets. A change in the asset allocation guidelines can be proposed at any time to the Board by the Committee. The current Board policy for asset allocation is attached in Exhibit #1.

The allocation targets will be maintained by using cash inflows or outflows to rebalance the funds among asset classes and investment service providers. If cash flows are not sufficient, the Committee or the investment agents will rebalance the components to the appropriate target levels.

Asset allocation will be based on market value.

VII. PORTFOLIO GUIDELINES

A. Equities

The purpose of the Foundation's equity investment portfolio is to provide total return. The equity portfolios shall consist of marketable securities that may be purchased on recognized exchanges in the U.S. and, in the case of international stocks, throughout the world. In any case, the following restrictions apply:

1. The equity securities of any one corporate issuer should not exceed 5% of the equity portion, based on market value, of any manager's portfolio.
2. Broad diversification must be maintained by holding the portfolio within ten percentage points of the S&P sector weighting.
3. For these purposes, regulated investment companies (mutual funds) shall be considered and evaluated based on the underlying holdings as to their asset classes and concentration. Moreover, mutual funds shall not be considered derivative securities unless their underlying holdings contain or rely heavily on such holdings for their performance.

B. Fixed Income

The purpose of the Foundation's fixed income portfolio is to preserve principal by hedging against deflation, provide stability in the level of current income, and limit the volatility of the total fund. The following restrictions apply: Securities shall be diversified and be limited to obligations of U.S. Government and its agencies, and corporate obligations regarded as investment grade by Moody's and Standard and Poors.

Where fixed income mutual funds are employed, each fund's average rating should be regarded as investment grade, consistent with the foregoing.

C. Cash

Cash includes short-term (maturity less than one year) fixed income instruments issued by the U.S. Government or its agencies, high quality corporate debt securities or money market instruments and bank certificates of deposit. Any cash position in the portfolios will be included in the calculation of total return.

D. Discretionary

The Discretionary allocation is designed to give the investment agents additional flexibility to structure their overall asset mix to seek greater return, or lower risk, or greater diversification, or a more defensive positioning. The following guidelines apply:

1. Any investments that are acceptable under sections A., B., or C. of the Portfolio Guidelines are acceptable for this allocation.
2. Agents may invest in publicly traded mutual funds that may help meet the goals described above. These investments could include, among others:
 - a. Sector fund (such as REITs, technology, health care, energy, precious metals, etc.)
 - b. Commodity funds (such as a real asset fund, natural resources, timber funds, etc.)
 - c. High Yield Bond funds
 - d. Market Neutral, Hedge, or Absolute Return funds
 - e. Emerging Market funds
3. If purchases of individual equities or fixed income securities are undertaken, no more than 5% of the Discretionary allocation may be invested in any one corporate issuer.

E. Other

Other investments may be considered by the Committee when the need occurs. These may result from gifts to the Foundation or recommendations for alternative asset classes.

F. Restricted Securities

Under the Prudent Investor Rule, there is no individual investment that is per se imprudent; rather, each investment is judged in the context of the entire portfolio. However, this Investment Policy does restrict some individual investments outside of a mutual fund context. Some examples are included, but not limited to, those listed below:

1. Purchasing and selling commodities or commodity contracts.
2. Selling securities short.
3. Purchasing securities on margin.
4. Writing, purchasing, or selling naked options.
5. Derivative securities, except (a) mutual funds as provided above, and (b) hedging transactions, limited to exposure, for principal protection.
6. Non-publicly traded securities

Any questions that arise about acceptable or unacceptable investments should be directed to the Investment Committee.

VIII. INVESTMENT AGENTS OF THE FOUNDATION

A. INVESTMENT PROGRAM

The minimum threshold to establish a new investment management account is \$500,000. The Foundation also allows investment managers to establish a “step-up account” with an initial gift of \$100,000 and build to the \$500,000 minimum within five years. If the account fails to reach \$500,000 within the five years, the Foundation Board may elect to redistribute the money among other investment management accounts held by the Foundation.

Investment agents must assume the following responsibilities:

1. To acknowledge in writing acceptance of the objectives, guidelines and performance benchmarks as defined in this Statement of Investment Objectives and Policies, and to invest the assets of the Foundation accordingly.
2. To exercise full discretionary authority for funds under management as to all buy, hold, and sell decisions for each security under management, subject to the guidelines as defined in this Statement.
3. To rebalance the asset classes in the portfolio as deemed appropriate by the investment agent to comply with Board policy.
4. To recommend changes in this Statement based upon material and sustained changes to capital markets.
5. To protect securities by using insurance, i.e. SIPC, or by segregating such as in a bank trust department.

