

Investment Policy Statement of Mankato Area Foundation

Scope

This Investment Policy Statement (“**Policy**”) of the Mankato Area Foundation (“**MAF**”) applies to investable financial assets of MAF that do not have investment restrictions, which may include Investment Partner Program funds, fiscal agent funds, permanently restricted funds, designated and donor-advised restricted funds, unrestricted funds, and operating funds, and excludes any real estate and other illiquid assets. Financial assets of MAF that have investment restrictions are not included in this Policy.

Purpose

The MAF Board of Directors (“**Board**”) is responsible for the management of the financial assets of MAF. The Board has delegated supervisory authority over management of its financial assets to the Investment Committee of the Board (the “**Committee**”). The Committee is responsible for regularly reporting on funds and investments to the full Board. The purpose of this Policy is to set forth the objectives, policies, constraints and guidelines that are to govern the management and investment of the financial assets of MAF, which are not to be construed as absolutes, but rather as benchmarks for guidance by the Committee. The purpose of this Policy is to:

1. Establish the investment objectives and standards for the management of MAF assets.
2. Define overall risk parameters and return objectives of the portfolio of assets.
3. Identify appropriate investments for the portfolio of assets.
4. Define a diversification policy.
5. Establish a methodology to monitor investment performance.
6. Define a strategy to monitor adherence to the parameters of this Policy.
7. Create consistency in adherence to this Policy for current and future members of the Committee.

Investment Portfolio Categories

The Committee has divided MAF’s financial assets into three (3) portfolio categories based on length of time such funds shall be invested.

1. **Short Term Funds.** Funds that have the potential to be needed within 0 to 24 months of investment shall be held and invested in this portfolio of funds. This portfolio normally includes fiscal agent funds and the Operating Reserve. The main objective of this portfolio is the stability of principal, with a secondary objective of liquidity. Assets in this portfolio are designated to be very liquid (daily liquidity) to meet fluctuating working capital needs. The maximum sum in this portfolio shall not exceed the sum of fiscal agent funds and the operating reserve. This category of funds shall be managed in low risk money market funds or investment vehicles that would be suitable for inclusion in such fund.

2. **Mid Term Funds.** Funds that are anticipated to be needed within 24 to 60 months of investment shall be held in and invested in this portfolio of funds. This portfolio normally includes the Granting Reserve and portions of designated and donor advised funds committed by the Board to be used within 24 to 60 months. The primary objective of this portfolio is the stability of principal, with a secondary objective of current income. Investment maturities of funds shall be scheduled to coincide with projected cash flow needs as determined annually by the Committee. Funds are to be employed productively at all times by investment in short-term cash equivalents to provide safety, liquidity, and return. This category of funds shall be managed in low risk money market or bond funds, or investment vehicles that would be suitable for inclusion in such funds.

3. **Long Term Funds.** Funds that are anticipated to be needed after 60 months of investment shall be held and invested in this portfolio of funds. The primary objective is prudent growth of principal with acceptable risk, and the secondary objective is rate of return. This portfolio shall strive to achieve an average annual rate of total return of five percent (5%) over inflation, net of investment management fees paid. These objectives are to be measured over 1, 3, and 5 year market cycles, and the Committee recognizes that the objectives may not be achieved in any particular year. Thus the portfolio will include MAF's endowed funds, certain restricted funds, and the balance of unrestricted funds not held in Short or Mid-Term Funds.

Investment Philosophy/Objectives

1. The Committee shall ensure that MAF assets are invested following the guidelines set forth in this Policy.
2. The allocation of MAF's financial assets into investment categories will take into consideration MAF's liquidity needs and its objective for long-term asset growth.
3. The use of consistent, prudent standards for preservation of capital will be used in order to achieve the highest possible total rate of return on investment of MAF's assets which are actively invested.
4. MAF has engaged The Minneapolis Foundation ("TMF") to manage its Long Term Funds. MAF has determined that the Statement of Investment Objectives adopted by TMF, as amended, and attached hereto as Exhibit A (the "**TMF Statement**") is consistent with the goals and objectives of MAF's Long Term Funds. Therefore, MAF adopts the investment philosophy and objectives contained in the TMF Statement for management of its Long Term Funds. This arrangement with TMF is subject to change, and thus would affect MAF's objectives if TMF's engagement was changed.
5. Understanding that risk is present in all types of securities and investment styles, the Committee recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the MAF's objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment styles and objectives.

