INVESTMENT POLICY STATEMENT

Battle Creek Community Foundation, including Subsidiaries, Supporting Organizations and Affiliates

Approved on: March 25th 2014

Last revised: March 21st 2014

Introduction

This Investment Policy Statement ("Policy") has been developed to establish the philosophy, principles and parameters that govern the investment management of the endowed financial assets ("Portfolio") of the Battle Creek Community Foundation including its subsidiaries, supporting organizations and affiliates ("BCCF"). The Policy is intended to cover all funds of BCCF, including Donor Advised funds. The Policy also provides details to be used in the Portfolio's day-to-day investment management activities delegated to the Portfolio Manager ("Manager").

I. Purpose and Scope

The primary purpose of the Portfolio is to support the mission of BCCF in such a way that the Portfolio can provide for annual spending and also sustain value over time, to benefit both existing and future needs of BCCF, without assuming inappropriate risks. Therefore, BCCF's time horizon with respect to the assets in the Portfolio is of infinite horizon and managed in perpetuity.

The Policy is intended to serve as a guide for the management of the Portfolio toward its stated investment objectives, with clear and mutual understanding among all involved parties including Board, Committee, staff and Manager(s). It defines the responsibilities of all involved parties, sets out the Portfolio's investment objectives and limitations, establishes long-term strategic asset allocation, and provides a basis for evaluating performance of the Manager(s).

Additionally, the Policy is established with the intention of being sufficiently specific to be meaningful, yet flexible enough to be practical. This means the Policy should not change frequently and that short-term capital market fluctuations should not necessitate Policy adjustments. However, it is expected that the Policy will be reviewed periodically or on an as-needed basis to ensure alignment with current investment thinking, forward-looking expectations and best practices. While changing economic and market conditions may make it impossible to precisely mirror all aspects of this Policy at any point in time, this Policy is to serve primarily as a general framework within which BCCF's Portfolio assets are to be managed.

In seeking to achieve the stated investment objectives, the Board and Committee have a fiduciary responsibility to exercise prudence and appropriate care in accordance with the State of Michigan's enacted version of the Uniform Prudent Management of Institutional Funds Act (2009). All investment actions and decisions must be based on what is in the best interest of the Portfolio and the charitable purposes of BCCF.

BCCF will consider the following factors in making investment decisions:

a. General economic conditions;
b. The possible effect of inflation or deflation;
c. The role that each investment plays within the overall investment portfolio;
d. The expected total return from income and the appreciation of investments;
e. Other assets of BCCF;

f. The needs of BCCF to make distributions and to preserve capital;
g. An asset's special relationship or special value, if any, to the charitable purposes of the fund.

BCCF also contains funds that are held in cash equivalent vehicles intended to provide immediate liquidity and short-term access without investment risk. Staff, under the supervision of the Finance and Investment Committee, will determine which funds are to be held in cash equivalents.

II. Roles and Responsibilities

The Board of Trustees of BCCF has delegated policy setting responsibility to the Finance and Investment Committee. In carrying out its responsibilities, the Committee establishes investment policy, makes asset allocation decisions, determines asset class strategies and retains portfolio managers to implement asset allocation and asset class strategy decisions. The Committee recommends the results of such endeavors for the approval of the Board.

Finance and Investment Committee – The Committee has been established by the Board, with Committee members appointed by the Nominating Committee and approved by the Board. The Committee is responsible for ensuring that appropriate policies governing the management of the Portfolio are in place and that they are implemented. In carrying out its responsibilities, the Committee makes recommendations to the Board on the following:

1. Establishing the Policy,
2. Approving revisions made to the Policy,
3. Making prudent asset allocation decisions or delegating those decisions to an appropriate fiduciary,
4. Retaining Portfolio Manager(s) to help determine and implement asset allocation and asset class strategy decisions,
5. Monitoring and supervising all service vendors involved with assets of the Portfolio, and
6. Taking corrective action by replacing a manager if they deem it appropriate at any time, unless that authority is delegated to an appropriate fiduciary.

