This sample investment policy statement has been developed by Allodium Investment Consultants to provide guidance for fiduciary investors in the investment decision-making process. We have adapted this from multiple sources including ***The Management of Investment Decisions*** *by Donald Trone, William Albright and Phillip Taylor. For more information about the fiduciary investment management process please visit the Allodium web site at www.aicria.com*

"SAMPLE" INVESTMENT POLICY STATEMENT

Anchor Foundation

Prepared for:
Anchor Foundation

Draft Dated 2/22/10

This investment policy statement should be reviewed and updated at least annually. Any change to this policy should be communicated in writing on a timely basis to all interested parties.

EXECUTIVE SUMMARY

Organize: provide the basis details of the investment policy statement in a one page executive summary

Type of Foundation:	Private Foundation 501 (c) (3)
Foundation Tax ID:	41-9999999
State of Domicile:	Minnesota
Fiduciary Standard:	Uniform Prudent Investor Act (UPIA)
Year Established:	1947
Current Assets:	$ 3,000,000 on August 1, 2009
Fiscal Year End:	12/31
Custodian:	Charles Schwab
Decision-Maker(s):	Investment Committee
Time Horizon:	Greater than 10 Years
Modeled Return:	8% (Consumer Price Index + 4%)
Modeled Loss:	Moderate risk

Organize: provide a description of the purpose of this investment policy statement

PURPOSE

A written investment policy allows investors to clearly establish the prudence and diversification standards, which they want the investment process to maintain. The net effect of the written policy is to increase the likelihood that the portfolio will be able to meet the financial needs of the Foundation through the development of specific objectives.

The purpose of this Investment Policy Statement (IPS) is to assist Anchor Foundation (Foundation) and the Investment Advisor (Advisor) in effectively supervising, monitoring and evaluating the management of the Foundation's assets. The Foundation's investment program is defined in the various sections of the IPS by:

1. Stating in a written document the Foundation's attitudes, expectations, objectives and guidelines for the investment of their assets.

2. Setting forth an investment structure for managing the Foundation's assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon.

3. Establishing formal criteria to select, monitor, evaluate and compare the performance results achieved by the Advisor and their selected money managers on a regular basis.

4. Encouraging effective communications between the Foundation, the Advisor and interested parties.

5. Complying with all applicable fiduciary, prudence and due diligence requirements experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international governmental and regulatory entities that may impact the Foundation's assets.

BACKGROUND

Anchor Foundation educational services for citizen's of the United States who are interested in learning more about fiduciary investment management.

Founded in 1947 by Amanda Johnson, the Foundation has been providing over $1 million in annual scholarships for individuals who are studying the best practices for fiduciary investors.

Organize: provide the details about the "story" about the organization

The fiduciaries for the Foundation are the board members and the investment committee members who are responsible for the investment decision-making for the Foundation.

The Foundation is incorporated as a non-profit organization in the State of Minnesota and is categorized as a 501(c)(3) organization by the Internal Revenue Service. The Foundation is a tax-exempt entity and has plans to maintain their tax exempt status.

The Foundation is supported by annual grants from an anonymous philanthropist who controls large tracts of real estate in the Western United States and is confident that these annual grants will continue for many years. The Foundation investment portfolio has been about $3 million for the past several years with annual incoming contributions of approximately $1 million per year and average annual cash disbursements from the Foundation of approximately $1 million per year.

The Foundation built a training facility in the Bahamas in 1990 and has invested in real estate in Nassau, the Bahamas in recent years.

There are currently no donor restrictions on any of the Foundation's assets.

This IPS has been prepared for the assets in the Anchor Foundation, a tax-exempt, non-profit organization under IRS Code 501(c) (3).

Formalize: define the investment objectives of the organization – and choose three specific objectives

STATEMENT OF OBJECTIVES

The objectives for the Foundation have been established in conjunction with a comprehensive review of current and projected financial requirements. The objectives are:

1. Follow a spending policy based on total return. A total return based policy allows the Foundation to map out a long-term investment strategy and to employ modern investment management techniques.

2. Maintain the purchasing power of the fund. The objective is to maintain the level of services and programs in relation to average cost increases. This requires establishing an equilibrium spending rate of 5%.

