Investment Policy
for the
Community Foundation of Howard County
Endowment Investment Fund

Approved by Board of Trustees
December 12, 2012

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I. Introduction

The Community Foundation of Howard County Endowment Fund is comprised of a limited partnership interest in a real estate project and the Investment Fund. The Investment Fund is the principal vehicle for the management of liquid assets. Donor-advised funds with differing distributions and recipients are co-mingled in the Investment Fund with the unrestricted endowment assets in brokerage and bank accounts for investment purposes.

Purpose

The purpose of the Investment Fund is to create a perpetual source of funds so that the Community Foundation can continue to meet the charitable needs of Howard County.

The purpose of this Investment Policy is to establish a clear understanding as to the investment goals, objectives and management policies applicable to the Investment Fund.

This statement:

- Describes an appropriate risk position for the Investment Fund;
- Establishes investment guidelines regarding the selection of Investment Managers, permissible securities and diversification of assets;
- Specifies the criteria for evaluating the performance of the Investment Managers and of the Investment Fund as a whole; and
- Defines the responsibilities of the Board of Trustees, the Investment Committee, the President & Chief Executive Officer and other parties responsible for the management of the Investment Fund.

The Board of Trustees believes that the investment policies described in this statement should be dynamic. These policies should reflect the financial needs and circumstances of the Community Foundation of Howard County, the time horizon available for investment and the Board of Trustees' philosophy and duties regarding the investment of these assets. These policies will be reviewed and revised periodically to ensure they adequately reflect changes related to the Community Foundation's financial condition and the Board of Trustees' tolerance for risk and the capital markets.

II. Information about the Community Foundation of Howard County

Address: 10630 Little Patuxent Parkway, Suite 315, Columbia, MD 21044
Telephone: (410) 730 7840
Primary Contact: Beverly White-Seals, President & CEO
Fiscal Year End: December 31st

Mission Statement
Inspiring life-long giving and connecting people, places and organizations to worthy causes across Howard County.

Tax/Regulatory Status
The Community Foundation of Howard County is organized as a non-profit organization in accordance with the Internal Revenue Service Regulations, Section 501(c)(3). Accordingly, the income and earnings of the organization are exempt from State and Federal taxes.

Gifts of Securities
Gifts of securities to the Community Foundation of Howard County should be sold immediately and proceeds invested in the Investment Fund, unless specified to the contrary by the donor.

III. Responsibilities of Fund Representatives

Please refer to Appendix 1 for a table on the governance structure of the Community Foundation of Howard County.

Board of Trustees
The **Board of Trustees ("Board")** is responsible for:

- Adopting and approving the investment policy and any updates or changes presented by the Investment Committee;
- Defining the investment objectives for the Foundation's investments;
- Determining the amount of distribution from the Unrestricted Fund;
- Determining the beneficiaries of the distribution from the Unrestricted Fund, taking into consideration the preference of the Named Funds within the Unrestricted Fund.

Investment Committee
The **Investment Committee ("Committee")** is appointed annually by the Board, the majority of whom will be members of the Board. The Committee is responsible for:

- Reviewing the investment policy annually and recommending to the Board changes to the policy, guidelines and objectives as needed;
- Recommending to the Board, the selection or termination of Investment Consultant(s), administrators, and custodians for each pool;
- Establishing an appropriate Investment Manager structure and the selection or termination of Investment Managers or funds;
- Monitoring and evaluating the performance of each Investment Manager/fund and of the Investment Fund as a whole each quarter;
- Setting target asset allocations within the asset allocation ranges approved by the Board.
- Reviewing and reporting to the Board the actual asset allocation and performance at least each quarter-end in order to ensure compliance with asset allocation guidelines;
- Approving the rebalancing of the Investment Fund based on the Investment Consultant(s) recommendations;
- Overseeing the actions of the President & Chief Executive Officer who has been

delegated the responsibility for the day-to-day oversight of the Investment Fund; and
- Executing such other duties as may be described in this policy or delegated by the Board.