With the assistance of staff and the Manager, the Committee will meet regularly as outlined in its charter and review performance of the Portfolio and compliance with Policy. The Committee may appoint subcommittees, either permanent or temporary, to address specific tasks relating to the oversight of the Portfolio. The Chair of the Committee reports to the Board on a periodic basis regarding the performance and other Portfolio-related matters as necessary.

Staff – Designated members of BCCF's Finance and Investments staff are responsible for the day-to-day implementation, monitoring and administration of the Portfolio. Staff assists the Committee to review performance of the Portfolio and ensure its compliance with Policy guidelines. The staff also serves as the primary contact with portfolio managers, consultants and other external service providers.

Portfolio Manager ("Manager") – The portfolio manager(s), as selected and retained by the Committee, will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within the guidelines, constraints and philosophies as outlined in this Policy. The Manager's responsibilities may include, but are not limited to, services in the areas of asset allocation, Policy revision, portfolio strategy implementation, performance monitoring and evaluation, and portfolio rebalancing. If the services in aggregate or parts are deemed to be fiduciary in nature, this must be acknowledged in a written fiduciary agreement between the portfolio manager and BCCF. Within the constraints imposed by this Policy, the Manager will have total discretion to manage the Portfolio in a manner consistent with mutually-agreed upon investment guidelines and responsibilities delineated in the fiduciary agreement. Investment strategy and implementation choices should be reported to the Committee at quarterly review meetings. The Committee reserves the right to revoke or suspend the Manager's discretion as they deem appropriate.

Custodian and/or Performance Measurement Service Provider(s) – BCCF may appoint one or more service providers, which may fall within the assignment of the Manager, responsible for the safekeeping and reporting of Portfolio assets.

III. Long-Term Objectives

The financial objective of BCCF is to preserve the purchasing power of the Portfolio over time while also seeking growth consistent with prudent levels of risk. This means enhancing the real (i.e. inflation-adjusted) market value of the Portfolio while providing a relatively predictable and growing (in nominal terms) stream of revenue to BCCF's funding needs, targeted at 5% of Portfolio assets over a long-term horizon, defined as rolling ten-year periods.

Specifically, the Portfolio's annual investment objective is to earn a total return, net of fees and expenses, equal to or exceeding annual spending plus an appropriate inflation rate, designated as the one-year change in the Consumer Price Index, or CPI. In addition, the Portfolio seeks to attain a total return exceeding both the target Portfolio composite benchmark and a relevant universe median (e.g. non-profits of similar size) while incurring a reasonable and prudent level of risk, which will be defined by the target asset allocation and portfolio benchmark.

Time Horizon - While the Portfolio is managed in perpetuity, it is also expected to provide a steady and sustainable annual cash flow stream for financial needs of BCCF. To account for both objectives, the strategic asset allocation is established based on a long-term investment horizon of 10 years and greater, with sufficient latitude to allow for shorter term and interim fluctuations in underlying asset strategy and asset class values.

IV. Strategic Asset Allocation Framework

A Portfolio allocation framework is the principal method through which the Portfolio is designed to achieve the above long-term objectives. The allocation is based upon applicable investment time horizon and the limits of appropriate and acceptable risk. The framework recognizes that in such a design, asset classes and investment strategies are selected primarily due to the role they play in the Portfolio. A pure asset class allocation approach is eschewed since this approach takes a relatively narrow definition of underlying Portfolio components, and often obfuscates the risk and intention of the particular investment. A roles-based approach establishes the strategic direction and composition of the Portfolio via asset roles to achieve long-term objectives, thus allowing for sufficient breadth and flexibility in implementation.