3. Apply a smoothing rule to mitigate the effects of short-term market volatility on spending. Since investment returns may vary dramatically from year to year, spending a constant percent of the fund's market value would play havoc with spending amounts. We will adopt an equilibrium spending rate based on a moving average of the portfolio value over the trailing twelve quarters (three years).

4. Maintain a constant funding-support ratio. The desire of the Foundation is to maintain the level of programs and services currently provided. This objective requires that we reinvest the total return on the portfolio and sufficient new funds are added to keep pace with cost increases and program expansion.

5. Maintain the purchasing power of the current assets and all future contributions. The objective is to maintain the level of services and programs in relation to the average cost increases.

6. Maximize return within reasonable and prudent levels of risk.

7. To earn an investment return 3-5 percent in excess of the return measured by the 90-day U.S. Treasury Rate.

8. To exceed median investment manager performance while maintaining a positive risk adjusted performance as measured by an independent consulting service. For every manager hired, an appropriate benchmark will be assigned.

9. To achieve an average annual rate of return of the Consumer Price Index plus 4% for the aggregate investments under this investment policy statement evaluated over a period of five years.

Formalize: provide clear definitions for the time horizon for the investment portfolio

Formalize: provide clear definitions for the risk tolerance for the investment portfolio

Formalize: provide the attitudes, expectations, expected returns and goals of the board members

Time Horizon:

For the purposes of planning, the time horizon for investments is to be in excess of ten years. Historical asset class return data suggest that the risk of principal loss over a holding period of at least three to five years can be minimized with the long-term investment mix employed under this IPS. This Foundation has a time horizon of greater than 10 years and may be invested with a long-term investment time horizon of greater than 10 years. Therefore, interim fluctuations should be viewed with appropriate perspective.

Risk Tolerances:

The Foundation is viewed as a conservative risk taker with regard to these investment assets. The Foundation rates its own risk tolerance as conservative. The Foundation will be managed in a manner that seeks to minimize principal fluctuations over the established horizon and is consistent with the stated objectives. Financial research has demonstrated that risk is best minimized through diversification of assets, including international investments.

The Foundation recognizes and acknowledges some risk must be assumed in order to achieve the long-term investment objectives of the Foundation and the uncertainties and complexities associated with contemporary investment markets.

In establishing the risk tolerances for this IPS, the Foundation's ability to withstand short and intermediate-term variability of values was considered. The Foundation's prospects for the future and current financial condition suggest that some interim fluctuations in market value and rates of return may be tolerated with the Foundation in order to achieve longer-term objectives. The Foundation recognizes that higher returns involve some volatility and has indicated a willingness to tolerate declines in the value of the investment portfolio of between 0% and 5% in a given year.

Expected Returns:

The Board believes long-term investment performance, in large part, is primarily a function of asset class mix. The Board has reviewed the long-term performance characteristics of the broad asset classes, focusing on balancing the risks and rewards.

History shows that while interest-generating investments, such as bond funds, have the advantage of relative stability of principal value, they provide little opportunity for real long-term capital growth due to their susceptibility to inflation. On the other hand, equity investments, such as common stocks, clearly have a significantly higher expected return but have the disadvantage of much greater year-by-year variability of return. From an investment decision-making point of view, this year-by-year variability may be worth accepting, provided the time horizon for the equity portion of the investment portfolio is sufficiently long (five years or greater).

Projected Financial Requirements:

The Foundation has a spending policy that calls for minimum annual distributions from the Foundation of 5% of the average portfolio value over the past twelve quarters (measured by the ending value of the investment portfolio at the end of each quarter). Due to the annual grants from the anonymous benefactor, the Foundation has been spending well in excess of the 5% spending policy for each of the past eleven years.

Performance Expectations:

In general, the Foundation would like the investment portfolio to earn at least a targeted return of 6.5%. It is understood that an average return of 6.5% will require superior manager performance to: (1) retain principal value; and, (2) purchasing power. Furthermore, the objective is to earn a long-term rate of return that is at least 4.0% greater than the rate of inflation as measured by the CPI.