President & Chief Executive Officer

The Committee has delegated to the **President & CEO**, a member of the Committee, the following responsibilities:

- The day-to-day oversight of the Community Foundation of Howard County's investment assets;
- Acting as the primary contact between the Community Foundation of Howard County and the Investment Consultant(s), Investment Manager(s), custodian, and any other parties interested in the management of the Community Foundation of Howard County's financial assets;
- Facilitating meetings and communications between the Committee and the Investment Consultant(s), Investment Manager(s) and custodian;
- Communicating the Committee's instructions to the Investment Consultant(s);
- Maintaining appropriate records of the Investment Fund and supplying them to the Committee and the Board;
- Providing an accounting of the assets and the performance of the Investment Fund to the Board on an annual basis;
- Notifying the Investment Consultant(s) about any gifts of securities received in the Investment Fund and directing them to be sold immediately upon receipt;
- Keeping the Committee informed of any significant events that may impact the Community Foundation of Howard County; and
- Executing such other duties as may be described in this policy or delegated by the Committee.

Investment Consultant(s)

The **Investment Consultant(s)** selected by the Investment Committee and approved by the Board, is responsible for:

- Reviewing investment policies and objectives, and suggesting appropriate changes to be approved by the appropriate responsible party at least on an annual basis;
- Providing proactive asset allocation advice concerning the existing fund assets and new contributions as well as periodic rebalancing of the asset allocation. The proactive advice will include both asset allocation (stock, bond, cash mix) and style allocation (international versus domestic allocation, growth-style versus value-style equities, large-capitalization versus small-capitalization equities, and long versus short-term bonds);
- Researching and recommending specific Investment Managers, which satisfy style index criteria, and are consistent with the investment policies, objectives, asset allocation and style allocation strategy for each pool;
- Measuring, evaluating and reporting the Investment Manager(s)' performance results on a quarterly basis;
- Attending quarterly meetings as requested;

- Maintaining contact with and reporting on changes within the Investment Manager(s)' organizations; and
- Providing ad hoc analyses related to the investment program, as requested.

Investment Manager(s)

The Investment Managers (which refers to separately managed accounts, mutual funds and exchange-traded funds) will have full discretion to make all investment decisions for the assets placed under their jurisdiction. It is the intention of the Community Foundation of Howard County to utilize mutual funds, exchange-traded funds, Treasury bonds, Treasury Inflation Protected Securities (TIPS), Limited Partnerships and structured products to implement the Investment Fund. For mutual funds, exchange-traded funds and other commingled funds, the prospectus or trust documents of the fund(s) will govern the investment policies of the fund investments. Where there are differences between the prospectus and this investment policy, the prospectus shall govern.

IV. Investment Manager Selection Criteria

Investment managers shall be chosen using the following factors:

- Past performance, considered relative to other investments having a similar investment objective. Consideration shall be given to both performance rankings over various time frames and consistency of performance;
- Costs relative to other funds with like objectives and investment styles;
- The manager's adherence to investment style and size objectives;
- Size of the fund;
- Length of time the fund/manager has been in existence and length of time it has been under the direction of the current manager(s) and whether or not there have been material changes in the manager's organization and personnel;
- The historical volatility and downside risk of each proposed investment;
- How well each proposed investment complements other assets in the portfolio;
- The current economic environment;
- The likelihood of future investment success, relative to other opportunities; and
- Registration with appropriate regulatory bodies.

V. Spending Guidelines

The following policy has been adopted for the annual distribution from all monies in the Investment Fund, with the final decision of the percentage and amount to be made each year by the Board of Trustees.

The distribution policy for the Investment Fund attempts to balance 1) the desire to make significant distribution of monies from the Investment Fund with 2) the fiduciary responsibility for the preservation of capital and growth of principal sufficient to offset the effect of inflation.

In balancing these competing values, the spending policy will be as follows:

Distribute each year from the Investment Fund, an amount equal to a three-year average of 4% of the year-end market value of the Investment Fund, except that the amount planned to be distributed will not be less than the amount calculated to be distributed for the previous year. This minimum distribution will be based on the calculation formula and not on what has been actually distributed in the previous year, if that is more. Beginning with the distribution based on year-end results for 2009, the distribution will be based on the market value of the Unrestricted Fund on September 30. In calculating the formula the market value of years prior to 2009, the year-end value of December 31 will continue to be used.

