Investment Policy Statement

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PART 1: 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 grant-making 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 - D. 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;
- Detail the rebalancing policy for the portfolios;
- 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.

PART 2: 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 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 ACF Investment Staff ("Investment Staff" or "Staff").

In collaboration with the Investment Staff, the Investment Committee first developed ACF's Investment Beliefs in 2016 as part of a redesign of ACF's investment strategy and governance policies. The Investment Committee subsequently revised the Investment Beliefs in 2020.

Belief #1: Defining investment performance objectives, time horizons and levels of risk is essential.

- Performance objectives, time horizons and risk levels should be defined for each investment pool's mandate.
- The Long Term Diversified Pool should be optimized for the management of endowed funds in perpetuity. The "endowment model" of investing offers the best opportunity to achieve the Long Term Diversified Pool's performance objectives with a reasonable level of risk.

- The long-term objective is to earn a total rate of return (income plus capital gains) that will meet or exceed the distribution needs (spending plus fees) of the portfolio, adjusted for inflation.
- Within the constraints created by each pool's portfolio structure and benchmarks, ACF should seek to minimize tracking error to the extent possible. Opportunities for out-performance should be evaluated carefully with respect to the potential for under-performance, which could challenge the ACF/donor relationship.
- The Pools should be invested based on long-term capital market expectations but must consider liquidity requirements in the context of meeting the stable disbursement needs from endowed funds as well as the variable disbursement needs from non-endowed funds.
- Investments should be made through managers and not through the direct internal management of individual security portfolios.

Belief #2: **Asset allocation decisions are key.**

- ACF should choose asset classes, vehicles, and asset class mixes believed to provide the highest probability of achieving each pool's long-term return objective with an acceptable level of risk. The asset class mixes should include a percentage target to each asset class and an allowable range around each target.
- Target asset allocations should not reflect any particular "tilt". Rather, targets should generally reflect a neutral broad market exposure unless constrained by the specialized mandate of a particular pool (e.g., Socially Responsible Pool).
- ACF should complete a detailed analysis and review of each pool's target asset allocations on a three-year basis to confirm ongoing appropriateness of the asset class mixes. ACF should review updated long-term risk/return expectations for each pool annually based on the most recent capital market assumptions.

Belief #3: The measurement and evaluation of risk are just as important as the measurement and evaluation of performance.

- The primary measurement of risk should be expected volatility. Alternative measures of risk should also be evaluated.
- Risk should be managed primarily through diversification (asset classes, managers, strategies, and vintage years of private investments) and determination of cross-correlations.
- Annually, ACF should complete a detailed portfolio risk review to help evaluate risk levels. At a minimum, the risk review should include an analysis of various measures of risk, levels of exposure to key market factors, as well as historical scenario analysis (based on significant past market events) to determine the potential magnitude of drawdowns.

Belief #4: Portfolio construction methodology should be sound.

- Portfolio construction methodology should incorporate widely accepted, institutional portfolio construction principles (e.g., strategic asset allocation, diversification, rebalancing, strategy and manager selection, appropriate vehicles, liquidity, reasonable fees).

Belief #5: **Asset classes should be examined in the context of market efficiency and potential sources of return (beta and alpha).**

- Beta exposure in efficient markets should be established primarily through low-cost, passive mandates. Alpha should be targeted in less efficient asset classes and private markets.
- Private market allocations should seek to capture alpha in addition to the illiquidity premium over long time horizons. Private market allocations should be diversified by manager, fund type, investment style and vintage year.

Belief #6: **Asset class investment house views should be developed.**

- Manager selection is a contributor to investment returns. Active monitoring and evaluation by ACF is central to a favorable outcome. Performance evaluation should be primarily based on five- and ten-year returns measured against clearly stated benchmarks with consideration of differences in market conditions and outlook.
- ACF may implement tactical positions as long as those positions remain within the allowable policy ranges at all times.
- Tactical positions should incorporate careful consideration of both upside and downside risk and reflect some perceived information advantage or insight. The range of probable outcomes should be central to the analysis with clear benchmarks to determine success.
- Relatively short time periods (e.g., one quarter, one year, three years) should be used to evaluate tactical positions.
- ACF's size in relation to asset level and Investment Management staff should be a consideration.

