

INVESTMENT POLICY STATEMENT

For

Arkansas 4-H Foundation, Inc.

Adopted: April 17, 2008

Purpose

The purpose of this Investment Policy Statement (IPS) is to assist the Arkansas 4-H Foundation Finance Committee (Committee) in effectively planning, overseeing, monitoring, and evaluating the management of the Foundation (Foundation) assets. The Foundation's investment program is defined in the various sections of the IPS by:

- Setting forth an investment structure for managing Foundation Investment Fund (Fund) assets. This structure includes various asset classes, asset allocation policies and investment approaches. In total, the structure is expected to produce adequate diversification and total investment return over a long-term horizon.
- Providing guidelines for each investment portfolio so that all Foundation assets are managed in accordance with stated objectives.
- Encouraging effective communications between the Committee and service providers.
- Establishing formalized criteria to monitor and evaluate service provider results on a regular basis.
- Complying with all applicable laws, rules and regulations and fiduciary, prudence and due diligence requirements.

1

Background information

The overall investment objectives of the Foundation are to support the current and future operations of the Foundation and to preserve and enhance the financial strength of the Foundation. The purpose is to grow the corpus in excess of inflation and to meet the current and future obligations as dictated by the Foundation spending policy. Additional growth will result from the addition of new monies and gifts from present and future donors.

To accomplish these goals, the Foundation must generate real returns from investments greater than its spending rate over the long term. The investment objective of the Foundation is to attain an average annual real total return (net of investment management fees and after inflation) in excess of the spending rate over the long term, defined as rolling five-year periods.

Statement of objectives

The Committee will oversee management of the Foundation assets in a manner consistent with the provisions of this Investment Policy Statement and applicable laws and regulations. The Committee will establish an investment mix for the Fund assets in terms of minimum commitments that may be made in equities, fixed-income and other appropriate investments. The Committee will select investment managers and investment vehicles to secure professional management of each component of the investment mix.

The Committee has adopted a diversified approach to investment that balances its goals of maximizing return and preserving the Foundation's assets. By diversifying among asset classes and rebalancing toward policy target allocations, the Committee expects to enhance the Foundation's real market value and provide a significant long-term funding source for the Foundation's spending requirements.

Asset Allocation:

The Foundation will be diversified by asset class and within asset classes (e.g., within equities by economic sector, industry, quality, and capitalization). The primary purpose of diversification is to enhance returns and reduce the risk of significant declines in the market value of the Fund. The Committee has adopted the following long-term asset allocation “Policy Portfolio.”

	<u>Range</u>
Equities	40%–75%
Fixed Income	15%–45%
Cash Equivalents	0%–15%

Rebalancing asset allocations to policy targets is essential for maintaining the risk profile adopted by the Committee. The Foundation’s actual asset allocation will be monitored regularly, relative to established policy targets and ranges. The Committee recognizes that adjustments may be constrained by practical limits with respect to liquidity and transaction costs, but will make efforts to rebalance as is appropriate. The rebalancing process will be reviewed by the Committee at least annually.

The Committee acknowledges that investment results are a critical component in achieving the Foundation’s funding and financial objectives.

Investment policy guidelines

Risk Tolerance

The Committee acknowledges that some risk in the value of the Fund must be assumed to achieve the Fund’s long-term investment objectives. In addition, the Committee recognizes the difficulty of achieving the Fund’s investment objectives in light of the uncertainties and complexities of investment markets.

Securities roles and guidelines

Allowable Assets

1. Cash Equivalents
 - a. Treasury Bills
 - b. Money Market Funds
 - c. Certificates of Deposit

The Committee's decision to invest in cash equivalents is based on the need for adequate liquidity to meet obligations and to control exposure to investment risk.

2. Fixed Income Securities

- a. U.S. Government and Agency Securities
- b. Corporate Notes and Bonds
- c. Mortgage Backed Bonds
- d. Preferred Stock

The Committee's decision to diversify into fixed-income investments is to serve as a partial hedge against periods of economic contraction and to decrease the probability that the Foundation will be forced to liquidate equity securities at depressed prices to meet spending requirements. Allocations to fixed-income assets may also serve the purpose of contributing to overall return or helping reduce the overall volatility of the Foundation's return. Guidelines for fixed income investments are as follows:

- 1) Portfolios will be invested in securities that result in weighted average credit quality rating of "AA" or better.
- 2) Securities at time of purchase must be BBB (or equivalent) or better by Moody's or Standard & Poor's rating service.
- 3) No portfolio or manager shall have invested, at any point in time, more than 10% of the Fund assets in fixed-income obligations rated less than BBB (or its equivalent) by Moody's or Standard & Poor's rating service.
- 4) Fixed income weighted average portfolio maturity may not exceed 7 years with a maximum maturity for any single security of 15 years.