Prior to their action on the amount to be distributed from the Investment Fund, the President & Chief Executive Officer will be responsible for providing the Investment Committee and the Board of Trustees a written report with the following information relating to the Investment Fund: the year-end market value as of September 30 of the current year; the applicable year end value of the previous two years; the proposed amount of the distribution according to the Investment Policy, the percentage that represents of the year end value; and the amount of distributions from the Unrestricted Fund in the previous two years. The President & Chief Executive Officer will also be responsible for assuring that the distributions planned are compatible with relevant federal and state laws.

The Investment Committee will send to the Board of Trustees the policy calculation for that year's distribution together with its recommendation. The Board of Trustees will make the final determination of the amount and percentage of market value to be distributed from the Investment Fund for the year.

VI. Guidelines for the Investment Fund

Investment Objectives

The goal of the Community Foundation of Howard County's Investment Fund is to provide preservation of purchasing power and growth of principal in addition to providing a return for use by the Foundation and its donors for grants and operating expenses.

Time Horizon

The investment guidelines, including the strategic asset allocation, are based upon an investment time horizon of 10+ years.

Investment Guidelines

The assets in the managed account portion of the Investment Fund shall:

- Emphasize investments in marketable securities managed by professional Investment Managers;
- Be broadly diversified by asset class, investment style, number of issues, issue type, and other factors, consistent with the investment objectives outlines in this investment policy; and
- Be invested with prudent levels of risk and with the expectation that long-term total returns (yield plus capital appreciation) will maintain and may possibly increase the purchasing power of the Investment Fund.

Allowable Investments

The following are allowable investments for the Investment Fund, as defined in Appendix 1 of this investment policy statement:

- Equities
- Fixed Income
- Alternative Investments
- Cash & Cash Equivalents

Allowable Investment Vehicles

The Board shall be authorized to invest the Investment Fund as follows:

- Mutual Funds
- Exchange Traded Funds
- Individual Treasury Bonds
- Treasury Inflation Protected Securities (TIPS)
- Separately Managed Accounts (SMAs)
- **Limited Partnerships**
- **Structured Products**

Risk Tolerance

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of investment risk assumed and the level of return that can be expected. In general, in order to attain higher returns one must accept higher risk (i.e.. volatility of returns and/or of account values).

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Investment Fund is the determination of the amount of risk the Board of Trustees can tolerate.

An understanding of investment risk influences how aggressively or conservatively a portfolio will be invested. Like a scale, risk needs to be balanced with the need for returns to achieve the investment goals. The Board of Trustees desires long-term investment performance sufficient to meet the goals. The Board of Trustees understands that to achieve such performance the portfolio may experience periods of decline. The Board of Trustees further understands that in a severe market correction, the potential recovery period could be extended.

The Board is comfortable with a risk level of the Investment Fund as measured by volatility (standard deviation) that is *similar to* the volatility level of the style index when measured over five-year rolling time periods and a full market cycle. This style index is defined in Appendix 3.

Portfolio Return Objectives

The objectives of the Investment Fund represent a long-term goal of maximizing the returns without exposure to undue risk, as defined herein. It is understood that fluctuating rates of return are characteristic of the securities markets. The primary concern should be long-term appreciation of the assets and consistency of total portfolio returns. Recognizing that short-term market fluctuations may cause variations in the account performance, the expectations of **the account will be to achieve the following objective over a ten-year time period:**

- **Growth of the portfolio in real terms after meeting spending guidelines to be measured as CPI + Spending (4%)**

Asset Allocation

In order to manage the risks and rewards of the Investment Fund, the following asset categories and ranges have been selected as guidelines for the endowment fund assets. The broad diversification by asset class is designed to help control the volatility of returns of the Investment Fund.

ASSET CLASS	MINIMUM	MAXIMUM	COMPOSITE BENCHMARK
U.S. Large Capitalization Stocks	15%	35%	S&P 500
U.S. Mid Capitalization Stocks	1%	10%	Russell Mid Cap
U.S. Small/Micro Capitalization Stocks	2%	10%	Russell 2000
U.S. Micro Capitalization Stocks	Note[1]	Note[1]	Russell 2000
International Developed Markets	10%	20%	MSCI EAFE (net) Index
International Emerging Markets	0%	5%	MSCI EAFE (net) Index
Real Estate Investment Trusts	1%	5%	Wilshire RESI Index
TOTAL EQUITIES	**35%**	**70%**	
Core Bonds	0%	20%	Barclays Aggregate Bond Index
International Bonds	0%	5%	Citigroup Non-US World Govt. Bond Index
High-Yield Bonds	0%	5%	Citigroup 1-10 Year Govt./Credit Bond Index
Laddered US Treasuries/Govt. Bonds	**10%**	60%	Citigroup 1-10 Year Govt./Credit Bond Index
Laddered US TIPS	Note[2]	Note[2]	Citigroup 1-10 Year Govt./Credit Bond Index
TOTAL FIXED INCOME	**15%**	**75%**	
Alternative Strategies	5%	**30**%	
TOTAL ALTERNATIVE INVESTMENTS	**5%**	**30%**	HFRI Fund of Funds Index
Cash	0%	25%	Citi Treasury Bills 30 Day
TOTAL CASH	**0%**	**25%**	