Belief #7: Portfolio rebalancing discipline is key for effective risk management.

- A disciplined, systematic rebalancing framework and policy should be developed. A programmatic rebalancing schedule will be accretive to returns.
- Rebalancing should be completed to maintain asset class allocations within the ranges mandated by the Investment Policy Statement.

Belief #8: **Development of staff's knowledge of investment management is beneficial.**

- ACF's Investment Management staff should stay apprised of financial market conditions and relevant industry trends, including participation in industry conferences and regular communication with community foundation peers.
- Investment Management staff should seek to educate the Foundation's relationship management staff about ACF's Investment Program.

Belief #9: Establishing and maintaining good governance is fundamental to the success of the investment management program.

- Governance best practices should be incorporated into the oversight of ACF's Investment Program to maintain fiduciary discipline.
- Roles and responsibilities of all relevant parties should be detailed in the Investment Policy Statement.
- ACF should regularly review governance and identify areas of effectiveness and potential areas of improvement.

- ACF should provide new Investment Committee members an orientation covering the Investment Beliefs, governance and other aspects of ACF's Investment Program.

Belief # 10: Investment portfolio management is optimized when applying diversity, equity and inclusion principles to governance, decision-making, research and manager selection.

- Diversity of background, experience and viewpoints promotes better decision-making at all levels of the investment process.

PART 3: 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):**
  Long Term Diversified Pool
  Achieve rolling 10-year annual net rates of return equal to or greater than ACF's Spending Policy for Endowed Funds (4.25%), plus inflation as measured by the Personal Consumption Expenditures (PCE) Price Index, with an appropriate level of risk.

- **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. The Long Term Diversified Pool will also be evaluated relative to the Public Markets Benchmark, which will represent passive exposure to a traditional global equity and fixed income portfolio. The Public Markets Benchmark will include a blend of 70% MSCI All Country World IMI Index and 30% Bloomberg US Aggregate Index.

- **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.

1. 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 fees, unless otherwise stated. The specific benchmarks for each of the Investment Programs are provided in Appendices A-D.

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.

PART 4: 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 Diversified Pool, net of expected inflation and expenses. Specific details of the Foundation's spending policy are in Appendix E.

PART 5: 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; and
- Make investment decisions considering, among other factors, the following:
    - The charitable intent of the institution and the specific purpose of funds being invested;
    - The possible effect of inflation or deflation;
    - The duty and loyalty imposed by state law;
    - The general economic environment; and
    - The needs of the organization to make distributions and to preserve capital.

PART 6: 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.
- Annually or on call, the Chair of the Investment Committee and the Investment Staff will, on behalf of the Committee, report to and review the activities of the Committee with the Executive Committee and Board.

PART 7: ROLES AND RESPONSIBILITES

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

Activity	Board	IC	Finance Staff	Investment Staff	Consultant
Strategic Asset Allocation Policy	Approve	Approve & Recommend	--	Recommend	Recommend
Spending Policy	Approve	Approve & Recommend	Review	Recommend	Recommend
Investment Policy Statement	Approve	Approve & Recommend	--	Recommend	Recommend
Consultant (Hiring/Firing)	Notification	Approve	--	Recommend	--
Investment Managers (Hiring/Firing)	Notification	Approve	--	Recommend	Recommend
Rebalancing	Notification	Approve/ Notification	Review	Approve/ Recommend	Recommend
Custodian (Hiring/Firing)	Advanced Notification	Advanced Notification	Approve	Approve	Recommend

1. *Responsibilites 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 Investment Staff 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 Investment Staff 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 Investment Staff in an annual review of the investment consultant who will report to the ACF head of investments. Upon recommendation by the Staff, the Investment Committee will hire, retain or terminate the investment consultant.
- Oversight and review of ACF's Externally Managed Funds Program reports and guidelines with day-to-day operational activities and oversight delegated to the Investment Staff.
- At least annually, receive and discuss ACF's Externally Managed Funds 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.

