THE COMMUNITY FOUNDATION OF FREDERICK COUNTY
STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES (IPS)

Approved by Board of Trustees on October 27, 2023, and January 26, 2024, and February 28, 2025

I. About The Community Foundation of Frederick County

The Community Foundation of Frederick County ("Community Foundation") was founded in 1986 as an independent public charity chartered by the state of Maryland. The Board of Trustees ("Board") bears full responsibility for the Community Foundation and has the power to manage the property and investments of the Community Foundation.

Additionally, The Community Foundation Holding Company, Inc. ("Holding Company"), originally named The Foundation for the Community Foundation of Frederick, Inc., was created in 1997 as a supporting organization having trust powers and holding assets on behalf of the Community Foundation. The Holding Company and the Community Foundation share the same officers, trustees, and investment policies for assets held on behalf of permanent or pass-through funds of the Community Foundation. These investment policies will not apply to trusts in which the Holding Company is the trustee since each of these trusts has different investment objectives which are outlined in the trust documents.

The Board has determined that certain assets held in permanent (both endowment and quasi-endowment funds) and pass through funds (collectively referred to as "funds") should be invested to preserve and enhance the real value of each fund, to generate a stream of investment return to support grant and scholarship activities, and to annually disburse monies from each fund to support community efforts. To this end, the Board has established separate investment options with specific parameters to invest in such assets to fulfill the distribution requirements as stated in the fund agreements that govern each fund.

The Board has designated the Investment Committee to act on its behalf with regard to its charter. The Investment Committee will act in a prudent manner. The Investment Committee is not set up to function as a portfolio manager. The Board delegates the responsibility of monitoring investment and trust administration practices to be in compliance with all IRS statutes and regulations and all statutes and regulations in effect in the State of Maryland to the Investment Committee. The Executive Committee may enter into investment agreements.

The Investment Committee is responsible for:

- recommending investment policies to the Executive Committee and/or Board and gaining its approval for same

- meeting with the investment managers at least once a year to discuss investment performance and compliance with investment policies

- monitoring investment performance at least quarterly, and giving instructions for changes as it determines

- establishing investment policies for planned gifts which the Board or the Holding Company is responsible for the investment and monitoring of these investments

- creating new investment vehicles as options for investing funds

- reviewing and recommending written investment agreements with investment managers for consideration and approval by the Executive Committee

- as deemed appropriate, procure the services of a Consultant to confirm the Investment Committee is meeting its responsibilities

The Investment Committee has adopted the following policies and standards for investing component funds of the Community Foundation.

II. Investment Portfolios ad Objectives

It is the Community Foundation's general practice to invest its permanent and pass-through funds in their entirety within one of the following five portfolios:

1) Growth Portfolio

The Growth Portfolio holds pass-through and permanent funds held by the Community Foundation from which grants or scholarships are not presently made. The objective of this portfolio is to provide for intermediate to long-term growth of the principal balance. Current income and capital gains are predominantly reinvested.

Over a rolling three-year period, the Growth Portfolio will strive to achieve a total return that exceeds the benchmarks for the asset allocation.

Acceptable parameters for investments are:

Equities (US and Int’l)	85% to 100%
Fixed Income (US and Int’l)	0% to 15%
Money Market	0% to 15%

Appropriate benchmarks will be selected for each asset class or Mutual Fund and weighted according to asset allocation.

2) Balanced Growth Portfolio

The Balanced Growth Portfolio holds mainly quasi-endowment funds invested to produce present and future investment return.

The Balanced Growth Portfolio may also hold endowment and pass-through funds with an anticipated life expectancy of the fund of more than three years.

Over a rolling three-year period, the Balanced Growth Portfolio will strive to achieve a blended, weighted total return exceeding the Community Foundation’s asset allocation passive benchmarks. Acceptable parameters for investments are:

US Equities	20% to 60%
International Equities	7% to 40%
Fixed Income	16% to 50%
Cash/Cash	0% to 15%
Equivalents Absolute Return	0% to 15%
Private Equity	0% to 15%

3) Sustainable Portfolio

The Sustainable Portfolio holds mainly permanent endowment and quasi-endowment funds invested to produce present and future investment return while investing in accordance with the Community Foundation’s Values Statement Regarding ESG Investing, as shown on Addendum B.

The Sustainable Portfolio may also hold endowment and pass through funds with an anticipated life expectancy of the fund of more than three years.

