# Statement of Investment Policy
# Legacy Foundation, Inc.

## SCOPE OF THIS INVESTMENT POLICY

This Statement of Investment Policy reflects the investment policy, objectives, and guidelines of the Legacy Foundation, Inc., an Indiana nonprofit corporation. This document applies to assets that are a part of the Fund and for which the Committee and investment managers have discretionary authority.

## PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This Statement is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical. This Statement of Investment Policy is set forth by the Investment Committee of the Legacy Foundation, Inc. in order to:

1. Define and assign the responsibilities of all involved parties.

2. Establish a clear understanding for all interested parties of the investment goals and objectives of Fund assets.

3. Offer guidance and limitations to all Investment Managers regarding the investment of Fund assets.

4. Establish a basis for evaluating investment results.

5. Manage Fund assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances.

6. Establish the relevant investment horizon for which the Foundation assets will be managed.

7. This Policy applies to all assets that are included in the Foundation's Portfolio for which the Committee has been given discretionary investment authority.

## DEFINITIONS

1. "**Foundation**" shall mean Legacy Foundation, Inc.

2. "**Investment Committee**" shall mean the governing board established to invest and safe keep the Pooled Fund. The Committee is responsible for adopting the provisions of this Investment Policy. This responsibility includes approving investment strategy; hiring and firing of investment managers, custodians, and investment consultants; monitoring of the Fund on a regular basis (at least quarterly); and maintaining sufficient knowledge about the Fund and its managers to be reasonably assured of their compliance with this Statement of Investment Policy.

3. "**Funds**" shall mean the assets managed and invested by the Foundation.

4. **"Fiduciary"** shall mean any individual or group of individuals that exercise discretionary authority or control over Foundation management or any authority or control over management, disposition or administration of the Pooled Fund assets.

5. **"Fiduciary Duty"** In seeking to attain the investment objectives set forth, the Committee shall exercise prudence and appropriate care in accordance with the Uniform Prudent Investor Act (UPIA). UPIA requires fiduciaries to apply the standard of prudent "to any investment as part of the total portfolio, rather than to individual investments." All investment actions and decisions must be based solely on the interest of the Fund. Fiduciaries must provide full and fair disclosure to the Board of all material facts regarding any potential conflicts of interests.

   As summarized for the purposes of this Statement of Investment Policy, the UPIA states that the Committee is under a duty to the Fund to manage the funds as a prudent investor would, in light of the purposes, scope, objectives and other relevant circumstances. This standard requires the exercise of reasonable care, skill and caution while being applied to investments not in isolation, but in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Fund. In making and implementing investment decisions, the Committee has a duty to diversify the investments unless, under special circumstances, the purposes of the Fund are better served without diversifying.

   In addition, the Committee must conform to fundamental fiduciary duties of loyalty and impartiality. This requires the Committee to act with prudence in deciding whether and how to delegate authority, and in the selection and supervision of agents, and incurring costs where reasonable and appropriate.

6. **"Investment Manager"** shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Pooled Fund assets.

7. **"Investment Objective"** the primary objective of the Fund is to achieve an annualized total return (net of fees and expenses), through appreciation and income, equal to or greater than the rate of inflation (as measured by the broad, domestic Consumer Price Index) plus any distributions and administrative expenses thus, at a minimum maintaining the purchasing power of the Fund. The assets are to be managed in a manner that will meet the primary investment objective, while at the same time attempting to limit volatility in year-to-year spending. On this basis, the investment horizon is perpetual.

8. **"President/Executive Director"** has daily responsibility for administration of the Fund and will consult with the Committee and the investment consultant on matters relating to the investment of the Fund. The President/Executive Director will serve as primary contact for the Fund's investment managers, investment consultant, and custodian.

9. **"Securities"** shall mean the marketable investment securities which are defined as acceptable in this Statement.

## DISTRIBUTION POLICY

The Foundation's distribution policy is attached as Addendum 1 and shall be updated on an annual basis and incorporated by reference in this Statement of Investment Policy.