2. ***Responsibilities of the ACF Investment Staff***

- 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, and actions taken, 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.
- Engage the Investment Committee 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.
- Meet with the Investment Programs' investment managers and conduct a comprehensive review of their mandate and performance consistent with their guidelines. The Investment Staff will keep the Investment Committee informed of these meetings and recommend appropriate courses of action.

- Encourage adoption and advancement of diversity and inclusion policies, initiatives, and practices among all of ACF's third party service providers.
- 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 ACF's Externally Managed Funds Program and annually provide a report to the Investment Committee summarizing key factors including performance, asset allocation, and fees. Highlight any material issues or concerns and recommend actions, remedies, or terminations, as necessary.
- 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).

3. ***Responsibilites of the Investment Consultant***

- Report to and assist the Investment Staff in performing his or her responsibilities to manage and report on the Investment Programs.
- On a quarterly basis, provide the Investment Staff 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 Investment Staff 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 Investment Staff 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 Investment Staff the positioning of the Investment Programs' asset allocations relative to their policy targets and bands. Provide the Staff with recommendations regarding both mandatory and optional rebalancing; assist the Staff in reporting rebalancing activities to the Investment Committee.
- Monitor the Investment Programs' asset classes and their investment managers and provide reports to the Investment Staff 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 Investment Staff 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 Investment Staff in the development and reporting of the investment risk reports.
- Develop and present the spending policy analysis to the CFO and Investment Staff 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.
- Prepare an annual assessment of the diversity and inclusion profiles and policies of each investment manager's organization.
- 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 Investment Staff regarding servicing the requests of Investment Committee members and donors.

4. *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 Investment Staff 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 Investment Staff 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.

PART 8: 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. In general, rebalancing will occur in the context of pool cash flow management. Preference will be given to rebalancing through cash flows rather than asset sales. 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 Primary Policy Band, a mandatory 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 the Primary Policy Band.
2. If the actual asset allocation is inside the Primary Policy Band but outside the Secondary Policy Band, a mandatory rebalancing will occur to return the actual asset class weighting to its policy target or to a position different than its target but within the Secondary Policy Band, unless Investment Committee approval is given to remain outside the Secondary Policy Band.
3. If the actual asset allocation is inside the Secondary Policy Band, an optional rebalancing may occur at the Investment Staff's discretion, resulting in returning the actual asset class weighting to its policy target or to a position different than its target but within the Secondary Policy Band.

1. Monitoring, Decision-Making, and Execution

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

The Staff will have discretion over rebalancing decisions within the Secondary Policy Band. If the actual asset class weighting falls outside the Secondary Policy Band, but remains within the Primary Policy Band, the Staff will inform the Investment Committee and the Committee will decide whether to remain outside the Secondary Policy Band or return the asset class weighting back within the Secondary Policy Band. The Staff will be responsible for executing all rebalancing activities.

As part of the rebalancing process, the Staff, 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 positions. However, a manager will not be terminated or defunded to a zero portfolio

balance without the approval of the Investment Committee at the recommendation of the Staff and investment consultant.

PART 9: 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 Investment Staff and investment consultant the task of researching and recommending investment managers. In investigating potential managers, the Staff and investment consultant will, at 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, including diversity and inclusion policies.
- Evaluate experience, qualifications and investment approach. Included in this evaluation will be an analysis of past performance, risk metrics, use of leverage (if applicable), and investment management fees.
- Document the selection process.

PART 10: EXTERNALLY MANAGED FUNDS

ACF may allow charitable assets to be managed by external advisors, i.e., not managed in ACF's 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 the Investment Staff.

