

**DELAWARE COMMUNITY FOUNDATION
ENDOWMENT FUNDS**

INVESTMENT POLICY

Adopted: June 30, 2005

Revised: May 16, 2006

Purpose

The Delaware Community Foundation (DCF) is a nonprofit organization that promotes and administers charitable Endowment Funds to benefit the people of Delaware. The Board of Directors (Board) has adopted this Investment Policy to provide a framework for the investment management of the Endowment Funds.

The DCF Board and its delegates will discharge their duties with respect to the investment of the Endowment Funds solely in the interests of the DCF:

For the exclusive purposes of providing the financial benefits for which the Endowment Funds were established and defraying reasonable expenses of administering them;

With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;

By diversifying the investments of the Endowment Funds so as to minimize the risk of large losses, unless doing so is clearly not prudent under the circumstances; and

In conformity with the Bylaws and other policies adopted by the Board.

Delegation of Authority

The **Board** is responsible for the oversight of all funds entrusted to its care, including the adoption of policy regarding the Endowment Funds' investment management.

The **Investment Committee** of the Board is responsible for recommending and implementing such policy. In addition, the Investment Committee may adopt special investment policies for individual endowment funds with assets up to \$5 million each and \$20 million in aggregate, which require provisions different from the provisions hereinafter. Such investment policies will conform to the spirit of this Investment Policy. The Investment Committee will delegate certain responsibilities to professional experts. These include investment managers, a custodian, and an investment consultant. The Investment Committee may employ additional specialists.

Investment Managers have discretion to purchase, sell, or hold securities as appropriate to meet the Endowment Funds' investment objectives. The Investment Committee will not reserve any control over investment decisions beyond the responsibilities described in this Investment Policy.

An **Investment Consultant** provides services including but not limited to:

Preparing quarterly reports showing securities held and values at cost and market, purchases and sales, reconciliation of beginning and ending market values, portfolio and benchmark sector comparison, and portfolio, benchmark and universe returns of each investment manager; asset class and total Endowment Funds portfolio, benchmark and universe returns; and total Endowment Funds asset allocation;

Performing a quarterly review of the compliance of investment managers and the total Endowment Funds with this Investment Policy;

Conducting manager evaluations and searches;

Providing advice on matters such as market conditions, strategic and tactical asset allocation, investment policy and operations; and

Providing reporting and review for any individual endowment funds operating under special investment policies.

The **Custodian** will maintain possession of securities owned by the Endowment Funds, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Endowment Funds' accounts.

Additional Specialists such as attorneys, auditors, actuaries, bankers, consultants or others may be employed by the Investment Committee to assist in meeting its responsibilities under this Investment Policy.

All **Contracts and Agreements** with parties other than DCF will be subject to this Investment Policy, which will be given to those parties.

Investment Return Objectives

The long-term investment objective of the DCF Endowment Funds is to achieve a total rate of return, net of fees and inflation, which exceeds the Spending Rate established separately by the Board. Plan assets should be invested for total return and

without special emphasis on liquidity or current income, except as needed to make required payments from the Endowment Funds.

The intermediate term (three to five years) investment objectives of the Endowment Funds are: to outperform the total Endowment Funds benchmark and the median return of an appropriate universe, and the benchmarks of each of the asset classes in which the Investment Committee grants investment management mandates; and for each investment manager to outperform its benchmark(s) net of fees, and the median manager in a universe appropriate to its mandate. The total Endowment Funds benchmark and asset classes are defined in the **Asset Allocation** section below.

Manager Selection

The Investment Committee will select investment managers who will be held accountable for investing in securities to achieve DCF's investment objectives as described herein, and in other directives of the Board or Investment Committee which establish the investment managers' mandates. The Investment Committee will employ investment managers with a diversified blend of styles so as to reduce risk while meeting the investment return objectives of the Endowment Funds.

