ARIZONA
COMMUNITY FOUNDATION

Investment Policy Statement

Last Amended: September 12, 2018

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Introduction and Statement of Purpose

The primary objective of the Arizona Community Foundation's ("ACF") investment program is to achieve long-term returns, net of investment expenses, sufficient to meet or exceed annual spending and inflation. These returns allow ACF to grow assets through capital appreciation, preserve the purchasing power of the asset base, and fund ACF's grantmaking and operations.

This Investment Policy Statement applies to certain investment programs of the Arizona Community Foundation. Investment programs that are covered by this Investment Policy Statement are listed under Appendices A - C. Throughout this document, covered investment programs are collectively referred to as the "Investment Programs." From time to time, ACF may add other investment programs to be covered under this Policy.

The purpose of this Policy is to:

- Outline the Investment Programs' objectives,
- Detail the Investment Beliefs that guide the investment strategy of the Foundation,
- Define the governance structure and delegation of roles and responsibilities,
- Define the target asset allocation and ranges around each asset class that reflect the desired risk/return posture of the Investment Programs,
- Outline broad guidelines for the selection of investment managers,
- Define eligible asset classes for investment,
- Define asset class constraints,
- Detail the performance evaluation and review process, and
- Detail the Foundation's spending policy.

Investment Beliefs

Investment beliefs are a statement of the fundamentals upon which the design of the Investment Programs is based. The asset allocation, investment structure and all other investment decisions emanate from these beliefs. The Investment Committee has identified the following beliefs for the Foundation:

- **Belief #1:**

  Defining investment performance objectives, their time horizons and acceptable levels of risk are essential.

- **Belief #2:**

  Asset allocation decisions are key.

- **Belief #3:**

  Investment Program portfolio construction methodology should be sound.

- **Belief #4:**

  Asset classes should be examined in the context of market efficiency and its potential sources of return (beta and alpha).

- **Belief #5:**

  Asset class investment house views should be developed.

- **Belief #6:**

  Portfolio rebalancing discipline is key for effective risk management.

- **Belief #7:**

  Development of staff's knowledge of investment management is beneficial.

- **Belief #8:**

  Establishing and maintaining good governance is fundamental to the success of the investment management program.

An expanded version of the above beliefs along with the supporting rationale can be found in Appendix D.

Performance Goals and Objectives

The goal of the Investment Programs is to generate long-term annualized net total returns, after adjusting for inflation and fees, with an appropriate level of risk sufficient to meet or exceed the spending policy.

The above investment goal will be achieved through the following measurable absolute and relative objectives which will be reported and used to evaluate the success of performance results.

> **Objective #1 (Absolute):** Achieve a net rate of return equal to or greater than the 10-year expected return derived from each Investment Program's Asset Allocation Study.
>
> **Objective #2 (Relative):** Achieve 5- and 10-year rolling annual net rates of return equal to or greater than the returns for each Investment Program's Strategic Asset Allocation Policy benchmark and a public equity/fixed income benchmark.
>
> **Objective #3 (Relative):** Achieve 5- and 10-year rolling annual net rates of return for the Investment Program's strategic asset classes equal to or greater than their respective strategic asset class benchmarks.

Performance Benchmarks

Performance benchmarks are necessary to properly measure and evaluate the success of each Investment Program and strategic asset class utilized. Performance will be based on quarterly time-weighted returns, net of investment management and investment consultant fees, unless otherwise stated. The specific benchmarks for each of the Investment Programs are provided in Appendices A-C.

Performance benchmarks are also necessary to properly measure and evaluate the success of each investment manager. Performance of investment managers will be based on quarterly time-weighted returns, net of investment management fees, unless otherwise stated.

Style appropriate benchmarks and peer groups will be determined when each investment manager is retained. Over rolling five- and ten-year periods, net of fee returns should outperform the style specific benchmark and peer group.

Spending Policy

The Foundation is a permanent institution. As a result, it has adopted stable long-term policies that increase the likelihood of achieving its objectives. These policies begin with the spending policy. The recommended distribution rate for endowed funds and voluntary guidance for non-endowed funds will be based on the nominal return projection for the Foundation's Long-Term Pool, net of expected inflation and expenses. Specific details of the Foundation's spending policy are in Appendix E.

Standard of Conduct

In managing and investing the Investment Programs, the Investment Committee shall:

- act in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances;
- incur only costs that are appropriate and reasonable in relation to the assets, the purposes of the Foundation and the skills available to the Foundation;
- make a reasonable effort to verify facts relevant to the management and investment of the Investment Programs;
- make investment decisions considering, among other factors, the following:

  (a) the charitable intent of the institution and the specific purpose of funds being invested,
  (b) the possible effect of inflation or deflation,
  (c) the duty and loyalty imposed by state law,
  (d) the general economic environment, and
  (e) the needs of the organization to make distributions and to preserve capital.