Over a rolling three-year period, the Sustainable Portfolio will strive to achieve a blended, weighted total return exceeding the Community Foundation's asset allocation passive benchmarks. Acceptable parameters for investments are:

US Equities	20% to 60%
International Equities	7% to 40%
Fixed income	16% to 50%
Cash/Cash Equivalents	0% to 15%
Private Equity	0% to 15%

4) Maintenance of Principal Portfolio

The Maintenance of Principal Portfolio (MPP) holds a permanent and pass-through funds, which the Board has determined should be invested with low risk, low volatility and emphasis on capital preservation. These assets may also include funds that were restricted by the donor and where the principal and/or investment can be expended only for a specific purpose.

Over a rolling three-year period, the MPP will strive to achieve a rate of return exceeding the 30-Day Treasury. Acceptable parameters for investments are:

Money Market Instruments with highest grade and liquidity, Certificate of Deposits, or other principal protected securities.	100%

5) Acorn Portfolio

The Acorn Portfolio (Acorn) holds permanent and pass-through funds growing to meet the minimum fund balance of $25,000. The Board has determined that the Acorn should be invested with low risk, low volatility, and emphasis on capital preservation. No administrative fees will be charged on funds invested in the Acorn Portfolio as an act of good faith on behalf of the Community Foundation to help the fund grow and subsequently create impact as quickly as possible. Interest will accrue to the Community Foundation in lieu of the minimum administrative fee. Once the individual fund has obtained the $25,000 minimum, it will be transferred into an appropriate portfolio, determined by the type of fund and the fund's objectives as outlined in the individual fund agreement.

III. Permissible Asset Classes

The Investment Committee periodically reviews the overall asset allocation for each of the Portfolios to ensure appropriate diversification and desires that the assets be considered for quality and suitability. Please refer to Appendix A.

1) Equities

The purpose of common equity is to provide for both long-term capital appreciation and growth in current income that equals the S&P 500 Index over a rolling 3- and 5-year period, with domestic and foreign equities, and Mutual Funds (open and closed end) being permissible.

Equity holdings may be selected from the universe of equities on the consolidated tape. Managers are generally prohibited from investing in private placements, letter stock, and options, or from engaging in short sales, margin transactions or other specialized investment activities. A Mutual Fund Prospectus will govern the relevant Mutual Fund strategy.

Managers shall:

a. Use their best efforts to assure that no single company exceed 10 percent of the manager's equity portfolio; maintain a minimum of 20 positions in the portfolio to provide adequate diversification; and

b. Maintain adequate diversification by investing the portfolio in no more than 2.5 times the relevant benchmark's weighting in any one economic sector. Managers have full responsibility for security selection and diversification. Managers also have full discretion over turnover and allocation of equity holdings among selected securities and industry groups, within the limits described above.

2) Fixed Income

The purpose of fixed income instruments is to provide a hedge against deflation, to provide a current rate of income and to provide diversification of permanent assets. Returns are expected to exceed the appropriate benchmark for each manager annually over rolling three and five year periods. Domestic and foreign bonds, as well as Bond Funds, are permissible.

Investments in fixed income securities are managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums. Managers may select from appropriately liquid preferred stock, corporate debt securities, obligations of the U.S. Government and its agencies, and convertible debt.

Within the above restrictions, managers have complete discretion over timing and selection of fixed income securities. Mutual funds are expected to follow the terms of the Prospectus.

3) Cash and Cash Equivalents

The purpose of cash and equivalents is to provide adequate liquidity for investment reserves and current operations and, from time to time, to serve as substitutes for other asset classes for defensive purposes in adverse investment conditions.

Managers may invest only in the highest grade and liquid investments. Investments exceeding FDIC limits must be reviewed and approved by the Investment Committee.

4) Alternative Investments

Alternative Investments are an acceptable asset class. Investments fitting this category will be defined by the Community Foundation's Consultant and approved by the Investment Committee. They include, but are not limited to, Hedge Funds, private equity, and venture capital.

It is understood that these Funds are typically long-term and illiquid and offer a broad range of returns with potentially higher volatility. The Investment Committee shall consider certain criteria including, but not limited to, the following in its evaluation of a Fund:

a. Tenure and track record of management as a team;

b. Expertise in targeted areas of investment; and

c. Diversification relative to other alternative investments.

The Community Foundation will invest in offshore or onshore limited partnership shares (to avoid or limit "Unrelated Business Taxable Income" {UBTI}) and its investment will not comprise more than 10 percent of any individual partnership's assets.