VII. Restrictions

The Investment Fund may not be invested in the following:

- Purchases of letter stock, private placements (including "144A" securities), or direct payments;
- Purchases of real estate, oil and gas properties, or other natural resources related

[1] Permit Micro Cap Equities in the Small Cap Equities class.
[2] A single asset class for the laddered Treasury bond portfolio, eligible for TIPS or regular Treasuries as determined by the Committee.

properties with the exception of Real Estate Investment Trusts (REITs);
- Debt issued by real estate investment trusts;
  and
- Any other security transaction not specifically authorized in this policy statement, unless approved, in writing, by the Board.

The following transactions are generally restricted. However, they may be allowed only in certain mutual funds, exchange-traded funds or other commingled funds, invested in alternative strategies:
- Short sales;
- Leveraged transactions;
- Commodities transactions;
- Puts, calls, straddles, or other option strategies; and
- Managed futures.

See Appendix 5 for Treatment of Excess Business Holdings in Donor-Advised Funds.

VIII. Rebalancing

The portfolio will be reviewed at least on a quarterly basis and more frequently if required, to ensure that the Investment Fund remains within the approved asset allocation guidelines. The rebalancing of the portfolio has been delegated to the Investment Consultant(s) who will recommend rebalancing of the portfolio, if required, to the President & CEO or Chair.

IX. Performance Evaluation

The Committee will report the performance of the Investment Fund on a quarterly basis to the Board of Trustees, through the Investment Committee.

The Committee will evaluate each Investment Manager's contribution in achieving the investment objectives outlined in this document over at least a five-year time horizon. The Committee realizes that most investments go through cycles. Therefore, there will be periods of time in which the investment objectives are not met or when some Investment Managers fail to meet their expected performance targets.

The Investment Fund's performance should be reported in terms of rate of return and changes in dollar value. The returns should be compared to appropriate market indexes for the most recent quarter and for annual and cumulative prior time periods. It is desired that the Investment Fund earn returns higher than the "market," as represented by a mix of indices reflective of the Community Foundation of Howard County's strategic allocation.

The Community Foundation of Howard County's Investment Fund is expected to exceed the average annual return of this style index (defined in Appendix 4) on a risk-adjusted basis over a five-year rolling time period and a full market cycle.

The Investment Fund's asset allocation shall be reported on a quarterly basis.

Each Investment Managers' performance will be evaluated in similar fashion according to the performance standards summarized in Appendix 2.

X. Investment Monitoring and Control Procedures

Reports

The Investment Consultant(s) shall provide the Investment Committee with monthly statements for each account held by the Community Foundation of Howard County and subject to this Investment Policy. Such reports shall show values for each asset and all transactions affecting assets within the portfolio, including additions and withdrawals.

The Consultant(s) shall provide the Investment Committee the following management reports on a periodic basis:

- Portfolio performance results over varying time periods
- Performance results of comparative benchmarks over varying time periods
- Review of current asset allocation versus policy guidelines
- An annual report showing the portfolio's performance after adjustments for additions, withdrawals, gain or loss and inflation.
- Any recommendations for changes of the above reports

Meetings and Communications with Investment Consultants

Investment Consultants shall meet with the Investment Committee approximately quarterly to review and explain the Investment Fund's performance and any related issues. Investment Consultant(s) shall also be available on a reasonable basis for telephone and email communication as needed.

At the quarterly meetings, the Investment Consultant(s) shall keep the Investment Committee apprised of any material changes in their outlook, recommended investment changes, and tactics.