Governance

The Investment Committee will comply with ACF's By-Laws and the following governance structure:

- The Investment Committee will meet at least quarterly.
- The Investment Committee will consist of a minimum of six members selected from both within the Board and community, and appointed by the Executive Committee with ratification by the Board.
- Term limits will be consistent with the limits for all ACF Committees as outlined in the By-laws of the Foundation.
- The Chair of the Investment Committee will be a member of the Board and such an appointment will be made by the Chair of the Board for a two-year term, with ratification by the full Board.
- The Chair of the Investment Committee will periodically, on behalf of the Committee and on call, report to and review the activities of the Committee with the Executive Committee and Board.

Roles and Responsibilities

The table below summarizes the primary roles and responsibilities for investment decision-making and oversight.

Activity	Board	IC	CFO	CIO	Consultant
Strategic Asset Allocation Policy	Approve	Approve & Recommend	Review	Recommend	Recommend
Spending Policy	Approve	Approve & Recommend	Review	Recommend	Recommend
Investment Policy Statement	Approve	Approve & Recommend	Review	Recommend	Recommend
Consultant (Hiring/Firing)	Notification	Approve	Review	Recommend	N/A
Investment Managers (Hiring/Firing)	Notification	Approve	Review	Recommend	Recommend
Rebalancing	Notification	Notification	Review	Approve	Recommend
Custodian (Hiring/Firing)	Advanced Notification	Advanced Notification	Approve	Approve	Recommend

Responsibilities of the Investment Committee

- Recommend to the Board for approval the Investment Program Strategic Asset Allocation Policy (SAAP) which is expected to achieve its investment goals and objectives.
- Recommend to the Philanthropic Services Committee and Board for approval ACF's spending policy.
- Recommend to the Board for approval the Investment Policy Statement (IPS) which includes investment goals and objectives, investment beliefs, roles and responsibilities, eligible investments, portfolio restrictions, asset class and investment managers' performance, risk monitoring, evaluation and reporting processes.
- Report to the Board the performance of the Investment Programs.
- Receive and discuss the Investment Programs to ensure compliance with asset allocation policy and ranges, and to review performance and attribution of the Investment Programs, its asset classes, and the investment managers' consistency with regard to their respective policies and guidelines.
- Receive, discuss and approve investment recommendations made by the CIO and investment consultant which include changes to the asset allocation policy, spending policy, the IPS and the hiring and termination of investment managers.
- Engage the CIO and investment consultant in discussions regarding a review of the economy and financial markets, ACF's asset class investment house views (forward-looking) and other topics related to the prudent management of the Investment Programs.
- Receive and discuss rebalancing activity updates consistent with the rebalancing policy.
- Engage the CIO in an annual review of the investment consultant who will report to the CIO. Upon recommendation by the CIO, the Investment Committee will hire, retain or terminate the investment consultant.
- Oversight and review of ACF's Externally Managed Broker Program reports and guidelines with day-to-day operational activities and oversight delegated to the CIO.
- Receive and discuss ACF's Externally Managed Broker Program reports.
- Receive and discuss the Investment Programs' investment risk reports.
- Receive and discuss the Investment Programs' fee reports.
- Receive and discuss peer foundation comparison reports.
- Participate with Foundation management in donor asset development and communications both directly, when requested, and indirectly via alliances within the investment and professional communities.

Responsibilities of the Chief Investment Officer (CIO)

- Manage and utilize the services of the staff, investment consultant, custody bank and other external providers needed to develop, manage, and report on all aspects of the Investment Programs.
- Oversee the day-to-day management of the Investment Programs and manage the programs consistent with its asset allocation, policies, and guidelines as established by the Investment Committee.
- Demonstrate knowledge of the financial markets and the Investment Programs and effectively communicate this information to the Investment Committee and donors.
- Provide the Investment Committee with comprehensive reports regarding the Investment Programs which will include, but not be limited to, portfolio positioning, investment activities, performance relative to objectives, economic and capital markets review and outlook, ACF's House Views and actions taken by the CIO or proposed recommendations that require Investment Committee approval.
- Annually review the IPS with the Investment Committee and, as needed, recommend changes requiring Investment Committee and Board approval.
- Develop and seek Investment Committee concurrence with ACF's Investment House Views which defines the CIO and investment consultant's perspectives on the Investment Program's asset classes and provides evaluation metrics (fundamental, valuation, and sentiment) that represent the basis for asset class rebalancing.
- Meet with the Investment Programs' investment managers and conduct a comprehensive review of their mandate and performance consistent with their guidelines. The CIO will keep the Investment Committee informed of these meetings and recommend appropriate courses of action.
- Receive, discuss and approve investment recommendations made by the investment consultant which include the hiring and termination of investment managers, modifications to the Investment Policy Statement and asset allocation policy, which require approval by the Investment Committee or the Investment Committee/Board.
- Rebalance the portfolio consistent with the Investment Committee approved Investment Program rebalancing policy.
- Maintain, review and report to the Investment Committee on the Investment Programs' investment management fees.
- Hire, retain or terminate the custodian; required concurrence by the CFO and advanced notification to the Investment Committee and Board.