IV. Selection

The Investment Committee, with the assistance of the Consultant, will select appropriate investment managers to manage the Community Foundation assets, with the Executive Committee's approval. A single active manager strategy is limited to 15% of the portfolio assets and subject to the discretion of the

Investment Committee. There is no limit for a passive strategy. Managers must meet the following minimum criteria.

1) Be a bank, investment management company, or investment adviser as defined by the Registered Investment Advisers Act of 1940.

2) Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.

3) Provide performance evaluation reports prepared by an objective third party (SEC or State RIA) that illustrate the risk-return profile of the manager relative to other managers of like investment style.

4) Provide detailed information on the history of the firm, key personnel, key clients, fee schedule and support personnel. This information can be a copy of a recent Request for Proposal (RFP) completed by the manager.

5) Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.

6) There will be a review of any manager for outstanding legal judgments or past judgments which may reflect negatively upon the firm or the Community Foundation.

The Investment Committee, with the assistance of the Consultant, should follow the Selection Criteria listed below:

1) Regulatory Oversight: Each investment manager must be regulated by a bank, a Mutual Fund organization, or a registered investment adviser.

2) Correlation to Style or Peer Group: The manager’s product should be correlated to one of the asset classes listed in this IPS. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the manager to the appropriate peer group.

3) Performance Relative to a Peer Group: The product’s performance should be above median for the peer group for annual and cumulative periods.

4) Performance Relative to Assumed Risk: The product should have above median risk-adjusted performance measured against the manager’s peer

group – considering the Fund's Alpha, Sharpe, and/or Morningstar risk-adjusted measures.

5) Minimum Track Record: The product's inception date should be greater than five years and the same portfolio management team must have been in place for at least three years.

6) Assets Under Management: The manager should have at least $75 million under management within the screened product.

7) Holdings Consistent with Style: The screened product should have no more than 20% of the portfolio invested in "unrelated" asset class securities. For example, a domestic Growth Fund should not hold more than 20% between cash, fixed income and/or international securities.

8) Expense Ratios/Fees: Should be monitored against their peers.

9) Stability of the Organization: There should be no perceived organizational problems, - including, but not limited to, personnel turnover; regulatory issues; or assets coming in faster than the manager can handle.

The Investment Committee, with the assistance of the Consultant, may also select appropriate Mutual Funds to manage a portion of the Community Foundation's assets. Mutual Funds must meet the following minimum criteria:

1) Funds will be governed by their prospectus and adhere to the IPS.

2) The Fund's manager must have been in place for three years or more.

3) The Funds must have been following the same investment strategy for at least three years.

The Investment Committee encourages considering the hiring of minority investment managers wherever the opportunities exist, and in accordance with the manager selection process contained in the policy. As such, the Committee encourages its members as well as the Investment Consultant to recommend names in either the traditional asset classes (equity and fixed income) or in the alternative space (private equity, hedge funds and real estate). Additionally, when conducting a broad manager search in the equity or fixed income space, the Committee encourages the Investment Consultant to include at least one qualified minority manager for consideration (patterned after the "Rooney Rule" in the National Football League). Minority is defined according to gender, race, and nationality (e.g., Hispanic). A minority manager includes those firms owned by a minority person(s) or where a meaningful part of the firm's personnel is minority.

V. Other

1) Brokerage/Soft Dollar Use

The Community Foundation requires disclosure of any soft dollar arrangements.

2) Proxy voting

Each investment manager shall manage the voting of proxies and tendering of shares in a manner consistent with the objectives contained in this policy and in the best interest of the Community Foundation. Each manager shall provide a written report to the Investment Committee if requested. The report should include company name, number of shares voted, and a description of the issues voted upon and how the shares were voted.

3) Reporting Requirements

Open communication between the investment managers and the Community Foundation are critical to the success of the Community Foundation. The following shall be provided by the investment manager in its annual meeting with the Investment Committee:

a. A written review of key investment decisions, investment performance and portfolio structure with attribution analysis.

b. An organizational update, including a report on any and all changes in organizational structure, investment personnel and process.

c. A review of the manager’s understanding of investment guidelines and expectations and any suggestions to improve the policy or guidelines.

