

Viroqua Area Foundation Investment Policy Statement

1. Purpose

The purpose of this statement is to provide a clear understanding between the VAF and the investing advisors, donors and other interested parties concerning the investment policies and objectives of the Viroqua Area Foundation assets. This statement outlines an overall philosophy that is specific, but flexible enough to allow for changes in the economy and securities market. The Foundation has adopted this Investment Policy Statement in recognition of its responsibility to supervise the investments of the VAF assets in accordance with the Foundation's goal of improving the surrounding Viroqua Community.

2. Statement of Responsibilities

All parties are subject to the Prudent Man Rule, which states:

Assets shall be invested with the care, skill, prudence, and diligence under the circumstances prevailing from time to time that a prudent man acting in a like capacity and familiar with such matters would use in the investment of a fund of like character and aims.

It is expected that the following parties associated with the Foundation will discharge their respective responsibilities in accordance with normal fiduciary standards by diversifying the investments so as to minimize the risk of large losses while simultaneously maximizing the portfolio return.

*Fiduciary responsibilities are duty of loyalty, duty to diversify, incur only reasonable costs, monitor investments, and avoid prohibited transactions. The role of the fiduciary is to manage the investment process.

A. VAF Board of Directors

The VAF Board of Directors is charged with the authority of this Policy Statement to hire and fire investment advisors with the advice and upon the recommendation of the Board of Directors Finance Committee. The Board is responsible for all investments made by the Foundation, but as a practical matter, will delegate day-to-day management of the assets to the Finance Committee or to investment advisors and consultants hired for that purpose.

B. Finance Committee

The Finance Committee is charged with the direct oversight of investment advisors, asset allocation of the VAF funds and oversight of outside consultants hired to assist the above. As a practical matter, the Committee may assign day-to-day management to designated advisors or consultants.

C. Consultants

The Board may designate an investment broker or financial planner to act as consultant to the VAF Board of Directors regarding the investment of the VAF's funds. Their duties are, but not limited to, advice on asset allocation, screening and day-to-day monitoring of investment managers, independent reporting of investment results, custodianship of the VAF assets, and any other duties the Board or the Committee deems appropriate with commonly accepted standards.

D. Investment Advisors

The investment Advisors are charged with the responsibility to conduct day-to-day investment management of the Foundation assets in accordance with this Investment Policy Statement and all laws that supersede it. All Investment Advisors must either be registered under the Investment Company Act of 1940, a bank, as defined in that Act, an insurance company qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of Foundation assets, or such other person or organization authorized by applicable law or regulation to function as an Investment Advisor. Each investment advisor managing a separate account for the Foundation must sign an investment advisor agreement with the Foundation.

E. Custodian

The custodian has been retained by the Finance Committee and is charged with the responsibility for safekeeping securities, collections and disbursement, and periodic accounting statements.

3. Objectives

The VAF seeks to maximize income, growth of income, and long-term appreciation of capital while seeking to minimize principal fluctuations. The assets must be invested with care and diligence with the overriding prudent man rule as a guide to investment management. The VAF objectives will be for the asset value, exclusive of contributions or withdrawals, to grow over the long run and earn value, through a combination of investment income, capital appreciation, and rate of return.

A. Equity Fund Objectives

Long-Term Objectives

The VAF seeks as a total return (income and growth) over a market cycle, or at a minimum of three years, a compounded return that should equal or surpass the Standard & Poor's 500. If appropriate, the Finance Committee may use, in addition to the Standard & Poor's 500, other recognized Equity Indices that may more closely parallel the style of the equity manager. If another index besides the Standard & Poor's 500 is used to judge any equity manager, then the manager will be notified in writing by the Finance Committee.

Short-Term Objectives

The assets should be managed in such a fashion so to maximize the portfolio return while simultaneously minimizing the portfolio's risk.

B. Fixed Income Objectives

Long-Term Objectives

The VAF seeks as a total return (income and growth) over a market cycle, or at a minimum of five years, to seek funds with a below average expense ratio and that have a longer than average manager tenure. The Prudent Man Rule will apply.

Short-Term Objectives

The assets should be managed in such a fashion so to maximize the portfolio return while simultaneously minimizing the portfolio's risk.

Cash and Equivalent Objectives

There are not specific benchmark returns for cash. It is expected that equity and fixed income advisors will be generally fully invested. Cash that is allocated by the Finance Committee will be subject to the rules described herein.

4. Investment Guidelines

It is the intention of the Finance Committee to allow each investment advisor full investment discretion within the scope of these mutually agreed upon investment guidelines. Each investment advisor must adhere to the following investment guidelines.

- A. Types of Securities: The equity securities shall be domestic or foreign common stocks, preferred stocks, convertible preferred stocks, private equity, hedge funds, real estate, and bonds, depending on the advisor's assignment.

The fixed income securities shall be comprised of U.S. Treasuries, agencies of the United States Government, domestic and international corporations, domestic banks, other U.S. financial institutions, and other sovereign government issues.

- B. Diversification: The equity and fixed income Portfolio should be well diversified to avoid undue exposure to any single economic sector, industry, or individual security. *Investment Options: There are 6 core equity-asset options, Large-Cap Growth, Large-Cap Value, Small-Cap Growth, Small-Cap Blend, Mid-Cap Blend and Large-Cap Blend. The money market funds, bond funds covering various portfolio maturity ranges, including both government and corporate bond options, plus international equity funds and REIT funds to allow further diversification alternatives. Ten asset classes for risk management listed from least amount of risk to the most amount of risk are as follows, money market, government bonds, short-term Bond-corporate, intermediate Bond-corporate, Large Cap Value, Large Cap Blend, Large Cap Growth, Mid Cap Blend, Small Cap Blend, and International Equity.
- C. Prohibited investments: Categories of investment that are not eligible for investment without prior approval of the Board of Governors include: short sales, margin purchase or other use of lending or borrowing, private placements, commodities, security loans, leveraged derivatives, and warrants. The alternative asset portfolio may utilize the above categories so long as such investments are consistent with the portfolio's goal of stable returns with low volatility.