All recommendations by an Investment Consultant for changes in the targets and/or buying or selling assets in the portfolio shall be sent to members of the Investment Committee, together with the Investment Consultant's reasons for the recommendation, prior to the meeting of the Committee at which the recommendations will be considered.

At the Committee meeting following receipt of the recommendations, the Committee shall discuss the recommendations and by motion either adopt, modify, table or reject the recommendation. The minutes for the meeting shall incorporate as a part of the minutes the Investment Consultant's written recommendation and explanation; and the minutes shall report the vote by the committee on the recommendation. The President and Chief Executive

Officer shall distribute the minutes within ten days of the meeting to the Committee members and Investment Consultant(s) and such minutes can be considered as the written notification to the Investment Consultant.

Adoption

The Board of Trustees have reviewed, approved and adopted this Investment Policy Statement. This Investment Policy is to be reviewed periodically by the Investment Committee to determine if any revisions are warranted by changing circumstances including, but not limited to changes in financial status, risk tolerance or changes involving Investment Managers. The Board of Trustees, in consultation with the Investment Committee, reserves the right to make any changes to this Investment Policy Statement as deemed necessary. All such changes will be made in writing and the Investment Consultant(s) will be duly informed.

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Chair, Board of Trustees ***Date***

____ ___________

Chair, Investment Committee ***Date***

Appendix 1: Community Foundation of Howard County Investment Policy Governance

Fiduciary Level	Investment Policy	Asset Allocation	Asset Class Strategy	Portfolio of Managers	Security Selection
Board	Decides	Oversees			
Investment Committee/Staff	Recommends	Oversees Decides	Oversees Decides	Oversees Decides	
Investment Consultant(s)	Recommends	Recommends	Recommends	Recommends	Oversees
Investment Managers					Decides

Appendix 2: Asset Class Definitions & Style Indices

Equities

The equity asset classes should be maintained at risk levels roughly equivalent to the sectors of the market represented, with the objective of exceeding a nationally recognized index measuring the performance of the designated sector over a three-year moving time period net of fees and commissions. Mutual funds and/or exchange-traded funds conforming to the policy guidelines may be used to implement the investment program. The following definitions shall apply for the purposes of this policy:

U.S. Large Capitalization Stocks: A portfolio of stocks comprised primarily of U.S. based companies with the average of the stocks held having a market value exceeding $6.0 billion and primary shares of which are traded on a major U.S. stock exchange.

These are indexed against the Standard & Poor's (S&P) 500 Index.

U.S. Mid Capitalization Stocks: A portfolio of stocks comprised primarily of U.S. based companies with the average of the stocks held having a market value between $2.0 billion and $6 billion and primary shares of which are traded on a major U.S. stock exchange.
These are indexed against the Russell Mid Cap Index.

U.S. Small Capitalization Stocks: A portfolio of stocks comprised primarily of U.S. based companies with the average of the stocks held having a market value less than $2 billion.

These are indexed against the Russell 2000 Index.

U.S. Micro Capitalization Stocks: A portfolio of stocks comprised primarily of U.S. based companies with the average of the stocks held having a market value between $50 million and $300 million. They typically trade on the over-the counter (OTC) market.

These are indexed against the Russell Micro Cap Index.

International Developed Markets: Stocks of non-U.S. based companies, located in developed international markets, the primary shares of which are traded on exchanges outside the U.S.

These are indexed against the MSCI EAFE Index.

International Emerging Markets: Stocks of non-U.S. based companies, located in emerging markets, the primary shares of which are traded on exchanges outside the U.S.

These are indexed against MSCI Emerging Index.

Real Estate Securities (REITs): Equity REITs, mortgage REITs, CMO or mortgage-related securities

REITS, Health Care REITS, and equities of real estate operating companies. Equity REITs are those securities that meet the National Association of Real Estate Investment Trusts' (NAREIT) asset mix definition of an equity REIT (currently, equity REITs are those where 75% of assets are equity financed properties). REITs may be perpetual life REITs or finite life REITs.

These are indexed against the Wilshire RESI Index.

Alternative Investments

Alternative investments represent investments in strategies that seek to provide diversification through innovative and flexible strategies (such as the ability to short, add leverage and hedge). Diversification standards within each investment shall be according to the prospectus. Investments in these strategies carry special risks. The fund(s) may utilize aggressive investment strategies, trade in volatile securities, and use leverage in an attempt to generate superior investment returns.