Within the context of total portfolio management, the roles framework and allocation approach enables the Manager to dynamically shift underlying investment components to timely leverage market opportunities and navigate through market risks, thus maximizing potential for the Portfolio to achieve its long-term objectives. In setting the Portfolio allocation driven by the roles framework, risk and return will largely be a function of portfolio composition, or the underlying asset mix set by weights allocated to each portfolio role. While some assets may fill more than one role in the Portfolio, the primary role is identified by the dominant source(s) of risk that is expected to drive an investment’s long-term risk/return behavior and secondarily, how the investment is utilized by the Manager within the total portfolio.

The framework broadly classifies asset classes and investment strategies into distinct portfolio roles: Growth and Risk Reducing / Diversifying. Further details on the roles framework can be found in Appendices A and B, and Portfolio allocation can be found in Appendix D.

V. Rebalancing Policy

Periodic rebalancing is necessary to keep the Portfolio allocation from shifting too far from Policy guidelines. The allocation found in Appendix D represents a long-term perspective. As such, the Committee recognizes that rapid unanticipated market shifts or changes in economic conditions may lead to wide deviations from the allocation targets and range. Generally, these divergences should be of a short-term or tactical nature in response to fluctuating market environments. It is recognized that short-term deviations can also occur from periodic short-term impediments imposed by illiquidity of private market investments. The decision making and initiation of trades to fulfill rebalancing needs is delegated by the Committee to the Manager. The Committee reserves the right to enforce a rebalancing, outside of the periodic schedule, to remain within the allocation found in Appendix D.

VI. Performance and Risk Guidelines

Performance Objectives

The performance of the Portfolio will be measured quarterly on both an absolute and relative basis.

The Committee will conduct a performance review of the Portfolio Manager at its discretion and at least every three years.

Total Portfolio

1) ***Absolute Performance:*** As stated previously, the desired financial objective is to earn a long-term rate of return, net of fees, equal to or exceeding annual spending plus inflation. The Committee recognizes that market performance varies widely in the short-term and that the time period for evaluation should be expected to be 10 years or greater.

2) ***Relative Performance*****:** The Portfolio's composite benchmark will equal the sum of each underlying investment / fund benchmark weighted by its target allocation. This will be established and agreed upon by BCCF and the Portfolio Manager. Performance comparisons will be made over various time periods, with particular attention paid to rolling full market cycles. The performance of total portfolio will also be compared, at least annually, to an appropriate peer group universe.

Permissible Investments - Permissible investments will be defined by the Manager according to the strategy specified for the respective investments selected after consultation with staff and/or the Committee. The specific investment policies and guidelines of a particular investment strategy will override guidelines in this Policy. However, it is intended that any investment strategy selected will be managed within the spirit of the Policy and fulfill its designated strategic portfolio role. The Manager may also have an operating agreement with BCCF as a supplement to this Policy to better define the execution and strategies that will be deployed in implementing this Policy.

Risk Tolerance

The Committee recognizes the difficulty of consistently achieving investment objectives in light of the uncertainties and complexities of investment markets. The Committee also recognizes that some risk (i.e. volatility) must be assumed in order to achieve long-term investment objectives.

Risks that should be avoided include: the constant changing of policy or strategy based on recent market conditions; an extremely aggressive investment posture that could restrict liquidity and limit flexibility; or an extremely conservative posture that could, over time, reduce the real contribution made by the Portfolio to funding needs.

The Portfolio allocation is expected to provide sufficient portfolio diversification in order to achieve an aggregate risk (volatility) for the Portfolio that is similar or lower than that of a policy benchmark weighted to match the asset mix of the Portfolio and calculated annually. The holding of an individual security shall not exceed 5% of the total funds managed without Committee approval.

While the Committee has delegated manager selection to the Manager, underlying investments should be invested such that no single underlying manager, or manager-of managers, shall be allocated more than 20% of total Portfolio assets. As well as ensuring appropriate diversification of risk, this provision is intended to prevent violation of the excess business holdings rules for assets held in funds legally defined as donor advised funds as required by the Pension Protection Act of 2006. Investment strategies and funds with benchmarks are expected to meet or exceed benchmark net of fees at similar or lower levels of absolute volatility on an annual basis.