- Oversee the operational activities of ACF's Externally Managed Funds and quarterly preparation of a synthesized advisor oversight report for discussion with the Investment Committee.
- Ensure the Foundation remains in compliance with all applicable laws governing the operation of foundation investments, including but not limited to the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Responsibilities of the Investment Consultant

- Report to and assist the CIO in performing his or her responsibilities to manage and report on the Investment Programs.
- On a quarterly basis, provide the CIO and Investment Committee with an economic and capital markets review, market trends, asset class and investment strategy outlooks, and how these have or may impact the Investment Programs.
- Annually review the Investment Policy Statement and, as needed, recommend changes to the CIO and Investment Committee for consideration.
- On a quarterly basis, prepare and present the Investment Program reports that monitor compliance with the asset allocation policy and ranges, review the performance and attribution of the Investment Programs and its asset classes and investment managers' consistency with their respective goals, objectives, policies and guidelines.
- Assist the CIO in presenting to the Investment Committee recommendations regarding changes to the Investment Programs' asset allocation, investment policies and investment performance guidelines for investment managers.
- Monitor and report to the CIO the positioning of the Investment Programs' asset allocations relative to their policy targets and bands. Provide the CIO with recommendations regarding both mandatory and optional rebalancing; assist the CIO in reporting rebalancing activities to the Investment Committee.
- Monitor the Investment Programs' asset classes and their investment managers and provide reports to the CIO and Investment Committee. Manager reviews should be thorough but concise and include return and risk metrics used to assess and evaluate the managers. The investment consultant should provide their opinion regarding the manager's ability to achieve performance expectations per their guidelines and whether the manager should be retained or terminated.
- Notify the CIO and Investment Committee of any significant changes within each investment manager's organization, including changes in ownership, organizational structure, or professional staffing and, as needed, recommend appropriate courses of action.
- Assist the CIO in the development and reporting of the investment risk reports.

- Develop and present the spending policy analysis to the CFO and CIO for review and concurrence prior to presenting to the Investment Committee, Philanthropic Services Committee, and the Board.
- Prepare an annual comprehensive review of peer foundations.
- Monitor the liquidity of the Investment Program.
- Comply with all applicable state and federal laws and regulations that involve the Foundation as they pertain to the investment consultant's duties, functions, and responsibilities as a fiduciary.
- Provide a copy of Form ADV Part 2A and 2B (brochure and brochure supplements, respectively). As a registered investment adviser with the Securities and Exchange Commission, investment consultants are required to provide to their clients documents, which describe in detail, the firm's consulting and advisory services, business practices, senior personnel, fee structures and other related matters.
- As needed, participate in ACF investment retreats, Investment Committee orientation sessions and assist the CIO regarding servicing the requests of Investment Committee members and donors.

Responsibilities of the Investment Managers

- Manage the Investment Programs' assets in accordance with the investment objectives and guidelines set forth by ACF and terms agreed upon in the manager's contract.
- Provide written documentation of portfolio activity, portfolio valuations, performance data, and portfolio characteristics on a monthly basis in addition to other information as requested by the CIO or investment consultant.
- Work with the custody bank and the investment consultant to reconcile market values and cash flows as required.
- Provide ongoing communication with the CIO and investment consultant regarding portfolio management activities, including, but not limited to: investment returns, changes in the investment manager's investment outlook and strategy, shifts in portfolio construction (asset mix, sector emphasis, etc.), portfolio performance and attribution and changes in the investment manager's ownership, organizational structure, or professional staffing (additions and departures).
- Vote proxies on the securities held in the portfolio in accordance with the manager's fiduciary duties and professional judgement. Separate account investment managers should provide a written report detailing all proxies voted on at least on an annual basis.
- Comply with all laws and regulations that pertain to the investment manager's duties, functions, and responsibilities as a fiduciary of the Foundation.

- Annually provide ACF a copy of the investment adviser's form ADV Part II (SEC required disclosure document) and proof of Liability and Fiduciary insurance.

Portfolio Rebalancing Policy

This policy will reflect the process for identifying and determining potential courses of action regarding portfolio rebalancing decisions relative to the Strategic Asset Allocation Policy (SAAP) and will identify the parties who will initiate, approve, execute and report on such action taken.

Rebalancing activities will be initiated as the result of one or more of the following events:

- Management of internal and external cash flows
- Adjustments to the Investment Programs' asset class targets as a result of an asset allocation study
- Changes in asset class positioning relative to its policy target and bands

ACF will rebalance asset classes to remain within their respective allocation policy bands. Rebalancing activities will be designated as mandatory or optional depending on whether actual asset class positions reside outside or inside policy bands.