Some of the underlying strategies are:

Market Neutral: A strategy in which the manager seeks to profit from both increasing and decreasing prices in a single or numerous markets. Such strategies are often achieved by taking matching long and short positions in different stocks to increase the return from making good stock selections and decreasing the return from broad market movements.

Alternative Beta-Replication: Alternative beta-replication strategies are designed to deliver the broad market exposures of the hedge fund universe through a mutual fund or exchange-traded fund. This is achieved from exposure to liquid broad market factors. Beta-replication is based on the idea that hedge fund returns can be broken down into different return components: alpha returns, linear and non-linear beta returns, and fund-specific returns. Beta returns arise from factors driven by systematic market risks, and they are deemed to be 'good risks' as they carry a premium. Beta measures the sensitivity of hedge fund returns with respect to a given risk factor and indicates how much factor risk the portfolio is exposed to.

Absolute Return: Absolute return strategies aim to produce a positive absolute return regardless of the directions of financial markets. They typically achieve this by investing the portfolio's assets in low volatility investments and then taking hedging long and short positions in portfolios of securities that, when combined, are expected to have modest exposures to market returns. Absolute returns strategies attempt to have low correlation with financial market performance.

Arbitrage Strategies: Arbitrage is an investment technique used to take advantage of price differences in separate markets to generate profits without risk. Arbitrage is carried out by the simultaneous purchase and sale of an asset in order to profit from a difference in the price. It is a trade that profits by exploiting price differences of identical or similar financial instruments, on different markets or in different forms. Arbitrage opportunities exist as a result of market inefficiencies.

Long-Short Strategy: A long-short strategy is an investing strategy that involves taking long positions in stocks that are expected to increase in value and short positions in stocks that are expected to decrease in value. Ideally, the long position will increase in value, and the short position will decline in value. If this happens, and the positions are of equal size, the long-short fund will benefit. The strategy will work even if the long position declines in value, provided that the long position outperforms the short position. Thus, the goal of any long-short strategy is to minimize exposure to the market in general, and profit from a change in the difference (or spread) between two stocks.

Hedged Equity: Equity hedging techniques can reduce portfolio volatility, when used appropriately. Two very basic hedging techniques can be effective tools for controlling portfolio risk when used together, particularly when markets are volatile. Selling **index call options** and buying **index put options** are relatively conservative strategies that can be used to help protect the overall value of a stock portfolio by generating income and limiting losses caused by sharp market declines over a short period of time.

- **Selling index call options:** against portfolio holdings allows managers to collect option premiums in any market environment. In particular, the portfolio receives cash (the "premium") from the purchaser. The purchaser of an index call option has the right to any appreciation in the value of the index over a fixed price (the "exercise price") on a certain future date. Since the portfolio will have collected the premium in return for giving up potential stock appreciation, sales of index call options tend to add to relative return compared to owning an unheeded stock portfolio – in a flat or fluctuating stock market. Conversely, in a strong upwardly trending market, the sale of index call options may not compare favorably to an unhedged stock portfolio, though they will mitigate risk.
- **Buying index put options:** against portfolio holdings can help decrease the potential for loss if the stock market declines sharply over a short period of time (although the cost of buying put protection reduces total return if the market does not go down).

Managed Futures: Managed Futures is a strategy in which professional portfolio managers, known as Commodity Trading Advisors (CTAs), use futures contracts as a part of their overall investment strategy. Managed futures provide portfolio diversification among various types of investment styles and asset classes to help mitigate portfolio risk in a way that is not possible in direct equity investments. A diversified managed futures portfolio will generally have exposure to a number of markets such as commodities, energy, agriculture and currency. Introducing futures into a portfolio reduces risk because of the negative correlation between asset groups.

These are indexed against HFRI Fund of Funds Index.

Fixed Income

Investments in fixed income securities will be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums. Mutual funds and/or exchange-traded funds conforming to the policy guidelines may be used to implement the investment program. The weighted average maturity of the fixed income portion must be 10 years or less. The following definitions shall apply for the purposes of this policy:

Core Bonds: A portfolio comprised primarily of fixed income securities denominated in U.S. dollars issued by the U.S. Government or U.S. corporations rated investment grade ("BBB") or better.

