



Statement of Investment Objectives and Policies

I. DESCRIPTION OF THE FOUNDATION

The Community Foundation of Tompkins County, Inc. (the "Foundation") manages and administers its endowment funds, raised from the donations of private citizens and organizations. The funds support grant making to charities, primarily within the community, and the operating expenses of the Foundation.

The Foundation is a publicly supported charitable organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation was formed in 2000 to encourage and develop local philanthropy for a broad range of community efforts that enhance the quality of life, embrace diversity, and promote a humane, participatory, environmentally sustainable and just society. Although the Foundation is not restricted from making grants to qualified charities wherever located, its principal mission is to benefit charities within Tompkins County, New York.

II. PURPOSE OF STATEMENT

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

- A. Outline the investment-related responsibilities of the Board of Directors, the Finance Committee, the Foundation staff and the providers of investment services retained to assist with the management of the Foundation.
- B. Establish formal investment guidelines incorporating prudent risk parameters, appropriate asset guidelines and realistic return goals.
- C. Provide a framework for regular constructive communication between the Board, the Committee, the staff and the Foundation's providers of investment services.
- D. Create standards of investment performance by which the Investment Managers agree to be measured over a reasonable time period.

III. FINANCE COMMITTEE

The Board of Directors of the Foundation (the "Board") has established a Finance Committee

(the "Committee"). While the Board bears the overall fiduciary responsibility for the Foundation, the Committee shall recommend to the Board the specific investment policy for the Foundation and shall be responsible for its day-to-day guidance, monitoring and oversight.

A. RESPONSIBILITIES

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

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

B. COMMITTEE OPERATION

1. The Committee shall meet as required, but not less than four times each year.

2. The actions of the Committee shall be recorded in formal minutes.
3. The Committee may adopt procedures necessary to conduct its affairs.
4. The staff of the Foundation is authorized to carry out all administrative functions required by Committee action.

IV. INVESTMENT POLICY

A. LONG-TERM GOALS

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

1. To protect the assets of the Foundation and strive to maximize the total return to the extent possible without assuming excessive risk;
2. To provide a relatively predictable, stable and inflation adjusted pay-out stream for grant-making and operations;
3. To maintain a balance between spending and protecting the real (i.e., inflation adjusted) value of the Foundation's assets.
4. The Foundation's investments, to the extent practicable, should support the Foundation's objectives and mission, which may include program related investments when appropriate and consistent with prudent investment risk.

B. INVESTMENT RETURN AND RISK PARAMETERS

1. Annualized Return: The objective is to achieve an annualized total return that, at a minimum, will grow the assets by the rate of inflation, after having allowed for grant making and operating expenses.
2. Total Return: Investment objectives will be achieved using a total return strategy, where long-term return may come from both market value increases (realized and unrealized capital appreciation) and/or from current yield (interest and dividends).
3. Volatility: In light of the Foundation's long-term horizon and limited liquidity needs over and above withdrawal policies, the fund can assume volatility consistent with a long-term investment return objective. The asset allocation and investment agent guidelines are designed to provide a balance that will avoid concentrations in any single asset class, risk level or manager style.

C. INVESTMENT CONSIDERATIONS

1. Liquidity

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

2. Time Horizon

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

3. Laws and Regulation

Most endowment and foundation funds are governed by state regulations, which embrace the Prudent Investor Rule. The Foundation will comply with the Rule as expressed in section 11-2.3 of the NY Estates, Powers and Trusts Law (EPTL), which provides in relevant part that a fiduciary shall exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio, taking into account the purposes and terms and provisions of the governing instrument. The Foundation shall pursue an overall investment strategy that will allow appropriate present and future distributions in furtherance of the Foundation's mission and the needs of the community. In making investment decisions, the Committee shall consider the size of the portfolio, general economic conditions, the possible effect of inflation or deflation, the role that each investment or course of action plays within the overall portfolio, and the expected total return of the portfolio.

4. Tax Considerations

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

5. Other

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

V. WITHDRAWAL POLICY

A. WITHDRAWALS FOR GRANTMAKING

1. The Committee from time to time will make recommendations to the Grants Committee and the full Board regarding the timing and size of withdrawals for grant-making. Such recommendations will be formula-based and consistent with donor instruction.
2. For the purpose of this formula, the asset base will be equal to a three-year moving average of quarterly market values, ending the third quarter of each year.
3. The Committee will evaluate and respond to requests from the Grants Committee so as to permit that committee's grantmaking program to proceed in a timely and efficient manner.
4. Any amounts from the prior year's allocation which remain unspent may be carried forward.

B. WITHDRAWAL FOR OPERATIONS

1. The Board may use a percentage of the Foundation's asset base for operations. The same conditions outlined above (2 - 4) in grant-making apply to operations.
2. Grants and donations made to cover the Foundation's operating expenses shall be made available for such expenses as needed, without regard to the percentage targets for investments.

VI. ASSET ALLOCATION AND REBALANCING GUIDELINES

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

The Finance Committee will recommend to the Board specific percentage asset allocation targets. The major asset categories will be: Equity (domestic and international), Fixed Income, Cash, and Other Assets. Change in the asset allocation guidelines can be proposed at any time to the Board by the Committee. The current Board policy for asset allocation is attached in Exhibit 1.

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

Asset allocation will be based on market value.