Rules:

1. If the actual asset allocation is outside the policy band, a mandated rebalancing will occur resulting in returning the actual asset class weighting to its policy target or to a position different than its target but within its policy band.
2. If the actual asset allocation is inside the policy band, an optional rebalancing may occur resulting in returning the actual asset class weighting to its policy target or to a position different than its target but within its policy band.

The determination of whether a mandatory or optional rebalancing returns the asset class to its policy target or a position different from its policy target but within its policy band will be made by the CIO and will be consistent with ACF's Investment House Views.

Monitoring, Decision-making and Reporting:

Decisions to rebalance asset classes will be based on the rules denoted above. The investment consultant is responsible for monitoring and reporting to the CIO regarding the asset class positioning relative to its policy target and bands.

The CIO will have the authority to approve both mandatory and optional rebalancings that result in asset class repositioning. Subsequent to the execution, the CIO will inform the IC of this action (and its rationale for) via email and at the next scheduled Investment Committee meeting.

As part of the rebalancing process, the CIO, with input from the investment consultant, will designate which managers’ portfolios will be used, taking into account factors such as timing, execution costs and internal and external cash-flow needs. Both active and passive portfolios may be utilized for rebalancing purposes and, as such, may result in increases or decreases in manager portfolios funding. However, a manager will not be terminated or be defunded to a zero portfolio balance without the approval of the Investment Committee. Such a recommendation will be made by the CIO and investment consultant on an ad-hoc basis or at the next Investment Committee meeting.

From a reporting perspective, performance contributions resulting from any rebalancing actions will be captured in the quarterly Investment Program Performance Attribution Reports which are presented to the Investment Committee. Performance attribution reports will quantify the return benefit or detraction from CIO led rebalancings.

Selection of Investment Managers

The Investment Committee is responsible for appointing investment managers. In selecting an investment manager, the Investment Committee has delegated to the CIO and investment consultant the task of researching and recommending investment managers. In investigating potential managers, the CIO and investment consultant will, as a minimum, use the following procedures:

- Identify a range of possible investment manager candidates.
- Obtain relevant information about the investment managers' experience, qualifications and investment approach.
- Evaluate experience, qualifications and investment approach. Included in this evaluation will be an analysis of past performance and investment management fees.
- Document the selection process.

These procedures are not meant to be all-inclusive. The Investment Committee acknowledges that due diligence for making private market manager selections require additional diligence and, as such, will be included in material presented to the Investment Committee on which to make an informed decision.

Externally Managed Funds

ACF may allow charitable assets to be managed by external advisors, i.e., not managed in ACF investment pools. These external advisors will adhere to ACF’s policies and procedures pertaining to the advisor firms’ qualifications, to the use of designated appropriate ACF investment guidelines and to ACF reporting protocols. Guidance and oversight of these policies and guidelines are under the direction of ACF’s CIO.

Asset Class Definitions

Assets may be held in separate accounts or in pooled investment vehicles (mutual and commingled funds, and limited partnerships). In the case of pooled investment vehicles, the investment guidelines and restrictions defined and detailed by the vehicle will apply. The CIO is responsible for the review of such guidelines and restrictions prior to investment.

The asset class definitions that follow highlight the types of securities and strategies that can be used when the Investment Programs are constructed. In cases where a separate account is employed, the guidelines for each manager will be highlighted in their specific guidelines.

Equity: Public and Private Equity

- Equity, Global Long Only: Includes domestic, international and emerging market common stocks, convertible preferred stocks, exchange traded funds, equity futures and debt securities convertible into equity securities.
  - Considerations/Constraints: International, emerging and global equity managers may employ currency-hedging strategies. The use of futures and options to establish a leveraged position is prohibited.
- Private Equity: May include investments in buyout funds, growth equity and other similar illiquid investments.
  - Considerations/Constraints: Diversification across strategies/sectors, managers, and vintage years will be sought to control risk. Investment commitment pace will reflect, in part, the rate of capital draws and distributions.

Fixed Income: Public and Private Debt

- Public Debt: Liquid securities including, but not limited to, investments in U.S. Treasury and Agency obligations, sovereign bonds, investment grade corporate securities and mortgage and asset backed securities. Exposure can also include below investment grade companies, non-U.S. and emerging market debt.
  - Considerations/Constraints: Managers employed will have the ability to adjust the credit quality, currency and/or interest rate exposure of the specific mandate. Also, use of below investment grade, non-U.S., and emerging market debt is allowable with specific constraints addressed in each manager's specific guidelines. Managers may utilize derivative instruments in order to obtain more efficient exposure to a specific type of security, but are not allowed to be used to leverage a portfolio.
- Private Debt: Focus on illiquid debt investments.

- Considerations/Constraints: These strategies may be opportunistic in nature based on changing capital market opportunities. Leverage may be utilized within the strategy.