INVESTMENT STRATEGY GUIDELINES

Formalize: provide clear definitions for the strategic asset allocation for the investment portfolio

Strategic Asset Allocation Policy:

Academic research suggests that the decision to allocate total assets among various asset classes will far outweigh security selection and other decisions that impact Foundation performance. After reviewing the long-term performance and risk characteristics of various asset classes and balancing the risks and rewards of market behavior, the following asset classes were selected by the Foundation and the Advisor to achieve the objectives of the Foundation.

Formalize: provide clear definitions for the strategic asset allocation for the investment portfolio

	Lower Limit	Strategic Asset Allocation (“Target”)	Upper Limit
Domestic Large-Cap Equity	10	13	16
Small-Cap Equity	5	7	9
Micro-Cap Equity	5	7	9
International Equity	20	26	32
Fixed Income	13	17	21
Diversified Alternatives	14	18	22
Directional Alternatives	9	12	15
		100	

The Foundation authorizes the investment advisor to maintain broad diversification between the three major asset categories of equities, fixed income and alternative investment strategies. The investment advisor will be authorized to make tactical asset allocation decisions within the lower and upper limits documented in the asset allocation policy outlined above.

Formalize: provide the process and procedures for rebalancing the investment portfolio

Rebalancing Procedures:

From time to time, market conditions may cause the Foundation’s investment in various asset classes to vary from the established strategic asset allocation. To remain consistent with the strategic asset allocation guidelines established by this IPS, each asset class in which the Foundation invests shall be reviewed on a quarterly basis by the Advisor and rebalanced back to the recommended weighting if the actual weighting varies by 10% or more from the recommended weighting (e.g., from 10% to between 9% and 11% of total assets).

The approved strategic asset allocation displayed previously indicates both an initial “target” allocation and a range for each broad investment category.

From time to time, based on changing economic circumstances and the various relative investment opportunities as perceived by the Advisor, it may be desirable to make changes in the target allocation. The Advisor may determine such changes, as long as they are within the acceptable ranges, also listed previously. Subsequent investment changes, which the Foundation must approve prior to any changes actually being put in place, will reflect the updated allocation, about which the Advisor will keep the Foundation fully informed.

SECURITIES GUIDELINES

Liquidity:

Formalize: define policies regarding liquidity, marketability of assets, and permitted & prohibited investments

The Foundation has determined that sufficient dependable income and liquidity are presently available from other sources such that the Foundation does not need to maintain significant cash balances among these assets, except as may be dictated for investment reasons. The Foundation maintains a separate general and cash account that maintains a cash balance throughout the year to accommodate short term cash needs for Foundation grants and other Foundation related expenses. The board usually receives significantly all of the Foundation's contributions into the Foundation in December and the Foundation usually makes distributions in February and March. This leaves little need for cash in the Foundation.

Marketability of Assets:

Due to the Foundation's relatively long-term investment horizon but with potential for changes, the Foundation has determined that, as appropriate, up to 20% of the assets under this investment policy statement can be invested in illiquid, long-term investments to include but not be limited to, private real estate investment trusts, limited partnerships and bank certificates of deposit with extended maturities.

Permitted Investment Categories:

1. Cash and cash equivalents, including money market funds
2. Fixed income assets
3. Bonds (corporate, U.S. government)
4. Bank certificates of deposit
5. Stocks (U.S. and foreign-based companies)
6. Real Estate Investment Trust (REITs)
7. Alternative Investments

Formalize: define policies regarding liquidity, marketability of assets, and permitted & prohibited investments

Prohibited Investment Categories:

1. Equipment leasing
2. Natural resources
3. Precious metals

4. Venture capital
5. Collateralized Mortgage Obligations (CMOs)

Investment Concentration:

The Foundation limits the amounts allocated to specific active investment managers to no more than 10% of the overall portfolio value. This investment limitation for investment concentration does not apply to passively-managed index funds.

Formalize: note the socially responsible investment preferences (if applicable)

Moral and Social Guidelines:

In accordance with its role and mission "to educate investors about fiduciary best practices" the Foundation opposes investments in gambling entities and where practical will avoid investing in these types of companies.