In addition, the following is required of each investment manager of Community Foundation assets using Mutual Funds or Separate Accounts:

a. All performance reports will be presented on the Community Foundation’s fiscal year, which begins on July 1 and ends on June 30.

b. **Monthly** transaction and asset statements shall be provided to the Community Foundation no later than ten business days following month end.

c. **Quarterly** performance reviews (Quarterly Review) shall be provided to the Community Foundation no later than 15 business days following quarter end. This may include any information the investment manager believes to be pertinent to the Investment Committee but will include at the very least a one page summary of annual fiscal year returns since inception, with a template provided, as directed by the Investment Committee.

d. **Immediate notification** to the Community Foundation of any exceptions to this investment policy statement and a recommended plan of action to correct the violation.

e. Provide other reports or information as may be requested by the Community Foundation, its Consultant or custodian.

4) Monitoring

Quarterly performance will be evaluated to test progress toward the attainment of longer term targets. It is understood that there are likely to be short term periods during which performance deviates from market indices. During such times, greater emphasis should be placed on peer-performance comparisons with managers employing similar styles.

On a timely basis, but not less than four times a year, the Investment Committee will meet to focus on:

a. Manager's adherence to the IPS guidelines;

b. Material changes in the Mutual Fund's/investment manger's organization, investment philosophy and/or personnel, and

c. Investment Performance Monitoring.

The risk associated with each Mutual Fund's/investment manager's portfolio, as measured by the variability of quarterly returns (standard deviation), must not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group.

A Watch List will be maintained to monitor the Mutual Fund's/investment manager's performance.

In addition to the information covered during the quarterly reviews, the Investment Committee will meet at least annually to focus on:

a. The Mutual Fund's/investment manager's performance relative to Mutual Fund's/investment managers of like investment style or strategy. Each Mutual Fund's/investment manager is expected to perform in the upper half of the Mutual Fund's/investment manager's respective style universe.

b. The investment performance results will be compared to the investment manager's overall composite performance figures to determine unaccounted for dispersion between the manager's reported results and their actual results.

The Investment Committee is aware that the ongoing review and analysis of Mutual Funds/investment managers is just as important as the due diligence implemented during the Mutual Fund/investment manager selection process. Accordingly, a thorough Review and Analysis of a Mutual Fund/Investment Manager will be conducted, should:

a. Perform in the bottom quartile (75^{th} percentile) for three years of their peer group over an annual period.

b. Have a 3- and 5-year risk adjusted return fall below that of the median manager within the appropriate peer group.

VI. Policies and Procedures

1) $500,000 Policy

If a fund's market value exceeds $500,000, the founding donor of the fund, or the Authorized Representative, or the trustee, or the personal representative of the estate may make investment recommendations regarding the fund's assets to the Community Foundation, including how and where it is invested and investment parameters. Such recommendations ae purely advisory in nature and the Community Foundation is not bound by any such recommendations.

2) Distribution Policies

The Board has established the following distribution policies:

2.1) Growth Portfolios

Growth portfolios are not expected to allow for any distribution of income or capital gains. All such income and realized and unrealized capital gains are to be reinvested until a specified benchmark market value is attained, at which point the fund may be moved to one of the Balanced Portfolios.

2.2) Balanced Growth Portfolio

Distributions from permanent funds within the balanced Growth Portfolio should be 5 percent or less calculated using a 12-quarter trailing average of the total amount of the fund. Board approved 2/28/25

Distributions from pass-through funds may be made at any point during the year, on the recommendation of the Authorized Representative and with the approval of the Board.

2.3) Sustainable Portfolio

Distributions from permanent funds within the Sustainable Portfolio should be 5 percent or less calculated using a 12-quarter trailing average of the total amount of the fund. Board approved 2/28/25

Distributions from pass-through funds may be made at any point during the year, on the recommendation of the Authorized Representative and with the approval of the Board.

2.4) Maintenance of Principal Portfolio (MPP)

Distributions from permanent funds held within the MPP may be made only after the prior fiscal year and said distribution is to be made according to the fund agreement.

Distributions from pass-through funds held within the MPP may be made at any time during the fiscal year at the recommendation of the Authorized Representative and with approval of the Board. Distributions may be from investment return or principal and 100 percent of the fund is available for distribution, according to the fund agreement.

2.5) Acorn Portfolios

No distributions are allowed from the funds held in the Acorn Portfolios.

3) Accessibility of Statement of Investment Objectives and Policies

Investment managers are provided with a written copy of this statement, and it is made a part of the investment management agreement with such manager.