Asset Allocation

The Investment Committee will direct the diversified investment of the Endowment Funds among asset classes in order to achieve a balance of return and risk. Asset classes, allowable ranges and performance benchmarks are shown in the following table. Periodically, the Investment Committee will establish the strategic asset allocation of the total Endowment Funds, expressed as percentage weights of the asset classes listed in the table below or asset subclasses within them. The total Endowment Funds benchmark will be based on benchmarks of the asset classes or subclasses, weighted according to the strategic asset allocation.

The Board has determined that the asset allocation policy may incorporate alternative asset classes, in addition to traditional stock, bond and cash investments. Currently, the portfolio utilizes Hedge Funds as a risk management strategy. The use of alternative assets is appropriate for the portfolio given the potential for higher risk-adjusted returns, lower volatility and capital protection in difficult markets. Because alternative investments historically have a low correlation to other asset classes, they can add diversification benefits and improve a portfolio's long-term performance.

<u>Asset Class</u>	<u>Allowable Range</u>	<u>Benchmark**</u>
U.S. Large Capitalization Equities	25-60%	Russell 1000
U.S. Mid and Small Capitalization Equities	0-30%	Russell 2000
Foreign Equities	0-20%	MSCI EAFE
Total Equities	55-75%	
U.S. Investment Grade Fixed Income	15-35%	Lehman Aggregate
U.S. High Yield Fixed Income	0-10%	Lehman High Yield
Foreign Fixed Income	0-10%	Lehman Global Agg. Ex U. S.
Total Fixed Income	15-35%	
Total Alternatives***	0-15%	Various.

**Asset class benchmarks apply to the primary asset class within which each investment manager's mandate lies. Additional benchmarks relevant to an individual manager's style may be specified by the Investment Committee.

The Investment Committee will consider the allocation of assets in order to ensure conformity with allowable ranges at least four times each year. Where actual holdings fall outside of an allowable range, the Investment Committee will adopt a plan to bring holdings into range within one year or less. The Board may authorize deviation from these allowable ranges where appropriate to achieve the objectives of the DCF.

Guidelines set forth below in "Authorized Investments" and "Additional Limitations and Restrictions" apply to the Fund's traditional investment managers. These guidelines and restrictions will not necessarily apply to the Fund's alternative investments. Investment guidelines for alternative investments will be evaluated individually prior to the Fund's investment decision.

Authorized Investments

U. S. Large Capitalization Equities: Stocks included in the Russell 1000 Index, and associated preferred stocks.

U. S. Mid and Small Capitalization Equities: NYSE, AMEX, or Nasdaq National Market listed stocks not included in the Russell 1000 Index.

Foreign Equities: Publicly traded stocks listed on foreign national exchanges or trading as sponsored American Depository Receipts of non-U.S. domiciled companies.

At least 50% of the market value of foreign equity holdings will be in stocks of companies domiciled in countries included in the MSCI EAFE Index.

U. S. Investment Grade Fixed Income: Dollar denominated cash equivalents and publicly traded bonds, notes, Rule 144-A private placements, mortgage-backed securities, convertible bonds, and other debt obligations of U. S. domiciled issuers.

Cash equivalents must have a final maturity of 13 months or less; at least 95% must be rated A1/P1 and the balance A2/P2. Remaining debt obligations must be rated investment grade by Standard & Poor's (BBB- or higher) or Moody's (Baa 3 or higher), or be included in the Lehman Aggregate Index.

Duration of U. S. investment grade fixed income holdings will fall within 1-1/2 years of the duration of the Lehman Aggregate Index.

U. S. High Yield Fixed Income: Debt obligations that are rated below investment grade by Standard & Poor's (BB+ or lower) and Moody's (Ba1 or lower), or that are included in the Lehman High Yield Index.

Foreign Fixed Income: Debt obligations of entities domiciled outside the U. S. or its territories and possessions that are not included in the Lehman Aggregate.

No more than 3% of the market value of total fixed income holdings will be in foreign fixed income issues rated below investment grade by Standard & Poor's or Moody's.

Exceptions to these authorized investments are permitted only where consistent with the objectives of the DCF and with prior approval of the Board.