It is recognized that all who are involved in the investment process have a legal obligation as fiduciaries to achieve maximum returns consistent with the level of investment risk appropriate to the investment objectives. This obligation must be balanced with the moral and ethical concerns of the Foundation at all points in the investment management process. It is also recognized that there may be circumstances (where investments are pooled with other investors as in mutual funds or index funds for economies of scale and diversification) where control over or influence over the investment decisions are limited. The legal obligations of the fiduciaries must be balanced with the concerns of the public.

SELECTION OF INVESTMENT MANAGERS

Implement: clearly define the investment manager research methodology and selection process

Selection and Retention Criteria:

The Foundation will apply the following due diligence criteria in selecting each money manager or mutual fund:

1. regulatory oversight
2. track record
3. assets in the fund
4. stability of the organization
5. composition consistent with asset class
6. style consistency
7. expense ratio/fees relative to peers
8. risk-adjusted performance relative to peers
9. performance relative to peers

Monitor: define control procedures to monitor the portfolio on a periodic basis

CONTROL PROCEDURES (Monitor and Supervise)

Performance Objectives:

The Foundation acknowledges that fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Recognizing that short-term fluctuations may cause variations in performance, the Foundation intends to evaluate manager performance from a long-term perspective.

The Foundation is aware of the ongoing review and analysis of the investment managers is just as important as the due diligence implemented during the manager selection process. The performance of the investment managers will be monitored on an ongoing basis and it is at the Advisor's discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

The decision to retain or terminate a manager cannot be made by a formula. It is the Foundation's confidence in the manager's ability to perform in the future that ultimately determines the retention of a manager.

Monitor: define control procedures to monitor the portfolio on a periodic basis

Review Procedures:

On a timely basis, but not less than quarterly, the Foundation will meet to review whether each investment manager continues to conform to the search criteria outlined in the previous section; including, but not limited to:

1. The investment manager's adherence to the Foundation's investment guidelines;
2. Material changes in the manager's organization, investment philosophy and/or personnel; and,
3. Any legal, SEC and/or other regulatory agency proceedings affecting the manager.

Monitor: define control procedures to monitor the portfolio on a periodic basis - benchmarks

Performance Benchmarks:

The Foundation has determined it is in the best interest of the Foundation that performance objectives be established for each investment manager. Manager performance will be evaluated in terms of an appropriate market index (e.g. the Russell 1000 stock index for large-cap domestic equity manager) and the relevant peer group (e.g. the large-cap growth mutual fund universe for a large-cap growth mutual fund).

Asset Class	***Index (Passive Basket)***	***Peer Group (Active Managers)***
Large-Cap Equity		
Core	S&P 500	Large-Cap Core
Growth	Russell 1000 Growth	Large-Cap Growth
Value	Russell 1000 Value	Large-Cap Value
Small-Cap Equity	Russell 2000	Small-Cap
Micro-Cap Equity	Russell Microcap	Micro-Cap
International Equity		
Developed	MSCI EAFE	Developed
Emerging Markets	MSCI Emerging Markets	Emerging
Fixed Income		
Taxable Intermediate	Barclays Capital US Gov/Credit Intermediate	Intermediate-Term Bond
Taxable Corporate High Yield	Barclays Capital High Yield Corporate	High Yield Bond
Diversified Alternatives	HFRI Fund of Funds – Diversified Index	Absolute Return Funds/Intermediate-Term Bond
Directional Alternatives	HFRI Equity Hedge Index	Hedged Equity/S&P 500

Monitor: define control procedures to monitor the portfolio on a periodic basis – monitor expenses

Measuring Costs:

The Foundation will review at least annually all costs associated with the management of the Foundation's investment program, including:

1. Expense ratios of each investment option against the appropriate peer group.

2. Custody fees: The holding of the assets, collection of the income and disbursement of payments.

3. Whether the manager is demonstrating attention to "best execution" in trading securities.

4. Administrative Fees: Costs to administer the Foundation, including record keeping, account settlement (participant balance with that of fund), and allocation of assets and earnings, and (when applicable) the proper use of 12b-1 fees to offset these fees.