B. REPORTING

1. Investment agents shall produce a statement at the end of each quarter displaying the cost, market values, and percentage distributions for each separate portfolio asset class.
2. Investment agents shall produce a statement soon after the end of each quarter demonstrating the time-weighted rates of return for the latest quarter, trailing year, and year-to-date, if appropriate. These reports shall include the performance of the relevant benchmark.

Time-weighted rate-of-return performance measures allow comparisons to recognizable indices. This method corrects for the biases stemming from additions to and withdrawals from investments.

Return calculations should employ AIMR standards.

C. REVIEW MEETINGS

At the request of the Committee, but not less than once each year, each investment agent will participate in a review meeting, the agenda to include:

1. A review and reappraisal of the investment program.
2. A commentary on investment results in light of the appropriate standards of performance.
3. A synopsis of the key investment decisions made by the Agent, the underlying rational, and how those decisions could affect future results.
4. A discussion of the Agent's outlook, what specific investment decisions this outlook may trigger and how these decisions could affect future results.

D. COMMUNICATION

Each Investment Agent is responsible for maintaining communication with a designee of the Committee on all material matters pertaining to investment policies and the management of the Foundation's assets. In particular, each Investment Agent will:

1. Provide timely notice of any material changes in its investment outlook, strategy, and portfolio structure.
2. Provide timely notice of material changes in its firm ownership organizational structure, financial condition, senior staffing and management that could substantially affect the ability of the agent to manage the assets of the Foundation, where permissible by law.
3. Provide timely notice of involvement in any litigation or regulatory investigation relating to the organization's investment activities that could substantially affect the ability of the agent to manage the assets of the Foundation.

IX. REVIEW PROCESS FOR INVESTMENTS

Investment performance review of all portfolios will be conducted quarterly to ascertain progress against the objectives of the Foundation. The quarterly reports should cover three basic areas:

- returns,
- comparison of returns to benchmarks and a peer group of similar portfolios,
- compliance with relevant policies and objectives.

Beyond these customary reviews, certain circumstances or events, as outlined below, will trigger automatic formal reviews and where appropriate, reconsideration by the Investment Committee of the appropriateness of continuing to use the affected agent. None of these circumstances or events shall serve as automatic cause for changing investment agents, but will merely indicate the need for review.

A. DISAPPOINTING RELATIVE PERFORMANCE FOR OVERALL ALLOCATION

1. Five-year cumulative return significantly trails benchmark index;
2. Ranking of portfolio's five-year return against peer group is significantly below median;
3. Ranking of portfolio's one-year return against the peer group is significantly below median.

B. FUND MANAGEMENT ORGANIZATION CHANGES

1. Turnover of portfolio manager or other personnel significant to the portfolio management process;
2. Ownership change;
3. Involvement in relevant regulatory investigation or litigation.

C. DEVIATION FROM INVESTMENT METHODS THAT BUILT HISTORICAL RECORDS

1. Aggregate assets are insufficient to ensure broad diversification, efficient trading, and economies of scale;
2. Assets grow too large to be managed in a manner similar to methods that built historical record;
3. Portfolio characteristics do not match stylistic expectations;
4. Significant change in fees.

D. RELATIVE OVERALL PERFORMANCE IN EXCESS OF EXPECTATIONS

1. Ranking of portfolio's five-year cumulative return is dramatically above the median;
2. Ranking of portfolio's one-year return versus peer portfolios is dramatically above the median.

E. BENCHMARK INDICES

Each component asset class of the Foundation will be measured against the appropriate benchmark:

<u>Asset Class</u>	<u>Index</u>
U S. Large Cap Stocks:	S&P 500 Index
U.S. Small Cap Stocks:	Russell 2000 Index
Non-U.S. Stocks:	Morgan Stanley Capital International Europe Australia, Far East: (EAFE) Index
Fixed Income:	Lehman Aggregate Bond Index
Real Estate:	Frank Russell NCREIF Property Index
Cash:	U.S. Treasury Bills
Discretionary:	70% S&P 500 Index/30% Lehman Aggregate

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Approved July 22, 2003

EXHIBIT #1 - BOARD POLICY REGARDING ASSET ALLOCATION

	<u>Range</u>	<u>Target</u>
Equities:		
Large Cap	30 - 40%	35%
Small Cap	5 - 15%	10%
International	10 - 20%	<u>15%</u>
Total Equities	45 - 75%	60%
Cash	0 - 5%	0%
Fixed Income	25 - 40%	30%
Discretionary	0 - 15%	<u>10%</u>
		100%