Community Foundation of Greater Chattanooga

INDIVIDUALLY MANAGED FUND ("IMF") PROGRAM

Program Description, Requirements, and Investment Policy

May 19, 2021

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Section One: Introduction

Program Description

The **Community Foundation of Greater Chattanooga** ("**CFGC**") offers the **Individually Managed Fund** ("**IMF**") Program (the "**Program**") to allow Donors the opportunity to customize the investment strategy for their Donor Advised Funds ("DAFs") through recommendation of a preferred Advisor (as qualified herein), subject to the restrictions and requirements of the Program. CFGC owns and has responsibility for the investment of the assets of each DAF. A Donor's participation in the Program is advisory in nature. CFGC is not bound to accept any recommendations regarding a preferred Advisor or any other investment related to a DAF.

This "Program Description, Requirements, and Investment Policy" applies to all IMFs accepted and approved on or after May 19, 2021. CFGC has designated its Investment Committee ("**Committee**") to review and monitor all investments, including IMFs. Therefore, all IMFs will be subject to initial and ongoing review, approval, and monitoring by the Committee or its designated sub-committee.

Program Requirements

Advisors approved in the Program must qualify as one of the following:

1. Registered with the Securities and Exchange Commission as a Registered Investment Adviser ("**RIA**"). The Advisor must furnish an updated **Form ADV (Parts 1, 2A & 2B)** to the Committee on an annual basis, immediately upon an updated filing related to a material change, and upon request. The Advisor will be permitted to utilize the services of a Qualified Custodial firm (e.g., national securities brokerage firm; nationally chartered commercial bank) to safekeep securities, process trades, generate statements, including tax filings, as necessary.

2. A registered representative and/or investment adviser representative with a Broker-Dealer registered with the SEC and supervised by the SEC and FINRA. The Advisor must furnish an updated Form **CRS** ("**Customer Relationship Summary**"), prepared pursuant to the SEC's **Regulation Best Interest ("Reg BI"),** to the Committee on an annual basis, immediately upon an updated filing related to a material change, and upon request.

3. A Trust Company or the Trust Division of a commercial bank subject to regulatory supervision by the FDIC, OCC, and/or state banking authorities. The Advisor must furnish regulatory disclosures to the Committee on an annual basis, immediately upon a material change, and upon request.

Additional Requirements

- The Advisor must act as a fiduciary at all times and comply with the SEC's Interpretation Regarding Standard of Conduct for Investment Advisors, applicable to RIAs, or SEC **Regulation Best Interest** ("**Reg BI**"), applicable to Broker-Dealers.

- The Advisor must acknowledge that the Committee requires compliance with UPMIFA, and the Advisor must comply with the parameters in **the Investment Policy** (the "**IMF Investment Policy**") **applicable to IMFs**.

- By the tenth business day of the month following the end of each calendar quarter, the Advisor must furnish a detailed account statement that includes the market value and cost basis of all assets; transactions during the period; contributions and distributions; and performance calculated on a time-weighted total return basis, net of fees.

Related Party Restrictions

The Committee expects that Advisors will be individuals or entities independent from the Donor. Therefore, the Committee will not approve an Advisor that is a related party, as defined:

- The Advisor is the Donor or a member of the Donor's family;

- The Advisor is a corporation, partnership, trust, or estate of which the Donor or the Donor's family own more than 35%.

- The Advisor otherwise has, or is related to a person that has, advisory privileges with respect to recommendations to CFGC with respect to charitable grants from the DAF.

Excess Business Holdings

The Pension Protection Act of 2006 amended section 4943 of the Internal Revenue Code to limit ownership of closely-held business interests in a donor advised fund. A DAF's holdings, together with the holdings of disqualified persons (i.e., donors, advisors, members of their families and businesses owned more than 35% by such persons) may not exceed any of the following:

- 20% of the voting stock of a corporation;

- 20% of the profits or capital interest of a partnership, limited liability company, joint venture, or the beneficial interest in a trust or similar entity.

These limitations do not apply if the DAF holds an interest that does not exceed 2% of the voting stock and 2% of the value of a corporation.

DAFs that receive gifts of interests in a business enterprise have five years from the receipt of the interest to divest holdings that are above the permitted amount, with the possibility of an additional five years if approved by the Internal Revenue Service. To prevent a violation of these rules, it is CFGC's policy to divest itself of such holdings within five years from the date CFGC acquired the asset. If that is not possible, the asset will be transferred to a new or existing fund that is not a DAF.