Additional Investment Limitations and Requirements

Cash equivalents held by equity managers: An equity investment manager may invest up to 10% of its portfolio in cash equivalents as defined above on a temporary basis. Cash holdings above 10% for more than one week require notification of the Investment Committee. Holdings above 20% require Investment Committee approval.

Equity issuer and sector limits: The following limits apply unless superseded by specific guidelines established by the Investment Committee for an individual investment manager. The market value of the stocks of a single issuer will not exceed 8% of an investment manager's equity portfolio at the time of purchase. Likewise, the market value of stocks in the same economic or geographic industry will not exceed 20%.

Fixed income issuer and sector limits: The following limits apply unless superseded by specific guidelines established by the Investment Committee for an individual investment manager. The market value of the securities of a single issuer will not exceed 5% of an investment manager's fixed income portfolio at the time of purchase, except for securities of the U. S. Government sponsored entities FNMA and FHLMC, which each will not exceed 25%. The market value of issues in the same economic or geographic sector will not exceed 10%. Securities issued or guaranteed by the U. S. Government or its agencies are not limited by these provisions.

Mortgage-backed securities quality: At least 90% of mortgage-backed securities must be rated AAA.

Derivatives used must relate directly to authorized investments defined above and may include: listed options, including the purchase of puts and calls and the sale of covered calls; listed futures contracts, which must be fully collateralized; currency forwards, futures and options sold to hedge currency exposure of foreign investments; and collateralized mortgage obligations that are rated AAA and are at least as stable as agency pass-through mortgage securities.

Interest only, principal only and inverse floating rate instruments are prohibited, as are other derivatives which involve significant counterparty risk, barriers to entry or exit, or leveraged interest rate sensitivity.

Leverage: The use of leverage is prohibited, except for securities lending programs approved by the Investment Committee.

Mutual funds are permitted investments only where devoted predominantly to investments authorized above and substantially in conformity with provisions of this Investment Policy as they apply to individual investment managers.

Specific guidelines applying to an individual investment manager may be adopted by the Investment Committee, including additional or more restrictive limitations, investment objectives and performance benchmarks.

Contributions in kind to the Endowment Funds will be sold immediately and reinvested in conformity with this Investment Policy. The Investment Committee may approve exceptions where immediate sale would substantially impair the value of the contribution, or result in reduced future contributions by the donor.

Proxies will be voted by the investment managers for the benefit of the Endowment Funds. The DCF reserves the right to direct the vote.

Review

The investment consultant will perform a quarterly review of the compliance of each investment manager with this Investment Policy and any specific guidelines adopted by the Investment Committee, and of the Endowment Funds overall. The investment consultant will promptly notify the Chairperson of the Investment Committee of any actual or potential compliance violation. If an investment manager identifies such a violation, whether or not it was inadvertent, the investment manager will promptly notify the investment consultant and the Chairperson. Where an investment manager is involved, the investment consultant will review the situation with the investment manager. The investment consultant will propose a plan for correction to the Chairperson, who may approve the plan and, if appropriate, immediate action for later ratification by the Investment Committee.

The Investment Committee and the investment consultant will meet at least four times each year to review quarterly and longer-term investment performance and compliance of the investment managers, and the investment performance, asset allocation and compliance of the Endowment Funds as a whole. The intermediate term (three to five years) is the principal time frame for the evaluation of investment performance relative to benchmarks. Each investment manager will make a presentation to the Investment Committee at least every 18 months.

An independent auditor will conduct an annual audit of the Endowment Funds. Such audit will include confirmation of securities held by the custodian, and their market value and earned income.

The Chairperson of the Investment Committee or his or her delegate will represent the Committee at all Board meetings and report on investments of the Endowment Funds and related matters.

The Investment Committee will periodically review this Investment Policy and confirm it or make recommendations to the Board for its revision.

Recommended by the Investment Committee:

Client's Signature

Date

Client's Signature

Date

Delaware Community Foundation
Client's Name (print)

Agreed and Accepted:

Date: _____

By: _____

Deutsche Bank Alex. Brown Acceptance