FREQUENTLY ASKED QUESTIONS ABOUT INVESTMENT MANAGEMENT

Contributions made to The Greater Cedar Rapids Community Foundation are pooled for investment purposes. There are approximately 250 component funds in the combined Endowment Pool, and a system of unitization, much like a mutual fund, allocates total return to each component fund. These component funds represent a collection of the interests of individual donors and agencies who have united to increase the effectiveness and assure the future of charitable giving. One of the advantages of pooling funds is that it permits greater diversification of investments than would be possible for single funds. This, in turn, provides for greater opportunities without increasing risk.

What is the Community Foundation's investment objective?
The Foundation's investment objective is to earn a return that allows us to make a significant distribution of grants while maintaining the endowment's future purchasing power. Our goal is to preserve the principal while allowing for inflation and expenses. Accordingly, the current target for total return, net of investment fees (total return is defined as income plus change in market value), is 8.75 percent per year.

How are investment returns measured?
Investment returns are measured in terms of total return, which includes interest and dividend income, as well as realized and unrealized gains and losses.

What is the role of the Investment Committee?
The Investment Committee is charged by the board of directors of The Greater Cedar Rapids Community Foundation to oversee the investment management of contributions made to the Foundation. The Committee establishes a target asset allocation for the endowment pool, selects fund managers, and monitors the investment performance of these managers. Committee members are volunteers with significant business and investment management experience who work with Hammond Associates, our investment consultants. The Investment Committee meets quarterly, and between meetings committee members and GCRCF staff confer with Hammond Associates regarding Foundation investments.

What is the role of Hammond Associates?
Hammond Associates is a St. Louis-based investment consulting firm which serves as consultant to the Investment Committee. Hammond Associates currently works with over 70 institutional clients across the U.S., representing over $10.3 billion in assets under management. They recommend fund managers for the endowment pool, monitor the performance of managers selected, and assist the Committee in

determining the appropriate asset allocation. They are an independent fiduciary, free of conflicts of interest.

How are investment managers selected?
When the Investment Committee seeks a new fund manager for a particular asset class (domestic large cap, for example), Hammond Associates identifies managers with a three to five year outstanding track record for this asset class. Members of the Investment Committee and GCRCF staff meet with Hammond Associates to review these fund managers' organizational profiles, investment philosophy, investment process, professional staff, and investment performance in up and down markets. Based on this review, the Committee selects managers to manage GCRCF funds.

How are managers' investment performance monitored?
At each quarterly meeting of the Investment Committee, Hammond Associates provides an in-depth analysis of each manager's investment performance. This analysis includes comparisons with others managing funds in the same asset class, as well as with the appropriate benchmark. In addition, the Committee monitors any organizational changes within an investment firm that may influence performance in the future, and confirms that each manager continues to adhere to the Committee's investment guidelines. In addition to these quarterly reviews, Investment Committee members, GCRCF staff and Hammond Associates also confer informally and regularly with fund managers regarding Community Foundation investments.

Does the Investment Committee ever change fund managers?
Yes. New managers are selected when the Investment Committee seeks greater depth in a particular asset class. Reasons for dismissal of a manager include poor performance over a period of time, moving away from the investment discipline for which a given manager was hired, unfavorable changes in the organizational structure of the investment firm, and loss of investment talent. However, given the rigorous process by which managers are selected and how consistently their investment performance is monitored and compared, the Investment Committee's practice is to retain a manager a minimum of three years. In other words, the fact that a manager does not have a good quarter, or even year, compared to the appropriate benchmark for that asset class, does not in itself provide reason for dismissal.

Why is GCRCF invested in different asset classes?
The Investment Committee has determined that greater return can be gained, with less risk, if the portfolio is diversified among international as well as domestic stocks, global as well as domestic bonds, and real estate investment trusts (REITS). The combined endowment pool is currently invested in each of these asset classes.

What is an asset allocation strategy?
The Investment Committee, with the assistance of Hammond Associates, determines the best way to allocate the assets of the combined endowment pool among the following asset classes: domestic equities (further divided into companies with large capitalization and those with small capitalization, and into value and growth stocks), domestic fixed income, international equities (other than the United States), global fixed

income (including the United States), and REITS. The most recent asset class added to the portfolio is alternatives: private equity and "fund of fund" hedge funds. The Investment Committee reviews the target asset allocation to determine if it is likely to meet the investment return goal of 8.75 percent, net of investment fees. As gifts to the Foundation are made, these funds are placed with one or more managers to achieve, or maintain, the target asset allocation.