Investment Strategy/Guidelines

1. Diversification of assets will be employed to ensure that adverse results from one security or class of securities will not have an unduly detrimental effect on the entire investment portfolio. Diversification is interpreted to include diversification by type, by characteristic, and by number of investments, as well as by investment style of management organization. MAF's investment portfolio is intended to be a balanced fund. This diversification policy may be implemented

through the delegation of authority to MAF's investment manager, or ultimately through the use of more than one investment manager.

2. MAF adopts the Investment Strategy contained in the TMF Statement for its Long Term Funds.
3. All sales, exchanges, purchases and other transactions of any kind do not need to receive the prior oral or written approval of the Committee, and can be performed by its designated professional investment managers.

Investment Performance

Performance of the investment portfolio and compliance with this Policy shall be reviewed periodically. MAF intends to use professional investment managers and advisors to implement this Policy. Investment performance will be measured against comparable market indices as selected by TMF.

Funds in the Investment Partners Program are not part of MAF's pooled funds and therefore are not reported as part of the overall investment performance of MAF's pooled funds. Likewise, the official investment rate of return for Long Term Funds shall be that as reported by the account manager(s).

Investment Manager Review

MAF's investment manager is expected to provide quarterly statements and quarterly investment performance calculations. The investment performance will be monitored no less frequently than annually to determine if the investment portfolio is being operated within established guidelines of this Policy and is meeting the Committee's goals and objectives. The investment performance of the total portfolio, as well as asset class components, will be measured against commonly accepted performance benchmarks.

In making its decisions, the Committee will review reports submitted by the investment managers and other readily available comparative economic and investment information. The Committee will consider reasonably long term time periods and investment returns before changing investment directions of investment managers.

Investment managers can be replaced at any time by MAF after consideration of the following factors:

1. Adherence to this Policy.
2. Significant changes to the investment management firm.
3. Failure of the manager to adhere to the stated investment style.

Investment managers will require a review if any of the following occurs:

1. Performance that is significantly below the peer group average.
2. Volatility that is significantly above the peer group average.
3. Departure of the portfolio manager.

Incorporation of Spending Policy Statement

The following defined terms used in this Policy are shared with MAF's Spending Policy Statement for consistency:

Grant Reserve Account

The Grant Reserve Account has been established to provide fiscal continuity in MAF's community granting in the face of unanticipated events and market fluctuations, and to ensure financial stability of MAF. The Board has the sole authority to allocate and distribute funds into/from the Grant Reserve

Account. The Grant Reserve Account shall not be less than one and one-half (1.5) times the three year annual average of granting history from restricted and endowed MAF funds, and shall be reviewed on at least a quarterly basis.

Operating Reserve Account

The Operating Reserve Account exists to meet the daily cash flow requirements of the Foundation. This Account shall be equal to an average of six (6) months of operating expenses, and be held in bank depository accounts. The balance in the Foundation's checking account should not exceed \$60,000 and additional funds will automatically be placed into the Short Term Fund account, or a corporate sweep account (with an FDIC-insured institution), which maximizes short-term returns without jeopardizing principal.

Grant Balance Account

The Grant Balance Account has been established by the Board to manage assets: (i) that are available, on an annual basis, for granting pursuant to the Spending Policy, but were not distributed by direction of the Board; and (ii) as directed by the Board in anticipation of a grant approved by the Board, but not yet funded. The total amount of such funds will be captured in a separate account on the Foundation's Statement of Financial Position (Balance Sheet), as the "Grant Balance Account".

Fund Reserve Account

The Fund Reserve Account is intended to manage the purchasing power of all MAF invested funds. Annually the Foundation will compute an amount equal to inflation as determined by the Foundation's Investment Committee. A balance sheet account entry will be established with this amount and recorded as temporarily restricted for each fund. If there are excess earnings from such fund above granting, inflation and MAF fees, a separate account will be created for the excess earnings for such fund. These undistributed amounts may be used for future years or added to principle as determined by the Board. The total amounts for both inflationary and excess funds will be captured in a separate account on the Foundation's Statement of Financial Position (Balance Sheet), as the "Fund Reserve Account".

Quarterly Review

The Foundation's finance committee on a quarterly basis will review the balances in the Grant Reserve Account and the Operating Reserve Account to determine, based upon the Foundation's Investment Policy, the amount to move to or from the Foundation's long term funds.

Revised and Approved: July 26, 2011 by the Mankato Area Foundation Board.

By: _____
Michael Jacobs
Chair of Investment Committee

Exhibit A
to
Investment Policy Statement
of
Mankato Area Foundation

The Minneapolis Foundation Statement of Investment Objectives

See attached.