The Committee shall be kept informed regarding any potential excess business holdings and may refer any issues thereunder to the full Board of CFGC for consideration.

Section Two: Program Policies and Procedures

Procedures to Establish an Individually Managed Fund

- The Donor and Advisor must complete and execute a separate **IMF Authorization Form**.

- The Advisor must complete a separate **Request for Information** ("RFI") and submit to CFGC for Committee review and approval.

- For each IMF, the Advisor must submit a separate **IMF Benchmarks Form** to CFGC for Committee review and approval.

- Advisors are required to provide proof of adequate insurance coverage, subject to Committee review and approval. Types of coverage include, but are not limited to, Errors & Omissions; Fiduciary Liability; General Business; and a Financial Institutions Bond.

- The Advisor must coordinate with CFGC staff to establish an investment account registered to "**The Community Foundation of Greater Chattanooga**."

- The Committee will review the RFI, Benchmarks Form, and the investment strategy of each IMF. The Committee will also review the fees for each Advisor (see section titled "Fees").

- Once the IMF is approved by the Committee, the Advisor shall have discretionary authority to manage the account pursuant to the IMF's investment strategy and subject to the restrictions and guidelines of the **IMF Policy**.

Policies Applicable to Individually Managed Funds

- The Advisor must acknowledge CFGC is the sole owner of the IMF and that the Advisor shall follow instructions only from CFGC.

- At its sole discretion, CFGC may terminate the engagement with the Advisor and may transfer the assets held in the IMF to one of several commingled investment pools.

- The Donor may recommend a successor or replacement Advisor at any time. Each Advisor will require Committee approval and will be subject to all policies and procedures under the Program.

Section Three: The IMF Investment Policy

Investment Objectives

Founded in 1963, the Community Foundation of Greater Chattanooga ("CFGC") supports initiatives, programs and organizations focused on addressing areas of critical need in Chattanooga. Since inception, CFGC has awarded grants totaling well over $200 million.

In order to meet the needs and objectives of CFGC, the investment strategy of each IMF should emphasize a balanced return of current income (i.e., derived from both dividend and interest income) and long-term growth of principal (i.e., capital appreciation). The IMF will be managed from a long-term perspective with a focus on above market risk-adjusted total return, current income to meet required distributions, and stability of principal.

The Advisor shall pursue an investment strategy that remains, at all times, within the parameters established and described in the IMF Investment Policy. The Advisor will be expected to utilize tactical asset allocation strategies, when appropriate, to take advantage of cyclical trends in the capital markets.

The overall approach to the portfolio will be dynamic, emphasizing good relative performance. Positive absolute returns are another investment objective.

General Principles

- **Fiduciary Obligation** - Investments shall be made solely in the interest of CFGC and for the exclusive purpose of providing benefits accrued thereunder and defraying the reasonable expenses of administration.

- **Risk Aversion** - Understanding that risk is present in all types of securities and investment styles, the Committee recognizes that some risk is necessary to produce favorable long-term investment results. The Advisor should make reasonable efforts to control risk and to ensure that the risk assumed is commensurate with the given investment strategy.

- **Preservation of Capital** - the Advisor should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.

- **Diversification** – the Advisor will be expected to maintain a minimal level of overall portfolio diversification, avoid concentration risk in any one security, sector, or industry, and to adhere to the general principles of Modern Portfolio Theory which emphasizes risk reduction through adequate diversification both within and among asset classes.

- **Loss Mitigation** - Under extreme market conditions, the Advisor will be expected to coordinate with the Committee to mitigate the risk of large losses or preserve principal, even if such actions could deviate from the parameters established in this Investment Policy.

Uniform Prudent Management of Institutional Funds Act ("UPMIFA")

Advisors engaged under the Program to manage IMFs acknowledge their fiduciary duty:

- The Committee will apply the principles of the Uniform Prudent Management of Institutional Funds Act ("**UPMIFA**") to the management of all assets of CFGC.

- A fiduciary shall invest and manage the assets of CFGC as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of CFGC. In satisfying this standard, the fiduciary shall exercise reasonable care, skill, and caution.

- The Advisor's decisions and recommendations with regard to individual assets, asset and sector allocation will be evaluated 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 CFGC.

In accordance with UPMIFA, the Committee will consider the following factors with respect to the investment of IMFs:

- The duration and preservation of the fund.

- General economic conditions.

- The possible effect of inflation and deflation.

- The expected total return from income and the appreciation of investments.

- Other resources of CFGC.
- Needs for liquidity, regularity of income, and preservation or appreciation of capital.
- An asset's special relationship or special value, if any, to the purposes or mission of CFGC.