## INVESTMENT MANAGEMENT POLICY

The purpose of the investment management policy and guidelines is to ensure the safekeeping of the Foundation's assets. The Investment Committee and Investment Manager shall adhere to the following policy and guidelines while investing the Foundation's assets:

1. **Total Return**: Investment Managers will be evaluated on total return, which the Investment Committee will consider to be the aggregate return from capital appreciation and dividend and interest income.

2. **Risk**: The Investment Committee believes that any person or organization involved in the process of managing the Foundation assets should understand the Foundation's objectives and investments strategy as designed in this Statement. The Investment Committee defines risk as the probability of losing money over any time period and the probability that the investment returns of the Foundation's assets fail to meet or exceed the return of the Foundation's following described Specific Investment Goals over the investment horizon.

3. **Risk Aversion**: Understanding that risk is present in all types of securities and investment styles, the Investment Committee recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Foundation'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 style and objectives.

**Adherence to Investment Discipline**: Investment Managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to the Foundation's investment discipline.

## INVESTMENT PHILOSOPHY

## STRATEGY

The Investment Committee agrees that investing in securities with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities. Fixed income securities and other low volatility strategies (e.g. absolute return hedge funds, etc.) will be used to lower the short-term volatility of the portfolio and to provide stability, especially during periods of weak or negative equity markets.

It is the intent of the Foundation to be fully invested. Therefore, cash is not a strategic asset of the portfolio, but is residual to the investment process. Cash reserves outside of the pool shall be maintained in appropriate short term investments for the purposes of capital preservation.

## ASSET ALLOCATION

Deliberate management of the asset mix among classes of investments is both a necessary and desirable responsibility. Diversification of investments among assets that are not similarly affected by economic, political, or social developments is a highly desirable objective.

The Investment Committee's general policy shall be to diversify investments so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset or investment category. The diversification does not necessarily depend upon the number of industries or companies in a portfolio or their particular location, but rather upon the broad nature of such investments and of the factors that may influence them.

To ensure broad diversification, the asset allocation will be set with the following target percentages and maintain the following ranges:

| ASSET CLASS | TARGET | ACCEPTABLE RANGE |
|---|---|---|
| **Domestic Equity – Large** | **36%** | **31 – 41%** |
| **Domestic Equity – Mid** | **14%** | **9 – 19%** |
| **Domestic Equity – Small** | **10%** | **5 – 15%** |
| **International Equity** | **7.5%** | **2.5 – 12.5%** |
| **TOTAL EQUITY** | **67.5%** | **60 – 80%** |
| | | |
| **Fixed Income** | **25%** | **20 – 30%** |
| **Alternative Investments** | **5%** | **0 –10%** |
| **Public Real Estate** | **2.5%** | **0 – 5%** |
| **TOTAL** | **100%** | |

The Investment Committee may employ Investment Managers whose investment disciplines require investments outside the established asset allocation guidelines. However, taken as a component of the aggregate Foundation assets, such disciplines must fit within the overall asset allocation guidelines established in this Statement. Such Investment Managers will receive written directions from the Investment Committee regarding specific objectives and guidelines.

In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Investment Committee will instruct the Investment Manager(s) to bring the portfolio(s) into compliance with these guidelines as promptly and prudently as possible.

## GENERAL INVESTMENT PRINCIPLES

The Investment Committee, Investment Manager and Investment Consultant shall adhere to the following principles in carrying out the earlier described responsibilities:

1. Investment of the Foundation's assets shall be so diversified as to minimize the risk of large losses.

2. The Investment Committee may employ one or more Investment Managers of varying styles and philosophies to attain the Foundation's objectives.

## DELEGATION OF AUTHORITY

The Investment Committee of the Legacy Foundation, Inc. is responsible for directing and monitoring the investment of Foundation assets. The Investment Committee is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. **Investment Consultant**. The Investment Consultant may assist the Investment Committee in establishing investment policy, objectives, and guidelines, selecting Investment Managers, reviewing such managers over time, measuring and evaluating investment performance and other tasks as deemed appropriate.

2. **Investment Manager**. The Investment Manager may have the discretion to purchase, sell, or hold the specific securities that are used to meet the investment objectives stated herein.