VII. Policy Review

The Committee will establish, approve, and revise as necessary appropriate investment policies objectives and strategies for all Portfolio assets. It will regularly review the implementation of the Investment Policy and monitor the attainment of financial and investment objectives. Any change to the main body of the Investment Policy Statement requires the approval of the Committee.

VIII. Spending Policy

Income available for spending is determined by a total return system. The amount to be spent in the coming year is calculated in the fourth quarter of each fiscal year reviewed and approved by the Committee and the Board of Trustees annually as part of the budgeting process.

The "income" that may be spent as determined in this paragraph, may be drawn down from both ordinary income earned and appreciation, both earned and unearned. All income and appreciation not needed to meet spending needs is credited directly to the appropriate fund within the Foundation and invested in accordance with this policy.

IX. Conflicts of Interest

<u>This section is intended to supplement, but not replace, any formal Conflicts of Interest policy and/or documentation that exist outside of this Policy and any applicable state and federal laws governing conflicts of interest.</u>

Conflicts of interest in daily fund management, selection of portfolio managers or funds and personal investing will be avoided at all times. Members of the Committee and those members of BCCF's staff who may participate in decisions and discussions relating to the management of the Portfolio shall not have a pecuniary relationship with any manager, strategy or fund being considered unless it has been disclosed by the affected member and he or she abstains from taking any vote on the hiring or dismissal of any such manager. No independent Investment Consultant retained by the Committee, or any entity, in which such consultant may have an interest, shall be a party to any transaction with, or have a financial or other interest in, any portfolio manager providing services to the Committee. Furthermore, any personal investment in closed or restricted access strategies or funds also owned by or recommended for BCCF shall be reviewed by the Investment Committee to ensure it creates no conflict of interest or even the potential of a conflict of interest.

For purpose of this Policy, a conflict of interest is defined as any situation in which decisions made or discussed by those with responsibility for managing investments could substantially and directly affect their financial or business interests. Such conflicts in daily fund management, selection and dismissal of portfolio managers, strategies or funds will be avoided at all times. While an individual's investment in funds either owned or recommended for the Portfolio does not necessarily represent a conflict of interest, the members of the Committee and staff are expected to disclose such interests to the Committee and abstain from any vote on the selection or dismissal of any such manager in which the member has an interest. Should any member of the Committee, any trustee or any member of staff desire to invest in such a fund subsequent to the Portfolio's investment, he or she may do so only if the fund would have permitted the investment independent of the Portfolio's investment and on the same or comparable terms offered to other investors. Furthermore, no independent Investment Consultant shall be a party to any transaction with, or have a financial or other interest in, any portfolio manager providing services to the Committee.

Appendix A
Portfolio Investment Role Strategy Statement - Growth

The purpose of this Statement is to further define asset classes and investment strategies that serve the “Growth” role within the Organization’s Policy and to set forth the respective investment objectives and strategic guidelines.

Strategic Role

- Invest in a diversified portfolio that may include, but not be limited to: Global Equities including Domestic, International Developed, Emerging Markets, liquid real assets such as listed infrastructure, commodities and Real Estate Investment Trusts (REITs), natural resources (public or private), return-seeking fixed income such as high yield, and long/short equity strategies.
- Achieve returns in excess of passive indexes through the selective use of active investment strategies and managers, where active management is deemed appropriate by the Manager.

Strategies

- Opportunistic approach to investing “Growth” assets, which are dominated by equity market beta, by combining funds and separate accounts invested in a dynamic mix of asset classes and strategies for long-term asset growth, which may include making frequent or minor adjustments to the portfolio as relative investment opportunities arise in light of current and projected investment environments.
- Retain active management for the purpose of achieving added value, with diversification provided through multiple managers/strategies; emphasize active management in areas where the market is deemed less efficient and passive management in areas where the market is deemed more efficient.