3. Equity Securities

- a. Common Stock
- b. Mutual Funds

The purpose of the equity investments is to provide a total return that will provide for growth in principal and current income sufficient to support spending requirements, while at the same time, preserving and enhancing the value of the Fund's assets over the long term. It is recognized that the equity investments entail the assumption of greater market variability and risk than the fixed-income investments. The Committee's decision to invest in equities is based on the expected benefits of investing in this higher returning asset class.

Alternative Investments

In the event that the Board of Directors accepts real property or other illiquid assets as donations, the Committee will evaluate such donations as to appropriate disposition of the property. Income-producing property, including farmland, will be evaluated as to property management requirements and overall return to the Foundation. It is the Committee's intent to convert the illiquid property into cash to be invested into the Fund.

Control Procedures

Performance

Performance will be evaluated against a relevant style-oriented index. It is expected that each portfolio will achieve a return over a three-year rolling average in excess of the index identified for the specific asset class.

Duties and Responsibilities of Investment Manager

The duties and responsibilities of the investment manager retained by the Committee include:

- 1) Manage Fund assets under its care, custody and/or control in accordance with the IPS objectives and guidelines set forth herein, and also expressed in separate written agreements.
- 2) Acknowledge and agree in writing to their fiduciary responsibility to comply with the IPS set forth herein, and as modified in the future.
- 3) Exercise investment discretion within the IPS objectives and guidelines set forth herein and also expressed in separate written agreements.
- 4) Promptly inform the Committee Chair and Executive Director in writing of all significant and/or material matters and changes pertaining to the investment of Fund assets and the ownership, management or financial stability of the investment manager.

3

Spending Policy

The Committee will review, at least annually, its spending policy of the Foundation and determine whether changes are advisable. The spending policy is meant to ensure that the Foundation's purchasing power (real market value) is maintained over time by keeping the long-term rate of annual spending from the Fund is equal to or less than the long-term real (inflation-adjusted) investment return of the Fund. The Committee will routinely review spending policy and practices to ensure that the policy remains aligned with financial objectives.

Endowment investment earnings generally have designated restrictions placed upon them by the donor. If a non-endowment or quasi-endowment is silent on the use of investment earnings, the Committee will determine the use of these earnings, either for scholarships or other appropriate expenses.

Monitoring Investment Portfolios

Annual performance, including fund manager performance, will be evaluated to assess progress toward attainment of longer-term objectives. Over a three- to five-year market cycle, the returns earned by the Foundation's managers should exceed the rates of return of the appropriate style benchmarks. The Committee understands that there are likely to be short-term periods during which investment performance results deviate from market and relevant style-oriented benchmarks. The Committee's review of each portfolio will focus on:

- 1) Adherence to IPS guidelines,
- 2) Material changes in the manager's organization, investment philosophy and/or personnel,
- 3) Committee's continuing confidence in the investment manager, and

- 4) Performance comparisons with appropriate benchmarks.
- 5) The investment manager will notify the Committee Chair and Executive Director immediately of (1) any guideline that impairs or prevents the achievement of performance objectives; (2) new developments or circumstances that warrant a change in the guidelines; (3) verification that the manager is in compliance with all professional standards (such as AIMR) to which it subscribes, and any disciplinary action by any regulatory authority or non-compliance with any AIMR, SEC or other professional standards; (4) any significant change in investment strategy and/or portfolio structure; (5) a material change in portfolio managers, analysts, or ownership control of the manager; (6) a list of new clients and clients that have terminated the manager; (7) any soft dollar use and its impact on the Fund; (8) any affiliated broker relationships; and (9) performance reporting as specified previously in this document.

Finance Committee

The Finance Committee of the Board of Directors has oversight responsibilities for the Investment Policy and performance of the Fund and will annually report to the Board of Directors..