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

4. **Specialists**. Additional specialists, such as accountants, attorneys, auditors, actuaries, retirement plan consultants, and others may be employed by the Investment Committee to assist in meeting its responsibilities and obligations to administer Foundation assets prudently.

Managers will be held responsible and accountable to achieve the objectives stated herein and, the Foundation shall give each manager a copy of this Statement and all amendments hereto. While it is not believed that the limitations will hamper Investment Managers, each Manager should request modifications which they deem necessary to achieve their objectives; provided, however, any modification agreed to by the Foundation must be done explicitly in writing.

All expenses for such experts must be reasonable and customary, and will be borne by the Foundation as deemed appropriate and necessary.

## ASSIGNMENT OF RESPONSIBILITY

### Responsibility of the Investment Manager(s)

Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this Statement. Specific responsibilities of each Investment Manager include.

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this Statement, and any specific instructions given to an Investment Manager by the Investment Committee.

2. Reporting to the Investment Committee on a timely basis the quarterly investment performance results and detailed listing of each transaction.

3. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objective progress of the Foundation's Investment Committee.

4. Informing the Investment Committee regarding any qualitative change to investment management organization, such as changes in portfolio management personnel, ownership structure, investment philosophy, etc.

5. Voting proxies on behalf of the Foundation, and communicating such voting records to the Investment Committee on a timely basis, if requested by the Investment Committee.

6. Immediate notification, confirmed in writing, to the Foundation and its Investment Consultant (if any) of any exceptions to this Statement of Investment Policy with a recommended plan of action to correct the violation.

**Responsibility of the Investment Consultant**

The Investment Consultant's role is that of an advisor to the Investment Committee. Investment advice concerning the investment management of Foundation assets will be offered by the Investment Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this Statement. Specific responsibilities of the Investment Consultant include:

1. Assisting in the development and annual review of investment policy.

2. Reporting to the Investment Committee on a timely basis with quarterly performance reports.

3. Conducting a search for an Investment Manager, when requested by the Investment Committee.

4. Monitoring the performance of each Investment Manager to provide the Investment Committee with the ability to determine the progress toward the investment objectives.

5. Communicating matters of policy, manager research, and manager performance to the Investment Committee.

6. Reviewing Foundation's investment history, historical capital markets' performance and the contents of this Statement to any newly appointed members of the Investment Committee.

The performance of each Investment Consultant will be reviewed on a periodic basis. The Investment Committee reserves the right to terminate an Investment Consultant.

**Selection of Investment Managers**

The Investment Committee's selection of Investment Manager(s) must be based on prudent due diligence procedures. A qualifying Investment Manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company.

**Investment Manager Performance Review and Evaluation**

Performance reports generated by the Investment Consultant shall be compiled at least quarterly and communicated to the Investment Committee for review. Each active liquid (and hedge fund) investment manager will be reviewed by the Committee on an ongoing basis and evaluated upon the criteria listed below. The Committee expects the managers to outperform the benchmarks over a reasonable period of time. The Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, investment managers may under perform their benchmarks. Each investment manager will be reviewed on an ongoing basis and evaluated on the following criteria:

a. Stability of the organization
b. Retention of key personnel
c. Absence of regulatory actions against the firm, its principals, or employees
d. Adherence to the guidelines and objectives of this Statement of Investment Policy
e. Consistency in the style and capitalization characteristics defined as "normal" for the manager
f. Performance compared to the appropriate benchmark and, for equity managers, produce positive risk-adjusted return (alpha)
g. Performance compared to a peer group of managers with similar styles of investing

## GUIDELINES AND RESTRICTIONS

The guidelines stated below apply to investments in non-mutual and non-pooled funds, where the investment manager is able to construct a separate, discretionary account on behalf of the Foundation. Although the Committee cannot dictate policy to pooled/mutual fund investment managers, it is the Committee's intent to select and retain only pooled/mutual funds with policies that are similar to that of the Foundation. All managers (pooled/mutual or separate) are expected to achieve all performance objectives and other subjective criteria.