PART 11: 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 ACF Investment Staff 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.

1. ***Equity: Public and Private Equity***
    a. **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. Any use of futures and options to establish a leveraged position must be approved by the Investment Staff and Investment Committee.

b. Private Equity

May include investments in buyout, growth equity, special situations, venture capital, or other similar illiquid investments. Exposure will be targeted primarily through funds that invest directly in private market assets, but may include funds of funds, secondaries, co-investments, and/or direct equity investments.

- **Considerations/Constraints:** Diversification across strategies/sectors, managers, geography, and vintage years will be sought to control risk. Investment commitment pace will reflect, in part, the rate of capital draws and distributions. Leverage may be utilized within these strategies. Use of leverage, at both the fund level and company level, will be evaluated when considering new private equity investments.

2. Fixed Income: Public and Private Debt

a. 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.

b. 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.

3. Diversified Hedge Funds

a. Diversified Hedge Funds

Includes single and multi-asset products that invest primarily in long/short strategies (including U.S., Non-U.S., short bias, and global equities), relative value strategies (including equity market neutral, convertible bond arbitrage, relative value credit, and fixed income), event driven strategies (including distressed securities, special situations, and risk arbitrage strategies), and opportunistic strategies (including macro, CTA, and portfolio hedges).

- **Considerations/Constraints:** Investments may be in a variety of vehicle structures such as funds of hedge funds, commingled hedge funds, drawdown structures, and funds-of-one. Consideration will be given to the investment vehicles employed to implement those strategies, and an evaluation of their fees, terms, leverage, liquidity, etc.

4. Real Assets

a. Private Real Assets

May include real estate, infrastructure, or natural resources investments. Real estate may include core, value added, or opportunistic strategies. Investments may be in limited partnerships, limited liability corporations, private REITs, or other commingled investment funds. Investments will be primarily equity-oriented, but may also include debt instruments secured by real estate. Infrastructure includes capital intensive, long-lived real assets that are intended for public use and

provide essential services. Infrastructure may include U.S. or non-U.S. investments via direct funds or funds-of-funds vehicles. Natural resources investments may be considered and will be targeted primarily through funds that invest directly in natural resource assets.

- **Considerations/Constraints:** Diversification across strategies/sectors, geography, managers, and vintage years will be sought to control risk. Investment commitment pace will reflect, in part, the rate of capital draws and distributions.

5. *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.

PART 12: MISSION INVESTMENTS

From time to time, ACF may consider investments that align with its mission and provide a clear benefit to communities across Arizona. For mission investments, ACF will employ a thorough due diligence and oversight process, engaging the assistance of technical experts as appropriate.

ACF differentiates between two distinct categories of mission investments: Mission-Related Investments (MRIs) and Program-Related Investments (PRIs). ACF defines MRIs as market-rate investments that support the mission of the Foundation by generating a positive social or environmental impact while generating reasonably competitive rates of financial return and risk. ACF defines PRIs as investments made primarily to achieve a program objective rather than a significant financial return. While ACF expects to receive full repayment of PRIs along with a positive financial return, PRIs are not expected to generate reasonably competitive rates of financial return and risk.

ACF's Investment Committee must approve and oversee the use of investable assets for MRIs. The Investment Committee will only consider MRIs with levels of expected return and risk that are competitive with the market for comparable traditional investments.

Any use of pool assets for PRIs must be approved by the ACF Board of Directors. The amount of pool assets invested in PRIs is never to exceed $10 million, in aggregate between the pools. Additionally, the percentage of each pool's assets allocated to PRIs is not to exceed each pool's respective maximum limit as outlined below, to be based on the percentage of pool assets at the time of investment.