These are indexed against Barclays Aggregate Bond Index.

Treasury Inflation Protected Securities (TIPS): A special type of Treasury note or bond that offers protection from inflation. Like other Treasuries, it pays interest every six months and pays the principal when the security matures. The difference is that the coupon payments and underlying principal are automatically increased to compensate for inflation as measured by the Consumer Price Index (CPI). These are a sub-set of core bonds.

These are indexed against Barclays US Treasury Inflation Protected Securities Index.

International Bonds: These are issued by non-US governments or corporations and over significant portfolio diversification, since US government and corporate debt often move in a similar manner to U.S. specific events. These bonds most often trade in the currencies of their domestic markets.

These are indexed against Citigroup Non-US World Govt. Bond Index.

High-Yield Bonds: A portfolio comprised primarily of fixed income securities denominated in U.S. dollars issued by the U.S. Government or U.S. corporations rated below investment-grade, with high "risk-adjusted" returns. The credit risks of these bonds are compensated for by their higher yields.

These are indexed against Barclays High-Yield Index.

Cash and Equivalents

It is generally expected that the Investment Manager(s) will remain fully invested in equities; however, it is recognized that cash reserves may be utilized from time to time to provide liquidity or to implement some types of investment strategies. Cash reserves should be held in the custodian’s money market fund, short-term maturity Treasury securities, insured savings instruments of commercial banks and savings and loans.

Transactions or unanticipated market actions that cause a deviation from these policy guidelines should be brought to the attention of the Committee by the Investment Manager(s) prior to executing transactions, when practical. Such deviations may be authorized in writing by the Committee when they determine that the deviation does not constitute a material departure from the spirit of this policy.

These are indexed against the Citigroup Treasury Bills 30-Day Index.

Appendix 3: Performance Standards

It is desired that each Investment Manager produce a level of return higher than the "market", as represented by the style index standards shown in the table below. Each Investment Manager is expected to exceed the average return of the style index on a risk-adjusted basis over five-year time periods. The exchange-traded funds and mutual funds shown in the table below are recommendations by the Investment Consultant, approved by the Committee and are subject to change in the future.

Investment Objective/ Investment Style	***Benchmarks***
Large Capitalization	100% S&P 500 Total Return Index
Mid Capitalization	100% Russell Mid Cap Index
Small & Micro Capitalization	100% Russell 2000 Index
International Developed & Emerging Markets	100% MSCI EAFE Index
Real Estate Securities	100% Wilshire RESI Index
International Bonds	100% Citigroup Non-US World Govt. Bond Index
Domestic Fixed Income	100% Citigroup 1-10 Year Govt./Credit Bond Index
Alternative Investments	100% HFRI Fund of Funds Index
Cash	100% Citi T-Bills 30 Days Index

Appendix 4: Style Index

Primary Benchmark: The portfolio should earn long-term returns in excess of CPI+4%. Volatility should be similar to the style index.

Target Weight (Approved Oct 2010)	*Asset Class*
22.0%	Large Capitalization
7.4%	Mid Capitalization
3.7%	Small & Micro Capitalization
11.60%	International Developed & Emerging Markets
1.5%	Real Estate Securities
5%	International Bonds
26.5%	Domestic Fixed Income
20.0%	Alternative Investments
2.0%	Cash

Appendix 5: Treatment of Excess Business Holdings in Donor-Advised Funds

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.[3] 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[4] of the voting stock[5] 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 much longer period to divest under the same complicated transition relief given to privation foundations in 1969.[6]

What is a business enterprise?

A "business enterprise" is the active conduct of a trade or business, including any activity which is regularly carried on 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 from of equity
- Income from dividends, interest, royalties 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
- Businesses that derive at least 95 percent 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.

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[3] 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, it appears that this section does not apply to assets held by the sponsoring charity's investment pools, or assets held by funds that are not donor advised.

[4] Thirty-five percent if it can be shown that persons who are not disqualified persons have effective control of the business.

[5] 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.

[6] Excess holdings 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.

Who 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(f)(3)

Assets categorized under the PPA as "Excess Business Holdings"
The Foundation 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 Foundation 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 Foundation will disposed 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 Foundation will notify potential donors of such interests of this requirement prior to the contribution of such interest.