DUTIES AND RESPONSIBILITIES

Foundation Investment Committee:

Monitor: define control procedures to monitor the portfolio on a periodic basis – roles and responsibilities

As a fiduciary, the primary responsibilities of the Foundation are:

1. Prepare and maintain this investment policy statement.
2. Prudently diversify the portfolio's assets to meet an agreed upon risk/return profile.
3. Prudently select investment options.
4. Control and account for all investment, record keeping and administrative expenses associated with the portfolio.
5. Monitor and supervise all service vendors and investment options.
6. Avoid prohibited transactions and conflicts of interest.

Investment Advisor:

The Foundation will retain an objective, third-party Advisor to assist the Foundation in managing the overall investment process. The Advisor will be responsible for guiding the Foundation through a disciplined and rigorous investment process to enable the Foundation to meet the fiduciary responsibilities outlined above. The specific duties and responsibilities of the Investment Advisor are:

1. Assist the investment committee in the development of a formal investment policy statement

2. Recommend a strategic asset allocation strategy
3. Perform due diligence research on independent investment managers
4. Implement the asset allocation with appropriate investment managers
5. Monitor the performance of the overall portfolio
6. Evaluate the performance of each of the individual investment managers
7. Replace investment managers when deemed necessary by the Advisor
8. Provide a quarterly performance report to the Foundation
9. Meet with the Foundation quarterly to review the investment performance reports and assure compliance with the investment policy statement relative to asset allocation and performance expectations.

Investment Managers:

Monitor: define control procedures to monitor the portfolio on a periodic basis – roles and responsibilities

As distinguished from the Foundation and Advisor, who are responsible for managing the investment process, investment managers are responsible for making investment decisions (security selection and price decisions). The specific duties and responsibilities of each investment manager are:

1. Manage the assets under their supervision in accordance with the guidelines and objectives outlined in their respective service agreements, prospectus or trust agreement.

2. Exercise full investment discretion with regards to buying, managing, and selling assets held in the portfolio.

3. If managing a separate account (as opposed to a mutual fund or a commingled account), seek approval from the Foundation prior to purchasing and/or implementing the following securities and transactions:

    - Lettered stock and other unregistered securities; commodities or other commodity contracts; and short sales or margin transactions.
    - Securities lending; pledging or hypothecating securities.
    - Investments in the equity securities of any company with a record of less than three years of continuous operation, including the operation of any predecessor.
    - Investments for the purpose of exercising control of management.

4. Vote promptly all proxies and related actions in a manner consistent with the long-term interest and objectives of the portfolio as described in this IPS. Each investment manager shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.

5. Communicate to the Foundation all significant changes pertaining to the fund it manages or the firm itself. Changes in ownership, organizational structure, financial condition, and professional staff are examples of changes to the firm in which the Foundation is interested.

6. Effect all transactions for the portfolio subject “to best price and execution." If a manager utilizes brokerage from the portfolio assets to effect “soft dollar” transactions, detailed records will be kept and communicated to the Foundation.

7. Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like Foundations with like aims in accordance and compliance with the Uniform Prudent Investor Act and all applicable laws, rules, and regulations.

8. If managing a separate account (as opposed to a mutual Foundation or a commingled account), acknowledge co-fiduciary responsibility by signing and returning a copy of this IPS.

Monitor: define control procedures to monitor the portfolio on a periodic basis – roles and responsibilities

Custodian:

Custodians are responsible for the safekeeping of the Foundation’s assets. The specific duties and responsibilities of the custodian are:

1. Maintain separate accounts by legal registration.
2. Value the holdings.
3. Collect all income and dividends owed to the Foundation.
4. Settle all transactions (buy-sell orders) initiated by the Investment Manager.
5. Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall Foundation since the previous report.

Monitor: define control procedures to monitor the portfolio on a periodic basis – roles and responsibilities

INVESTMENT POLICY REVIEW

FOUNDATION will review this IPS at least annually to determine whether stated investment objectives are still relevant and whether the continued feasibility of achieving them is still the same. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

Approved by the Foundation Investment Committee on: __________

Signature: ____
John Doe, President

Approved by the Foundation Board of Directors on: __________

Signature: ____
John Doe, President

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