Why does the Community Foundation have a charitable disbursement rate, rather than giving each Fund whatever is earned in a given year?
The charitable disbursement rate, or spending rate, determines the dollar amount available for distribution annually. To determine this amount, we multiply the average of the fund balance at the last three year-ends by the charitable disbursement rate. Disbursements for new funds are prorated. This methodology smoothes out the peaks and valleys that would be experienced if income and dividends earned (or not earned) by a fund were distributed each year. This is a strategy that has been adopted by most major endowments. The disbursement rate is generally around five percent.

What fees does a donor pay to the Community Foundation?
Funds at the Community Foundation are assessed two sets of fees: those for investment management, and those for foundation costs. Investment management fees are those charged by our investment managers. These professional consulting and brokerage fees are allocated pro-rata over all funds participating in the endowment of the Foundation, and currently average less than one percent. Foundation fees go to GCRCF to pay for the administration of the fund.

What historical rates of return has the Community Foundation earned?

YE 12-31-04	Last 3 years	Last 5 years	Since Inception (1-31-94)
17.2%	13.3%	7.4%	9.7%

What if I have more questions?
The Community Foundation's financial audits, form 990s, and investment reports are available for public inspection on request. Or you may contact Dan Baldwin, President, at 319.366.2862 or dan@gcrcf.org.

Endowment Pool Asset Allocation Policy (as of September 2003)*

ASSET CLASS	BENCHMARK	POLICY (%)	TARGET R^2 INDEX	ACTIVE
Domestic Equity		53		
U.S. Large Stocks	S&P 500	17	99.9	95.0
U.S. Large Value Stocks	S&P/BARRA 500 Value	9	99.9	95.0
U.S. Mid Stocks	S&P MidCap 400	9	99.9	90.0
U.S. Small Stocks	Russell 2000	12	99.0	85.0
U.S. Small Value Stocks	Russell 2000 Value	6	99.0	85.0
International Equity		24		
Int'l Large/Mid Stocks	MSCI EAFE	7	99.5	95.0
Int'l Small Stocks	Salomon EMI EPAC	9	99.0	85.0
Emerging Mkt Stocks	MSCI Emg Mkts Free Index	8	99.0	85.0
Total Equity		77		
Domestic Fixed Income	Lehman Agg. Bond	10	99.9	95.0
US Inflation Protected Fixed	Salomon Inflation Link Bond	5	99.9	95.0
Real Estate	Wilshire REIT	8	99.0	85.0
Total Allocation		100%		

*An allocation to hedge funds and private equity was initially established at $1,500,000, rather than a specific percentage allocation. As of October 2003 this allocation comprised approximately 8% (5% hedge funds; 2.5% private equity) of the endowment pool. New infusions of money into the endowment pool should be invested using the Asset Allocation Policy reflected in the above chart. The Investment Committee may recommend additional dollar commitments to alternatives to the Board from time to time as deemed appropriate.

MORE INFORMATION

Funds The Foundation owns no individual stocks; the equities portion of the portfolio is in mutual funds. Fifty-four percent (54%) of the equities portion are in index funds and 46% are actively managed.

Portfolio Rebalancing The portfolio is rebalanced in the event any individual asset class allocation differs from policy by more than 20% of the target weight, but with a minimum deviation threshold of 2% of the total portfolio value.

Time Horizon The Foundation has an infinite life and should be managed with a Time Horizon much longer than the normal investment cycle.

Liquidity The Foundation's minimal liquidity needs do not justify a significant allocation to cash.

UMIFA The Uniform Management of Institutional Funds Act (UMIFA) applies to endowments that have dropped below their historic dollar value level (the aggregate fair value in dollars put into the fund since inception). When this occurs, endowments can pay only real income (interest and dividends) and not unrealized gains. In 2003, UMIFA affected funds had a payout of 3.2%. Ask Foundation staff about exceptions to UMIFA.

Charitable Remainder Trust (CRT) Portfolio The Foundation maintains a separate portfolio for CRTs. Because the CRT portfolio makes more frequent distributions, it seeks a higher level of real income (interest and dividends), while providing a modest amount of growth. Asset allocation for the CRT portfolio can be provided upon request.