VII. PORTFOLIO GUIDELINES

A. Equities

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

1. The equity securities of any one corporate issuer or within any one mutual fund should not exceed 5% of the equity portion, based on market value, of any manager's portfolio and;
2. Broad diversification must be maintained with a 30% industry sector maximum.
3. For these purposes, regulated investment companies (mutual funds) shall be considered and evaluated based on the underlying holdings as to their asset classes and concentration. Moreover, mutual funds shall not be considered derivative securities unless their underlying holdings contain or rely heavily on such holdings for their performance.
4. Until such time as the Foundation's asset base has grown sufficiently to warrant the use of separate managers with respect to different areas (e.g., large capitalization, mid-cap, etc.), the Committee may select one or more mutual fund products whose shares are designed to represent a broadly diversified portfolio.

B. Fixed Income

The purpose of the Foundation's fixed income portfolio is to preserve principal by hedging against deflation, provide stability in the level of current income, and limit the volatility of the total fund. The following restrictions apply: Securities shall be limited to obligations of the U.S. Government and its agencies, and corporate obligations regarded as investment grade by Moody's and Standard & Poors. Where fixed income mutual funds are employed, their average rating should be regarded as investment grade, consistent with the foregoing.

C. Cash

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

D. Other Assets

Other investments may be considered by the Committee when the need occurs. These may result from gifts to the Foundation or recommendations for alternative assets classes. Examples of other possible investments include real estate that may be donated to the Foundation, program related investments, and socially responsible investments.

E. Prohibited Securities

Any investment strategy, security, scheme, or money-making enterprise that does not meet the Prudent Investor Rule is prohibited. The Foundation will not engage in the following types of securities transactions:

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

VIII. INVESTMENT AGENTS OF THE FOUNDATION

A. INVESTMENT PROGRAM

Investment agents must assume the following responsibilities:

1. To acknowledge in writing acceptance of the objectives, guidelines and performance benchmarks as defined in this Statement of Investment Objectives and Policies, and to invest the assets of the Foundation accordingly.
2. To exercise full discretionary authority for funds under management as to all buy, hold, and sell decisions for each security under management, subject to the guidelines as defined in this Statement.
3. To rebalance the asset classes in the portfolio as deemed appropriate by the investment agent to comply with Board policy.
4. To recommended changes in this Statement based upon material and sustained changes to capital markets.

5. To protect securities by using insurance, i.e. SIPC, or by segregating such as in a bank trust department.

B. REPORTING

1. Investment agents shall produce a statement at the end of each quarter displaying the cost, market values, and percentage distributions for each portfolio asset class.

2. Investment agents shall produce a statement at the end of each quarter demonstrating the time-weighted and the dollar-weighted rates of return for the trailing calendar 1, 3, 5, and 10 years and year-to-date performance, if available. These reports shall include the performance of the relevant benchmark index.

Time-weighted rate of return measures performance and allows comparison of them to recognizable indices. This method ignores the impact timing can have on additions to and withdrawals from investments.

Dollar-weighted rate of return calculations provide a more accurate picture of account performance when an account experiences significant additions to or withdrawals from investments. This rate of return calculates the impact of account activity, providing a result more closely tied to actual performance.

Return calculations should employ AIMR standards.

C. REVIEW MEETINGS

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

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

D. COMMUNICATION

Each Investment Agent is responsible for maintaining communication with a designee of the Committee on all material matters pertaining to investment policies and the management of the

Foundation's assets. In particular, each Investment Agent will:

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

E. A LIST OF INVESTMENT MANAGERS APPROVED IS ATTACHED AS EXHIBIT 2.

IX. REVIEW PROCESS FOR INVESTMENTS

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

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

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

A. DEFINING DISAPPOINTING RELATIVE PERFORMANCE

1. Three-year cumulative return trails benchmark index;
2. Percentile ranking of portfolio's three-year return against peer group is below 50;
3. Percentile ranking of portfolio's one-year return against the peer group is at or below 25.

B. DEFINING FUND MANAGEMENT ORGANIZATION CHANGES

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

C. DEVIATION FROM INVESTMENT METHODS THAT BUILT HISTORICAL RECORDS

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

D. RELATIVE PERFORMANCE IN EXCESS OF EXPECTATIONS

1. Percentile ranking of portfolio's three-year cumulative return is in the top quintile;
2. Percentile ranking of portfolio's quarterly return versus peer portfolios is in the top decile.

E. BENCHMARK INDICES

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

Asset Class	Index
U.S. Large Cap Stocks	S&P 500 Index
U.S. Small Cap Stocks	Russell 2000 Index
Mid-Cap Stocks	Russell 1000
Non-U.S. Stocks	Morgan Stanley Capital International Europe, Australia, Far East (EAFE) Index
Fixed Income	Lehman Aggregate Bond Index
Real Estate	Frank Russell NCREIF Property Index
Cash	U.S. Treasury Bills

COMMUNITY FOUNDATION
of Tompkins County, Inc.

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EXHIBIT 1 - BOARD GUIDELINES REGARDING ASSET ALLOCATION*

	<u>Range</u>	<u>Target</u>
Equities:		
Large Cap	35 - 45%	40%
Small Cap	10 - 20%	15%
International	10 - 20%	<u>15%</u>
Total Equities	65 - 75%	70%
Fixed Income	25 - 35%	30%
Cash	0 - 5%	<u>0%</u>
		 <u>100%</u>

- * This asset allocation does not apply to the cash necessary to cover the Foundation's operating expenses.

EXHIBIT 2 – A LIST OF INVESTMENT MANAGERS

M&T Securities
Tompkins Trust
AFCU
Merrill Lynch
Edward Jones Investments

For additional information, please contact:

Community Foundation of Tompkins County, Inc.
309 N. Aurora Street
Ithaca, NY 14850
Phone/Fax: 607-272-9333
E-mail: info@CommunityFoundationofTC.org
Website: www.CommunityFoundationofTC.org