Diversifying Strategies

- Diversifying Strategies: Includes multi-asset products such as risk premia, infrastructure, and global asset allocation as well as hedge funds and other strategies that are less correlated to public markets and are designed to offer a better risk and return profile.

  - Considerations/Constraints: Each strategy will be viewed as an investment strategy not as a separate asset class. Investment Program assets will be predicated on an assessment of their specific risk/return attributes, investment vehicles employed to implement those strategies, and an evaluation of their fees, terms, liquidity, etc.

Derivatives

Investments in options, futures and other derivatives are allowed only for hedging purposes or as a substitute for actual securities in cases where the derivatives instrument is a more efficient means of gaining exposure to the underlying securities. Derivatives may not be used in a speculative manner or to leverage the portfolio.

Appendix A

Long Term Pool

Investment Objective: Preserve the purchasing power of assets by investing in a diversified pool targeting capital growth for long-term grant-making.
Risk Profile: Achieve targeted long-term performance expectations while accepting some level of short-term capital market volatility.

Strategic Asset Allocation Policy (Board Approved September 2017):

Asset Class	Target Allocation	Asset Allocation Range
Domestic Equity		
Large/Mid Cap	17.0%	
Small Cap	8.0%	
Subtotal	**25.0%**	**15 – 35%**
International Equity		
International	17.0%	
Emerging Markets	3.0%	0 - 10%
Subtotal	**20.0%**	**10 - 30%**
Private Equity	**10.0%**	**0 – 15%**
Total Equity	**55.0%**	**45 - 65%**
Fixed Income		
Public Debt	10.0%	
Private Debt	15.0%	0 – 20%
Total Fixed Income	**25.0%**	**15 - 35%**
Diversifying Strategies*	20.0%	10 – 30%
Total Diversifying Strategies	**20.0%**	**10 - 30%**
Total	**100.0%**	

*Diversifying Strategies are those that diversify from traditional public equity and fixed income, reside outside ACF's AA policy and/or possess return expectations that may not easily be measured by comparing performance to public market benchmarks.

Strategic Policy Benchmark (Effective 6/1/18): 17% Russell 1000 Index, 8% Russell 2000 Index, 17% MSCI EAFE Index, 3% MSCI Emerging Markets Index, 10% Russell 3000 + 200 basis points, 10% Barclays Capital US Aggregate Index, 15% S&P/LSTA Leveraged Loan Index, 6.7% DJ Brookfield Infrastructure Index, and 13.3% HFRI RV Multi-Strategy Index. An interim benchmark will be used until the LT Pool's investment program achieves the Private Debt 15% target allocation. This will entail using the weighted average of actual allocation between public and private debt within fixed income until Private Debt target allocation is achieved.

Public Markets Benchmark (Effective 6/1/18): 70% MSCI All Country World IMI Index and 30% Barclays US Aggregate Index

Appendix B

Intermediate Term Pool

Investment Objective: Seek capital appreciation in a balanced public equity and fixed income portfolio.

Risk Profile: Provides liquid public market exposure over an intermediate time horizon given a modest expected level of volatility.

Strategic Asset Allocation Policy: (Board Approved September 2017)

Asset Class	Target Allocation	Asset Allocation Range
Domestic Equity		
Large/Mid Cap	20.0%	
Small Cap	8.0%	
Subtotal	**28.0%**	**23 - 33%**
International Equity		
International	19.0%	
Emerging Markets	3.0%	0 - 10%
Subtotal	**22.0%**	**17 - 27%**
Total Equity	**50.0%**	**45 - 55%**
Fixed Income		
Public Debt	50.0%	
Total Fixed Income	**50.0%**	**45 - 55%**
Total	**100.0%**	

Strategic Policy Benchmark (Effective 6/1/18): 20% Russell 1000 Index, 8% Russell 2000 Index, 19% MSCI EAFE Index, 3% MSCI Emerging Markets Index and 50% Barclays Capital US Aggregate Index

Broad Markets Benchmark (Effective 6/1/18): 50% MSCI All Country World IMI Index and 50% Barclays Capital US Aggregate Index

Appendix C

Socially Responsible Pool

Investment Objective: Seek moderate capital appreciation in an environmental, social, and governance (ESG) screened public equity and fixed income portfolio.

Risk Profile: Provides liquid public market exposure over an intermediate to long time horizon.

Strategic Asset Allocation Policy (Board Approved September 2018):

Asset Class	Target Allocation	Asset Allocation Range
Public Equities		
Domestic	39.0%	
International	31.0%	
Total Equity	**70.0%**	**60-80%**
Fixed Income		
Public Debt	30.0%	
Total Fixed Income	**30.0%**	**20-40%**
Total	**100.0%**	

Strategic Policy Benchmark (Effective 9/1/18): 39% S&P 500 Index, 31% MSCI EAFE Index and 30% Barclays Capital US Aggregate Index

Broad Markets Benchmark (Effective 9/1/18): 70% MSCI All Country World IMI Index and 30% Barclays Capital US Aggregate Index

Appendix D

Investment Beliefs

Investment beliefs are a statement of the fundamentals upon which the design of the Investment Programs are based. The asset allocation, investment structure and all other investment decisions will emanate from these beliefs. Investment beliefs should be a product of careful analysis and the collective experiences and wisdom of the Investment Committee and the CIO.