Categories of investment that are eligible for investment only with prior approval of the Finance Committee include:

1. Unregistered or restricted stock:
Investment in unregistered or restricted stock by investment advisors is prohibited. Donations of such stock to the Foundation may be retained under the direction of the Finance Committee.
2. Options of futures:
Investment in options and futures contracts by separate account advisors is generally prohibited. From time to time, mutual fund investment advisors may make investments in options or futures contracts in order to enhance or protect the VAF portfolio. These investments are expected to be limited to minor holdings of any mutual fund and/or for a limited time duration. In order to protect against political and economic events unique to a foreign county or region, investments may include futures and forward contracts, options, or international currency hedging. All such investments and limitations are disclosed by prospectus.

With prior approval, writing covered calls and puts will be allowed to the extent they are used as a strategy to reduce the overall risk of the equity portfolio. Any such program will not exceed 10% (unless specifically authorized) of the equity portion of any advisors assignment or of any other equity pool managed internally by the Foundation and will be closely monitored by the Finance Committee.

- D. Trading and Execution: The Investment Advisors shall use their best efforts to obtain best execution of orders through responsible brokerage firms at the most favorable prices and competitive commission rates.

If turnover of equity investments exceeds 50% of the equity market value in any calendar quarter, the Investment Advisor(s) will promptly submit to the Finance Committee as well as the Investment Consultant a detailed explanation of the trading activity (For this purpose, turnover shall be defined as the ratio of the lesser of sales proceeds and the purchase costs to the average market value of equities for the quarter). Similar notice will be sent to the Finance Committee as well as the Investment Consultant if any Investment Advisor purchases a specific holding within 30 days after it has been sold from the Foundation.

- E. Liquidity: The Finance Committee delegates to staff to monitor the cash flow on a regular basis, and sufficient liquidity shall be maintained to fund payment outflows. When withdrawals become necessary, the Finance Committee will notify the Investment Advisor(s) as far in advance as possible to allow them sufficient time to build up necessary liquid reserves. The Investment Advisor(s) will be expected to review the cash flow requirements with the Finance Committee and staff at least annually.

5. Asset Allocation

The Finance Committee will make the overall allocation of equities, fixed income and cash investments as they deem appropriate.

The investment managers will have discretion, within the guidelines and prohibitions to make individual security and industry decisions within their own discipline. The Prudent Man Rule will apply to both individual securities and industry/sector weightings.

The following asset allocation guidelines will be suspended until the endowment fund exceeds \$250,000. Prior to that time our goal is to have diversification with the endowment funds and as always apply the Prudent Man Rule to all investment decisions.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Minimum</u>	<u>Maximum</u>
Mid/Large Cap Value	8.0%	6.5%	9.5%
Large Cap Growth	8.0%	6.5%	9.5%
Small Cap Value	6.5%	5.0%	8.0%

Small Cap Growth	6.5%	5.0%	8.0%
Indexed Large Cap Core	16.0%	13.0%	19.0%
Alternative Investments (incl. RE)	15.0%	10.0%	20.0%
International Stocks	14.0%	11.0%	17.0%
Fixed Income	26.0%	23.0%	29.0%
Total	<u>100%</u>		

The asset mix policy and acceptable minimum and maximum ranges established by the Finance Committee represent a long-term view. As such rapid and significant market movements may cause the fund's actual asset mix to fall outside the policy range. Any such divergence should be of a short-term structure.

6. Statement of spending Policy

The Foundation is expected to disburse 5%, annually, of endowment principal market value. These calculations are made on a monthly basis. If the market value of the Endowment Principal of any fund, at the end of each month, is less than the initial value of all the contributions made to Endowment Principal, then distributions will be limited to interest and dividends received. In accordance with this disbursement policy, the Finance Committee is committed to: (1) protecting the corpus of the Foundation; (2) preserving the spending power of the income from the fund (3) maintaining a diversified portfolio of assets in order to meet investment return objectives while keeping the level of risk commensurate with that of the median fund in a representative foundation and endowment universe; (4) complying with applicable law.

7. Communications

Meetings between the VAF and the investment advisors will be held on a quarterly basis at a location selected by the VAF. The performance of investments will be evaluated quarterly. Investment reviews will be sent quarterly to designated foundation board members, and the advisors must be available for phone consultation on an as needed basis.

8. Amendments

Amendments to this policy statement are allowed, as needed, by a majority vote of the Foundation Board, and any such amendment will be forwarded in writing to the investment advisors.

Glossary:

Fiduciary- A person with the authority to make decisions regarding a plan's assets or important administrative matters. Fiduciaries are required under ERISA to make decisions based solely on the best interests of plan participants.

Median Market Cap- An indicator of the size of companies in which a fund invests.

Money-Market Fund- A mutual fund seeking to generate income for participants through investments in short-term securities.

Mutual Fund- An account with a broad range of investment options, each of which are diversified, reducing the risk to the participant.

Risk Tolerance- Risk is the variability of returns from an investment, and tolerance is leeway for variation from a standard. In other words, your capacity to tolerate unfavorable conditions during the time period you hold your investments.

Trustee- The individual, bank or trust company having fiduciary responsibility for holding plan assets.

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