Investment Objectives

- The investment objective is to provide a total return greater than the designated Growth composite benchmark.
- Peer-relative performance comparisons with managers employing similar styles may also be considered, especially when performance deviates meaningfully from market indices.
- These investment objectives are expected to be achieved over the long term and are measured over at least a 10 year period.

Monitoring and Control

- The returns and portfolio characteristics for the strategy are reported quarterly to monitor progress towards longer-term investment objectives.
- Due diligence meetings with managers may be held at least annually by the Manager to review Portfolio results, as well as to discuss guidelines and expectations.
- Consistent inability to meet investment objectives or significant organizational events will trigger a review of a manager/strategy by the Manager.

Appendix B
Portfolio Investment Role Strategy Statement – Risk Reducing / Diversifying

The purpose of this Statement is to further define asset classes and investment strategies that serve the "Risk Reducing/Diversifying" role within the Organization's Policy and to set forth the respective investment objectives and strategic guidelines.

Strategic Role

- Invest in a portfolio that may include, but not limited to: Domestic core fixed income, long duration fixed income, global fixed income, low duration fixed income, low volatility hedge funds, such as Relative Value strategies, Absolute Return Bond strategies, Tactical Trading strategies, and tail-risk hedging strategies.
- Diversify the Organization's "Growth" portfolio by investing in investment strategies and securities that exhibit a lower correlation to equity market beta, lower volatility and/or greater downside protection in periods of stress environments.
- Enhance the total portfolio's risk/return profile through responding to changing market conditions and macro environments.
- Maintain a diversified exposure within the "Risk Reducing/Diversifying" portfolio and achieve returns in excess of passive indexes through the use of active managers and strategies.

Strategies

- Diversify the portfolio across investment strategies and securities that ensure broad participation in consistent yield and total return generation at lower absolute volatility than other segments of the total portfolio.
- Opportunistically increase risk reducing effect through risk hedging implementation strategies based on forward-looking market conditions and as deemed appropriate by the Manager.

Investment Objectives

- The investment objective is to provide a total return greater than the designated Risk Reducing/Diversifying composite benchmark. It should also provide effective diversification against market beta risk and a stable level of cash flow.
- These investment objectives are expected to be achieved over the long term and are measured over at least a 10 year period.

Monitoring and Control

- The returns and portfolio characteristics for the strategy are reported quarterly to monitor progress towards longer-term investment objectives.
- Due diligence meetings with managers may be held at least annually by the Manager to review portfolio results, as well as to discuss guidelines and expectations.
- Consistent inability to meet investment objectives or significant organizational events will trigger a review of a manager/strategy by the Manager.

Appendix C
American Fund Local Broker Program

The American Funds Local Broker Program is a subset of BCCF's investment portfolio. The accounts that comprise this portfolio are managed by local brokers in the Battle Creek area. The American Funds portfolio shares the long term objectives that are articulated in this Policy. The American Funds portfolio will be invested in publicly traded mutual funds offered by American Funds that will as closely as possible follow the portfolio allocation outlined in Appendix D below.

Staff, under the supervision of Finance and Investment Committee, will determine which assets are placed in this Program. A task force made up of the local brokers that hold these accounts, members of the Finance and Investment Committee and staff will review and a recommend an asset allocation for these funds on an annual basis.

Appendix D
Portfolio Allocation

Portfolio Role	Policy Target	Approved Ranges
Growth	65%	60% - 70%
Risk Reducing / Diversifying	35%	30% - 40%

BCCF's policy is to invest the Portfolio according to the above allocation. The asset classes and investment strategies that fall within the portfolio roles are detailed in Appendices A and B.

The Manager will periodically report to the Committee, no less than at quarterly intervals, specific allocations to underlying investment strategies and funds that fall within the roles-based allocation ranges above.