- Long Term Diversified Pool – up to 1.5% of assets
- Intermediate Pool – up to 1.5% of assets
- Long Term Aggressive Growth Pool – up to 1.5% of assets
- Socially Responsible Pool – up to 5.0% of assets

APPENDIX A

Long Term Diversified Pool

Investment Objective

Preserve the purchasing power of assets by investing in a diversified pool targeting capital growth for long-term grantmaking.

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 2025):

Asset Class	Target Allocation	Primary Policy Band	Secondary Policy Band
Domestic Equity			
Large/Mid Cap	27.0%		
Small Cap	2.0%		
Subtotal	**29.0%**	**19% - 39%**	**24% - 34%**
International Equity			
International	11.0%		
Emerging Markets	5.0%	0% - 10%	2% - 8%
Subtotal	**16.0%**	**6% - 26%**	**11% - 21%**
Private Equity	**15.0%**	**0% - 20%**	**10% - 20%**
Total Equity	**60.0%**	**50% - 70%**	**55% - 65%**
Public Debt	20.0%		
Private Debt	7.5%	0% - 12%	2% - 12%
Total Fixed Income	**27.5%**	**17% - 37%**	**22% - 32%**
Diversified Hedge Funds	**10.0%**	**0% - 15%**	**5% - 15%**
Real Assets	**2.5%**	**0% - 10%**	**0% - 5%**
Total	**100.0%**		

Strategic Policy Benchmark (Effective 3/1/25): 27% Russell 1000 Index, 2% Russell 2000 Index, 11% MSCI EAFE Index, 5% MSCI Emerging Markets Index, 15% Custom Private Equity Benchmark, 20% Bloomberg US Aggregate Index, 7.5% Custom Private Debt Benchmark, 10% HFRI Fund of Funds Diversified Index, and 2.5% Custom Real Assets Benchmark.

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

APPENDIX B

Long Term Aggressive Growth Pool

Investment Objective
Maximize long-term growth of capital through a portfolio heavily focused on public equities.

Risk Profile
Achieve targeted long-term performance expectations while accepting a high level of market volatility and reduced asset class diversification.

Strategic Asset Allocation Policy (Board Approved September 2025):

Asset Class	Target Allocation	Primary Policy Band	Secondary Policy Band
Domestic Equity	52.0%	42% - 62%	47% - 57%
International Equity	28.0%	18% - 38%	23% - 33%
Total Equity	**80.0%**	**70% - 90%**	**75% - 85%**
Public Debt	20.0%		
Total Fixed Income	**20.0%**	**10% - 30%**	**15% - 25%**
Total	**100.0%**		

Strategic Policy Benchmark (Effective 3/1/25): 52% Russell 3000 Index, 28% MSCI All Country World ex-USA IMI Index, 20% Bloomberg US Aggregate Index.

APPENDIX C

Intermediate Pool

Investment Objective
Seek a mix between capital appreciation and capital preservation through a balanced portfolio.

Risk Profile
Provides exposure to a balanced mix of growth and defensive assets expected to produce moderate levels of total return and volatility over an intermediate time horizon.

Strategic Asset Allocation Policy (Board Approved September 2025):

Asset Class	Target Allocation	Primary Policy Band	Secondary Policy Band
Domestic Equity			
Large/Mid Cap	24.0%		
Small Cap	2.0%		
Subtotal	**26.0%**	**16% - 36%**	**21% - 31%**
International Equity			
International	9.0%		
Emerging Markets	5.0%	0% - 12%	2% - 8%
Subtotal	**14.0%**	**4% - 24%**	**9% - 19%**
Total Equity	**40.0%**	**30% - 50%**	**35% - 45%**
Public Debt	50.0%		
Total Fixed Income	**50.0%**	**40 - 60%**	**45 - 55%**
Diversified Hedge Funds	**10.0%**	**0% - 15%**	**5% - 15%**
Total	**100.0%**		

Strategic Policy Benchmark (Effective 3/1/25): 24% Russell 1000 Index, 2% Russell 2000 Index, 9% MSCI EAFE Index, 5% MSCI Emerging Markets Index, 50% Bloomberg US Aggregate Index, and 10% HFRI Fund of Funds Diversified Index.