Belief #1: Defining investment performance objectives, their time horizons and acceptable levels of risk are essential

- **Objective #1:** Achieve a net rate of return equal to or greater than the 10-year expected return derived from each Investment Program's Asset Allocation Study.
- **Objective #2:** Achieve 5- and 10-year rolling annual net rates of return equal to or greater than the returns for each Investment Program's Strategic Asset Allocation Policy benchmark and a public equity/fixed income benchmark.
- **Objective #3:** Achieve 5- and 10-year rolling annual net rates of return for the Investment Program's strategic asset classes equal to or greater than their respective strategic asset class benchmarks.

Consistent with the asset classes in which they reside, investment managers' performance will be evaluated on a rolling 5- and 10-year basis versus their respective benchmarks and peers.

An appropriate peer universe will be identified and included in quarterly performance reports quartile rankings of statistical metrics (annualized returns, standard deviation, Sharpe Ratios and Sortino Ratios) for the Long-term Pool and its SAAP returns and compared to peers on a 5-and 10-year basis.

Belief #2: Asset allocation decisions are key.

- The Investment Committee will 1) define what strategic asset classes it should invest in, 2) define why/how it will invest in these asset classes and, 3) determine what mix of asset classes has a reasonable expectation to achieve the Investment Program's long-term (10-year) net rate of return within an acceptable level of risk.

- The Investment Committee will annually review and evaluate long-term capital market assumptions provided by the CIO, investment consultant and others to determine if modifications to the Investment Program's asset allocation policy targets are warranted.

Belief #3: Investment Program portfolio construction methodology should be sound.

Belief #4: Asset classes should be examined in the context of market efficiency and its potential sources of return (beta and alpha).

- The Foundation will employ on a default basis, indexed or thematically passive strategies in public asset classes which capture the returns of the market (beta) or risk premiums using cost efficient investment vehicles; and active management to access private markets.
- The Foundation will evaluate the inclusion and extent of its use of private investments in the context of its risk/reward profile to other asset classes and taking into account the illiquidity premium that exists in and is considered a component of private markets long-term expected returns.
- The Foundation views hedge funds as an investment strategy and not as a separate asset class and believes hedge funds exhibit, in varying degrees and over various time periods, risk characteristics that exist in equity or fixed income asset classes. Investment Program investments in hedge fund strategies will be predicated on an assessment of their specific risk/return attributes, investment vehicles employed to implement those strategies and an evaluation of their fees, terms, liquidity, etc. In addition, hedge fund strategies will reside within the Investment Program's public asset classes to the extent meaningful correlations between the two exist or are expected to exist.

Belief #5: Asset class investment house views should be developed.

Belief #6: Portfolio rebalancing discipline is key for effective risk management.

Belief #7: Development of staff's knowledge of investment management is beneficial.

Belief #8: Establishing and maintaining good governance is fundamental to the success of the investment management program.

- The Foundation will
  1) Define, codify and adhere to the roles and responsibilities of the Board, Investment Committee, staff, and investment consultant(s),
  2) Annually review governance and identify areas of effectiveness and potential areas of improvement, and
  3) Provide new Investment Committee members with an investment program orientation covering investment beliefs, governance and other aspects of the Foundation's Investment Programs.

Appendix E

ACF Spending Policy for Endowed Funds & Spending Guideline for Non-Endowed Funds

Effective April 1, 2017

Background & Purpose

The Arizona Community Foundation, Inc., an Arizona nonprofit corporation (the "Foundation"), recognizes that the establishment and consistent application of a Spending Policy, in conjunction with its Investment Policy, is essential to the long-term growth and success of the Foundation and the performance of its advised funds, designated funds, field of interest funds, scholarship funds and other endowed funds.

The Spending Policy & Guideline is intended to establish reasonable and prudent spending, on an annual basis, to support the Foundation's missions and purposes and may be amended from time to time as the Board of Directors deems appropriate.

The Foundation is deemed by the Internal Revenue Service to be a tax-exempt public charity. As such, funds of The Foundation are not subject to private foundation regulations requiring a 5% minimum annual grant expenditure. Funds of The Foundation may expend less than the Spending Policy in any given year.

Written Notice to Expend Less than Spending Policy

While funds of The Foundation are not required to recommend grants, plans to allow a fund to grow for a period of years with no expenditures made should be communicated in writing to the Foundation so that the fund does not become subject to the ACF Inactive Funds Policy, which applies after three years of dormancy. *See ACF Inactive Funds Policy*.