Each investment manager shall:

1. Have full investment discretion with regard to security selection consistent with this Statement of Investment Policy;

2. Immediately notify the Committee in writing of any material changes in the investment strategy, portfolio structure, ownership or senior personnel;

3. Make no purchase that would cause a position in the portfolio to exceed 5% of the outstanding voting shares of the company or invest with the intent of controlling management;

4. Not invest in non-marketable securities; except common trust funds that invest in marketable securities;

5. With the exception of international managers, not invest in non-dollar denominated securities;

6. In the case of international managers, maintain appropriate diversification with respect to currency and country exposure; and

7. No individual security of a single issuer will comprise more than five percent (5%) of the Foundation's total market value.

## SPECIFIC INVESTMENT GOALS

The Foundation's Investment Objective as established in this Statement, or as from time to time established by the Investment Committee, shall be consistent with the above-described general policies and guidelines, and further it is the goal of the Investment Managers to:

1. Meet or exceed the market index, or blended market index, selected and agreed upon by the Investment Committee that most closely corresponds to the style of the Investment Manager.

2. Display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.

## LIQUIDITY

The Investment Committee will periodically provide the Custodian and/or Investment Managers with an estimate of expected net cash flow in order to minimize the possibility of loss occasioned by untimely security sales that may be necessary to meet cash flow demands. The Investment Committee will notify the Custodian and/or Investment Managers, in a timely manner, to allow sufficient time to create necessary liquid reserves.

## ALTERNATIVE INVESTMENTS

All types of alternative investments, including but not limited to, private equity, venture capital and limited partnerships are expressly prohibited unless approved in advance by the Investment Committee in writing. If approved, any Investment Manager will be bound by the same "Manager Evaluation" criteria as previously stated, as well as all other relevant portions of this document.

Currently, the only types of alternative investments approved by the Investment Committee are hedge funds. Hedge funds are utilized in the portfolio to provide an absolute return strategy, defensive protection in challenging markets and low correlation to traditional equity and fixed income managers.

**Hedge Funds**

Investments in hedge funds shall be made through a fund-of-funds vehicle to provide appropriate diversification by manager and strategy. Investments in hedge funds will be used to diversify the overall portfolio and enhance total return. Derivative securities may be utilized indirectly as part of a diversified hedge fund-of funds strategy. It is understood that hedge funds have limited liquidity (typically annual redemption) and are private partnerships that may experience high variability of returns. It is the Investment Committee's intent to only retain those hedge funds that have characteristics consistent with lower volatility strategies and whose historical standard deviation of returns is in line with that of the Lehman Bros. Aggregate Index. The Investment Committee shall consider certain criteria including, but not limited to, the following in its evaluation of a fund:

i. Tenure and track record of management as a team;
ii. Expertise in targeted areas of investment;
iii. Diversification relative to other investments;
iv. Use of leverage;
v. Liquidity of investments;
vi. Maintain registration with the SEC

The Foundation will only invest in offshore limited partnership shares -- to avoid "Unrelated Business Taxable Income" (UBTI) -- and its investment will not comprise more than 10% of any individual partnership's assets.

## MARKETABILITY OF ASSETS

The Investment Committee requires that all of Pooled Fund assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Pooled Fund, with minimal impact on market price, with the exception of any investments made in hedge funds.

**Prohibited Assets**

Prohibited investments include, but are not limited to, the following:

1. Commodities and Commodities Futures Contracts
2. Private Placements
3. Limited Partnerships
4. Venture-Capital Investments
5. Real Estate properties

Provided, however, the Foundation, in its sole discretion, may accept donations of real estate and tangible personal property if it is in the best interests of the Foundation to do so. If donations of real estate or tangible personal property are accepted, the goal of the Investment Committee is to liquidate such assets as quickly as possible for fair market value. While the ownership of real estate is vested in the Foundation, the Investment Committee may delegate duties regarding the real estate to property managers, appraisers and other consultants.

**Prohibited Transactions**

Prohibited transactions include, but are not limited to, the following:

1. Short Selling
2. Margin Transactions
3. Derivatives, unless used within a Mutual Fund or Common Trust Fund

## INVESTMENT POLICY REVIEW

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this Statement of Investment Policy, the Investment Committee plans to review investment policy annually.

**This Statement of Investment Policy is adopted by the Board of Directors on 6-3-08 as amended and recommended by the Investment Committee of Legacy Foundation, Inc.**