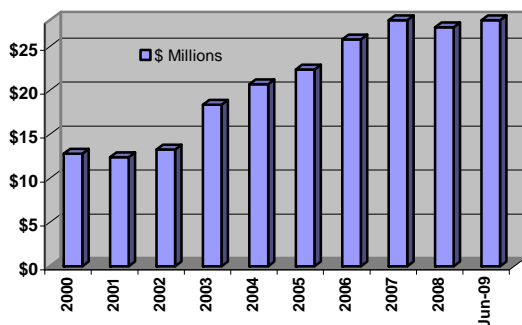




The Foundation

Established in 1951, The Community Foundation of the Holland/Zeeland Area is a nonprofit, 501(c)(3) community corporation created by and for the people of the greater Holland and Zeeland area. The Foundation exists to accumulate a pool of assets that shall be prudently invested to earn sufficient income to help support current and future community needs.

Growth of Assets



Investment Objective

The primary objective of the investment policy is to provide for long-term growth of principal and income within reasonable risk tolerances to enable the Foundation to make grants on a continuing and consistent basis. The focus is on reasonable and consistent long-term capital appreciation. Primary emphasis shall be placed on maintaining REAL growth of assets net of inflation and fees.

Investment Strategy

The Foundation has adopted an investment strategy emphasizing broad diversification. Diversification helps to reduce portfolio volatility (variability of returns) and maximize investment returns at appropriate levels of risk over time. Donors to the Foundation are assured that their funds are prudently and professionally managed.

Prime, Buchholz & Associates, Inc.

The Foundation has retained Prime, Buchholz & Associates, an independent investment consultant, for the purpose of assisting the Foundation in developing and attaining the fund objectives. Prime Buchholz assists in establishing objectives, offers alternative models for asset allocation, identifies appropriate managers or funds, produces timely quarterly reports that monitor performance of individual managers against similar managers as well as performance of the funds against objectives and appropriate indices.

Investment Management

With the assistance of Prime Buchholz, the Foundation strives to identify "best-in-class" investment managers to carry out the investment strategy. Use of multiple investment managers also contributes to the diversification of the portfolio. Current managers include:

- The Vanguard Group:** S&P 500 index and MSCI MidCap 450 index, inflation-protected securities
- T. Rowe Price Group:** large cap growth equity
- Dodge & Cox Funds:** large cap value equity
- William Blair & Company:** small/mid cap equity
- Julius Baer Group/Artio Global Advisors:** international equity
- Fidelity Management & Research Company:** international equity
- Evanston Capital Management:** hedge fund of funds
- Barlow Partners:** hedge fund of funds
- Private Advisors:** hedge fund of funds
- Metropolitan Real Estate Partners:** private real estate fund of funds
- AEW Capital Management:** global real estate securities
- State Street Global Advisors:** multi-strategy real assets
- Baird Advisors:** core fixed income
- Mondrian Investment Partners:** global fixed income
- Macatawa Bank:** portfolio custodian, short-term fixed income, cash & equivalents

The performance of each investment manager is measured against a benchmark appropriate to the managers' asset class as well as a peer group of managers with like investment styles. Each manager is also monitored closely to assure that returns are achieved without unexpected levels of risk.

Spending Policy

A foundation's spending policy determines how much of the portfolio of investments will be available for distribution and how much will be retained for reinvestment. The Foundation utilizes a "hybrid" approach which allows the calculation for expenditure to be calculated either as a percentage of the total appreciation in value and income over a 12 quarter period or, with due consideration given to donor intent and the gift instrument language, the board may consider an option for spending ordinary income over the 12 month period ended September 30. In either case, the Foundation generally limits its annual spending to no more than 5% of the market value of each fund (1% for administration expenses and 4% for distribution). In recognition of the variability of returns over time, the market value for the total return approach is averaged over the trailing 12 calendar quarters.

Investment Committee

The 2009-2010 Investment Committee is made up of Foundation trustees, staff, and community representatives.

Peter Neydon, Chair
Randy Thelen
Thor Nelson

Thun Champassak
John Donnelly, Jr.
Janet DeYoung (CFHZ)

Steve Butler
James Brooks
Diana Mavis (CFHZ)

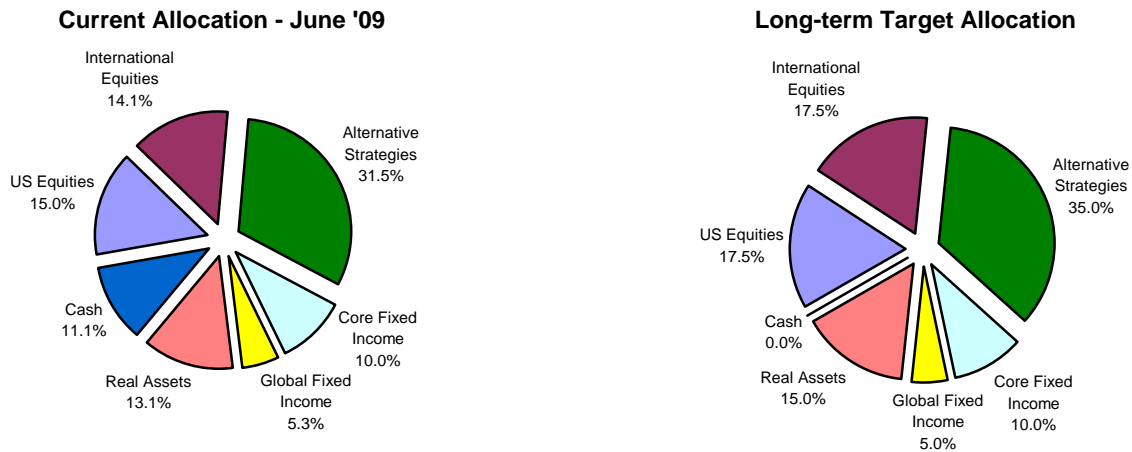
Matthew Lepard, Ex Officio
Patrick Gaughan

Fees and Expenses

The fees and expenses incurred to invest the Foundation's portfolio total approximately 1.0% today (not including fees and expenses of certain underlying investments in real estate and hedge strategies). This includes investment management, custodial bank, and investment consulting fees. In addition, the Foundation typically charges a 1.0% administrative fee – see the Foundation's Administrative Fee Schedule for further details.

Asset Allocation

The Foundation has adopted a long-term target asset allocation intended to meet with investment objectives of the fund over time. This allocation includes both traditional strategies (US and Foreign equities and fixed income) and alternative and real asset strategies (hedge, real estate, natural resources). Use of both traditional and alternative strategies is common among endowment and foundation portfolios today. The current asset allocation reflects a transition to the long-term targets.



Investment Performance

The annual return on the Foundation's investment portfolio for the five year period ending June 30, 2009 at 1.7% (per year) reflecting the impact of the events of late 2008 and early 2009. The Foundation's five year performance exceeds both a simple balanced portfolio as well as the Council on Foundation's median for foundations with assets between \$25M and \$50M.

Investment Performance