Asset Allocation Guidelines

Investment strategies for each IMF shall be in accordance with the asset allocation guidelines as set forth in the table. Any significant deviations from the established allocations will require approval by the Committee.

	Range of Allocations	
Asset Class	**Low**	**High**
Equities	**30%**	**75%**
Fixed Income	**15%**	**50%**
Liquid Alternatives	**0%**	**20%**
Cash	**0%**	**10%**

- The Advisor will be expected to rebalance to the target allocation range as specified in the separate IMF Benchmarks Form at least annually.
- The asset allocation of each IMF will be reviewed at least annually by the Committee.
- All IMFs must be fully invested, at all times, in strategies and funds that provide daily liquidity and daily market values.

Permitted Investments

1. **Cash Equivalents** – Money market mutual funds, bank deposits, and other short-term fixed income securities that are principal guaranteed or FDIC insured.

2. **Fixed Income Securities**
   - U.S. Government and Agency Securities
   - Debt obligations of corporations, both US and internationally
   - Mortgage Backed Securities
   - Preferred Stock
   - Exchange Traded Funds ("ETFs"); Closed- and Open-end Mutual Funds

3. **Equity Securities**
   - Common Stocks, both US and International
   - Common Stocks for companies in Emerging Markets
   - Convertible Notes and Bonds
   - Convertible Preferred Stocks
   - American Depository Receipts ("ADRs") of Non-U.S. Companies
   - Exchanged Traded ("ETFs"); Closed- and Open-end Mutual Funds

Liquid Alternative Investments

The Committee acknowledges that it could be in the best interests of CFGC to include an allocation to strategies that are defined as alternative or non-correlating to provide additional diversification benefits. The Committee categorizes asset classes, such as real estate, commodities, and precious metals, that exhibit low correlations with the stock and bond markets as "alternatives." "Liquid alternatives" mutual funds are permitted to implement various non-traditional strategies, including the use of short sales, while still complying with the daily liquidity and Net Asset Value (NAV) reporting requirements of the Investment Company Act of 1940 (the "40 Act"). The Committee has approved the limited use of "liquid alt" funds for purposes of establishing an allocation that is intended to be uncorrelated with the stock and bond markets.

Prohibited Investments

- Any fund or strategy that is not registered under the 40 Act.
- Any fund or strategy that does not provide daily liquidity.
- Any fund or strategy that does not provide daily market values.
- Options; futures; swaps and other financial derivatives.

- Leveraged or inverse exchange traded funds ("ETFs").
- Mutual funds with a sales charge (i.e. "Load").
- Mutual funds that charge a 12-b-1 fee.

Performance Reporting and Evaluation

The investment performance of the IMF will be evaluated against commonly accepted performance benchmarks. The Committee intends to evaluate each IMF over trailing three, five, seven, and ten-year periods, but reserves the right to terminate the Advisor at any time and for any reason including, but not limited to, the following:

1. Investment performance that is significantly less than anticipated given the strategy pursued and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this Investment Policy for IMFs, including communication and reporting requirements.
3. Significant qualitative changes to the Advisor's firm, including changes in personnel.
4. Failure to act in any manner expected of fiduciaries.
5. Failure to act in any manner consistent with the best interests of CFGC.

Fees

The Advisor must disclose all applicable fees related to the management of each IMF. Such fees could include, but are not limited to, management fee; custodial charges; fees of sub-advisors; and operating expenses associated with funds. The Committee will not approve strategies that incorporate performance and incentive fees. The Committee expects all fees will be reasonable. The Committee will review and monitor all fees, expenses, and costs associated with each IMF on an ongoing basis.

IMF Administration

CFGC staff will coordinate with the Advisor, as necessary, to collect information, transfer funds, and ensure proper reporting. In order to cover costs associated with such activities, CFGC will charge each IMF an administrative fee, subject to the following schedule:

$ 250,000 - $ 1,000,000	**1.25%**
$1,000,001 - $ 5,000,000	**1.00%**
$5,000,001 - $10,000,000	**0.75%**
$10,000,001 and above	**0.50%**

The administrative fee will be charged quarterly. The annual minimum administrative fee is $3,125.

Program Guidelines

A Donor who elects to participate in the Program remains subject in all respects to the terms and conditions of the Fund Agreement governing the DAF and the determinations of the Committee and the Board of Directors of CFGC in the administration of the Program. CFGC reserves the right the modify the Program and the terms of the Program Description, Requirements, and Investment Policy at any time.