ADDENDUM A

THE COMMUNITY FOUNDATION OF FREDERICK COUNTY

STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES
Treatment of Excess Business Holdings

Approved by the Board of Trustees March 23, 2012

Under the Pension Protection Act of 2006 (PPA), the private foundation excess business holdings rules now apply to donor-advised funds as if they were private foundations[1]. That is, the holdings of a donor-advised fund in a business enterprise, together with the holdings of persons who are disqualified persons with respect to that fund, may not exceed any of the following:

- Twenty percent of the voting stock of an incorporated business
- Twenty percent of the profits interest of a partnership or joint venture or the beneficial interest of a trust or similar entity

Ownership of unincorporated businesses that are not substantially related to the fund's purposes is also prohibited.

Donor-advised funds receiving gifts of interests in a business enterprise after the date of the PPA's enactment (August 17, 2006) will have five years to divest holdings that are above the permitted amount with the possibility of an additional five years if approved by the Secretary of the Treasury. Funds that currently hold such assets will have a much longer period to divest under the same complicated transition relief given to private foundations in 1969[4].

What is a business enterprise?
A "business enterprise" is the active conduct of a trade or business, including any activity which is regularly executed for the production of income from the sale of goods or the performance of services. Specifically excluded from the definition are:

- Holdings that take the form of bonds or other debt instruments unless they are a disguised form of equity
- Income from dividends, interest, royalties and from the sale of capital assets
- Income from leases unless the income would be taxed as unrelated business income
- "Functionally-related" businesses and program-related investments
- Business that derives at least 95% of their income from passive sources (dividends, interest, rent, royalties, capital gains). This will have the effect of

excluding gifts of interests in most family limited partnerships, and other types of holding company arrangements.

What is a disqualified person?
Donors and persons appointed or designated by donors are disqualified persons if they have - or reasonably expect to have - advisory privileges with respect to the donor-advised fund by virtue of their status as donors. Members of donors' and advisors' families are also disqualified, but the section does not define “family” and does not cross-reference either section 4958 or 4946 for the definition. Finally, the term includes 35-percent-controlled entities as defined in section 4958(1)(3).

The Community Foundation of Frederick County policy with regard to a88818 categorized under the PPA as “excess business holdings.” The Community Foundation of Frederick County will identify and monitor any new gift to a donor-advised fund of any interest qualifying as an “excess business holding” under the PPA. The Community Foundation of Frederick County will exercise its best effort to dispose of the contributed interest at the best possible price within five years of the date of the gift, as required under the PPA. In any event, The Community Foundation of Frederick County will dispose of any excess business holding prior to the five year time limit, except in the event that the Treasury Department grants an additional five year holding period. The Community Foundation of Frederick County will notify potential donors of such interests of the requirement prior to the contribution of such interest.

[1]The language is clear that it is only the donor-advised fund-not the sponsoring charity-that is to be treated as a private foundation. Accordingly, this section does not apply to assets held by the sponsoring charity investment pools, or assets held by funds that are not donor-advised.
["]Additionally, the donor-advised fund will be barred from holding non-voting stock of an incorporated business unless the disqualified persons collectively own less than 20 percent of the voting stock. Under the *de minimis* rule, the donor-advised fund could continue to hold an interest that did not exceed two percent of the voting stock and two percent of the value. Additional rules apply to cover situations such as mergers, redemptions, and acquisitions.
[4]Excess holding acquired by purchase must be disposed of immediately. If purchases by disqualified persons cause the donor-advised fund to have excess holdings, the donor-advised fund will have 90 days to dispose of the excess.

The Community Foundation of Frederick County

Values Statement Regarding the Sustainable Focus Option

Approved by the Board of Trustees on October 27, 2023 and amended January 26, 2024

In keeping with our mission of "enrich[ing] the quality of life in Frederick County now and for future generations," and our goal to create a more sustainable and inclusive, equity-focused community foundation, we are recommending that an ESG (environment, social, governance) Investing Portfolio, called the Sustainable Focus Option, be added into our investment strategies.

Our vision for this Sustainable Focus Portfolio is that it will ask asset managers to integrate ESG factors into their investment processes, including the following, in alignment with our values of:

- Investing in companies or efforts that exhibit positive environmental practices.
- Investing in companies or efforts that exhibit positive practices regarding gender, racial and ethnic equality, including but not limited to internal DEI (diversity, equity, inclusion) efforts as well as positive public engagement with under-represented communities.
- Investing in companies or efforts that exhibit positive practices in raising the quality of life for all communities.
- Investing in companies that generate positive societal impact in Frederick County.
- Investing in companies that exhibit strong governance practices, including but not limited to board independence, board diversity, and executive compensation.
- Generating returns in line with traditional investments in each asset class.

Additionally, we ask our asset managers to annually provide us with information about how they incorporate ESG factors into their investment process.