Governing Regulations

Arizona Revised Statutes § 10-11803, which governs expenditures of endowed funds, permits the Foundation to appropriate for expenditure, or accumulate so much of an endowment fund as the Foundation determines is prudent, for the uses, benefits, purposes and duration for which the endowed fund is established, subject to the intent of a donor expressed in a gift instrument.

This policy details both the Spending Policy for endowed, or permanent, funds, as well as the Spending Guideline suggested for non-endowed, or non-permanent/fully expendable, funds.

Spending Policy for Endowed Funds

The Spending Policy provides a maximum cap for expenditures from endowed funds to ensure that the fund is not eroded over time as it generates grants and so that it grows in perpetuity for the enduring benefit of the community. The fund may expend less than the amount provided through the Spending Policy.

The Foundation has determined that the annual amount to appropriate for expenditure for grants shall be four and ¼ percent (4.25%) of the fund assets, excluding illiquid assets; provided that the minimum amount appropriated for expenditure each year shall be no less than $250 unless otherwise negotiated at the time of fund establishment.

The amount appropriated for expenditure for grants shall be calculated each year by averaging the previous 12 quarters of a fund's ending account balance, beginning with the December balance (with the exception of endowed scholarship funds, which amount is calculated by averaging the previous 12 quarters of a scholarship fund's ending account balance, beginning with the September balance.) The result will be the maximum available grantmaking amount for the next fiscal year, starting April 1.

Spending Guideline for Non-Endowed Funds

Non-endowed funds are not subject to the ACF Spending Policy; it is provided as a guideline only. Non-endowed funds may recommend grants of less than or more than the Spending Policy, per the grantmaking goals and time horizon of the fund.

As a suggested guideline to aid donor advisors in achieving their growth and grantmaking goals, the Foundation calculates and provides to the donor advisor(s) a suggested annual amount for expenditure consistent with the Spending Policy for Endowed Funds: four and ¼ percent (4.25%) of the fund assets, excluding illiquid assets; provided that the minimum amount appropriated for expenditure each year shall be no less than $250 unless otherwise negotiated.

As with endowed funds, the amount suggested for grantmaking expenditure shall be calculated each year by averaging the previous 12 quarters of a fund's ending account balance, beginning with the December balance (with the exception of scholarship funds, which amount is calculated by averaging the previous 12 quarters of a scholarship fund's ending account balance, beginning with the September balance.) The result will be the maximum available grantmaking amount for the next fiscal year, starting April 1.

Internal Practices & Industry Basis

In calculating the spending amount for funds that are within the Foundation's four investment pools, the amounts appropriated for expenditure from the fund, as calculated herein, will be allocated based upon unitized fund accounting, as is standard practice in the industry.

The Foundation's accounting staff, in calculating the annual amount to appropriate for expenditure for grants, is authorized to round up to the next prudent expenditure amount in $100 increments. The Foundation has determined that expenditures for administrative fees charged to the funds in amounts greater than the amounts appropriated for expenditure for grants set forth above may also be made.

In making the determination to appropriate for expenditure a 4.25% portion of the fund assets, the Foundation Board of Directors considered the following factors:

a) The duration and preservation of the endowment funds within the Foundation;
b) The purposes of the Foundation and the endowment funds;
c) General economic conditions;
d) The possible effect of inflation or deflation;
e) The expected total return from income and investment appreciation;
f) Other resources of the Foundation; and
g) The Investment Policy of the Foundation.

The Foundation may appropriate for expenditure in any year an amount greater than four and ¼ percent (4.25%) of the fund assets, provided that the Foundation, in making such appropriation, exercises good faith and care that an ordinarily prudent person in a like position would exercise under similar circumstances, taking into consideration the above factors.

Unless otherwise stated herein, any actions by the Foundation hereunder must be made by the Foundation Board of Directors or a committee consisting of directors designated by the Foundation Board of Directors to take such action. The Investment Committee and the Philanthropic Services Committee will each review this policy annually and will forward any proposed revisions to the Foundation Board of Directors for consideration. Irrespective of the Committee review process, the Foundation Board of Directors will review this policy no less frequently than every three years.

The foregoing Spending Policy & Guideline was duly adopted by the Board of Directors of the Arizona Community Foundation, Inc. effective as of April 1, 2017.

Appendix F

Arizona Community Foundation

Externally Managed Funds
Standards and Guidelines

OBJECTIVE

This policy codifies the standards and guidelines for the management of investment advisors who manage charitable fund investments for ACF donors. Advisors will manage funds using agreed upon guidelines consistent with an appropriate risk/return profile that enhances the market value of the fund and achieves returns in excess of distributions, expenses and inflation. This policy is based on IRS requirements regarding the management of charitable funds.