APPENDIX D

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 2025):

Asset Class	Target Allocation	Primary Policy Band	Secondary Policy Band
Domestic Equity	39.0%		
International Equity	21.0%		
Total Equity	**60.0%**	**50% - 70%**	**55% - 65%**
Public Debt	40.0%		
Total Fixed Income	**40.0%**	**30% - 50%**	**35% - 45%**
Total	**100.0%**		

Strategic Policy Benchmark (Effective 3/1/25): 39% S&P 500 Index, 21% MSCI EAFE Index and 40% Bloomberg US Aggregate Index.

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.

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

Externally Managed Funds Standards and Guidelines

Objective

ACF may allow a donor's charitable fund assets to be managed by an external investment advisor at the request and recommendation of the donor. Investment advisors who manage charitable fund assets on behalf of ACF must adhere to the standards and guidelines outlined in this document. Each externally managed fund may have unique investment objectives depending on relevant factors specific to each fund.

Advisor Standards

Investment advisors must agree to the following requirements:

1. Must be registered, and in good standing, with an appropriate regulatory agency (e.g., SEC, FDIC, OCC, or FINRA) depending on institution type;
2. Verify that the donor and advisor are not related parties;
3. Disclose any real or perceived conflicts of interests that may exist;
4. Sign an investment management agreement - or similar - between the advisor and ACF;
5. Confer with ACF to select and document an appropriate asset allocation strategy and other material factors regarding the management of the fund;
6. Inform ACF in a timely manner of all material investment activities, returns, fees and compliance issues; and
7. Consistent with IRS requirements, recognize ACF as the sole legal owner of all externally managed fund accounts. While the donor may express preferences to the advisor related to investment strategy, ACF retains full legal control and authority over the assets and all investment decisions.

Investment Strategy and Asset Allocation

Investment advisors must take into account all relevant factors in determining an appropriate risk/return profile for each fund. These factors should include, at a minimum, the following:

- Charitable fund's type and purpose (e.g., donor-advised fund, endowment, etc.);
- Donor's risk tolerance;
- Expectations for future grantmaking/distributions from the fund;
- Expectations for additional gifts/contributions into the fund;
- General economic conditions;
- Possible effect of inflation or deflation;
- Role that each investment or course of action plays in the overall portfolio of the fund;
- Expected total return from income and investment appreciation.

Following discussions between ACF and the advisor, one of the following asset allocation models will be selected, documented and used as the guide for the management, oversight, and reporting of fund activities.

Approval from ACF is required should an advisor wish to manage to a custom investment strategy that does not fit within the guidelines of one of the models outlined below.

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% - 100%
Fixed Income	30%	0% - 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 in the quarterly fund oversight report.

Oversight & Reporting

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

The Investment Staff will ensure completion of the following primary oversight functions:

1. Review and approval of newly recommended external investment advisors;
2. New account opening process, ensuring all investment documentation is comprehensive, fully executed by all necessary parties, and maintained electronically;
3. Obtain on-line access from advisors for all funds managed on behalf of ACF;
4. Communicate periodically with external advisers to discuss financial markets, fund performance, portfolio positioning, and other material issues related to the externally managed funds;
5. Ensure completion, aggregation, and review of ACF's fund oversight report for all externally managed funds;
6. Annually, the Investment Staff will provide to the Investment Committee a report summarizing key factors including performance, asset allocation, and fees. The Staff will also highlight any material issues or concerns and recommend actions, remedies, or terminations, as necessary.

Prohibited Investments

Use of the following investments is prohibited unless a written request is made by the advisor and approved by ACF:

- Any investment vehicle or security that cannot be fully redeemed or liquidated within 30 days;
- Short sales, or any transaction on margin (borrowing);
- Limited partnerships or other private investment vehicles;
- Non-negotiable securities or private placements;
- 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.