ADVISOR STANDARDS

Investment advisors agree to the following standards:

1) Be registered with appropriate regulatory agency with no material litigation pending or in process;

2) Disclose any real or perceived conflicts of interests that may exist;

3) Sign an Investment Management Agreement (IMA) between the advisor and ACF;

4) Confer with ACF's Chief Investment Officer (CIO) and document the asset allocation strategy and other factors regarding the management of the fund;

5) Inform ACF in a timely manner of all fund investment activities, returns, fees and compliance issues;

6) Consistent with IRS requirement, recognize ACF as the primary owner of the funds under management by the advisor.

ASSET ALLOCATION GUIDELINES

An appropriate risk/return investment profile will be selected for the management of the fund. As a result of discussions between ACF and the advisor, one the following asset allocation targets will be selected, documented and used as the guide for managing and reporting fund activities.

Approval from ACF's CIO is required should an advisor wish to manage to a different asset allocation than those below, or employ alternative investments (i.e., non-equity or fixed income).

Capital Preservation Portfolio

	Target	**Allowable Range**
Money Market Fund(s)	100%	100%

Investment Objective: Seeks preservation of capital by investing in money market funds and short-term cash equivalent fixed income instruments.

Balanced Portfolio

	Target	**Allowable Range**
Equity	50%	40% - 60%
Fixed Income	50%	40% - 60%

Investment Objective: Seeks capital appreciation in a balanced public equity and fixed income portfolio.

Growth Portfolio

	Target	**Allowable Range**
Equity	70%	60% - 80%
Fixed Income	30%	20% - 40%

Investment Objective: Preserve the purchasing power of assets by investing in a diversified pool of liquid public market securities targeting capital growth for long-term grant-making.

The advisor is responsible for rebalancing the portfolio in order to maintain portfolio asset allocation positioning within the allowable target ranges. In the event a rebalancing occurs due to the portfolio being outside of target ranges, the advisor will inform ACF's CIO in the quarterly fund oversight report.

OVERSIGHT & REPORTING

ACF's Investment Committee (IC) is the governing Board Committee that oversees the Externally Managed Funds Program with day-to-day oversight delegated to the CIO.

The CIO will perform the following primary oversight functions:

1) Ensure all investment documentation (IMA, asset allocation target guidelines, wiring instructions, contacts, etc.) is thorough, signed and maintained electronically;

2) Obtain on-line access from advisors for all funds managed on behalf of ACF;

3) Manage the communication regarding the completion of ACF's quarterly fund oversight report (exhibit included in the next page). Staff will conduct annual on-site due diligence visits and have periodic discussions with advisers to discuss financial markets, fund oversight reporting and other activities which further the relationship between the advisor and ACF to enhance service to the donor;

4) Based upon the quarterly reviews, the CIO will report to the IC and may recommend to the IC any actions, remedies or terminations necessitated by his findings.

PROHIBITED INVESTMENTS

Use of the following asset classes and investment strategies are prohibited unless a written request is made by the advisor and approved by the CIO:

- Short sales, or any transaction on margin (borrowing)
- Venture capital or buyout private equity funds
- Non-negotiable securities or private placements
- Oil and gas limited partnerships
- Private Real estate limited partnerships
- Leveraged transactions
- ETI's (Economically Targeted Investments)
- An advisor's own stock or debt
- Annuities (fixed/variables, life settlements, etc.)
- Futures, Options or Derivative Instruments

FUND OVERSIGHT REPORT TEMPLATE

ARIZONA
COMMUNITY FOUNDATION

Externally Managed Funds - Quarterly Data Report

As of Date: 3/31/2017			Asset Allocation (%)					Returns (net of fees)							Fees			
Name of Advisory Firm	Fund Name	Market Value	Equity	Fixed	Hedge Fund	Cash	Other	3 Months	6 Months	YTD	1 Year	3 Year	5 Year	10 Year	Underlying Fees	Advisor Fees	Total Fees	Commission Received (Y/N)

Advisor Comments:

Notes:

1) This form should be completed and e-mailed to ACF on or before 21 days after the end of the quarter.

2) Allocations to equities and fixed income should include individual issues/mutual funds and US or non-US allocations.

3) "Other" allocation represent investments that may not easily be allocated to public equities and bonds such as, but not limted to, private debt/equity, commodities, infrastructure, hard assets, etc.

4) "Fees" should include: I) annualized investment management fees charged by the advisor to donor II) fees/expenses charged by the underlying mutual funds or other investment vehicles.

5) "Commission" includes any front-end, back-end, or periodic (i.e., 12b-1) compensation received. If "Yes" is listed for any fund, please explain the nature of the commission and amount received in the "Advisor Comments" section above.

6) Provide any comments for each fund that may help to clarify the characteristics of the portfolio's allocation, returns, or asset classes not invested in the policy benchmark and return attribution (sources of and contribution to return as a result of portfolio over/under-weighting).

7) Please contact us in the event an account has been closed or transferred.