# INVESTMENT POLICY STATEMENTS WITH IMPACT INVESTING COMPONENTS

Exponent Philanthropy Sample Document

# INVESTMENT POLICY STATEMENT

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## STATEMENT OF PHILOSOPHY

The ______________ Foundation is committed to the Quaker philosophy of empowering people to help themselves. The Foundation accomplishes this through grant making, which focuses on women's issues, children, education, the environment and Quaker concerns (peace and social justice).

A core tenet of Quaker philosophy is that spiritual principles apply not only to individuals, but also to social and international relations, trade, and businesses. Therefore, we believe it is our responsibility to view our assets, as well as our income, as vehicles to achieve our mission, and have chosen to align our asset management with that mission.

Corporations are more than institutions for making money. They do not operate in a vacuum. They can provide quality and service, and promote innovation in their products. They can make efforts to improve the lives of their workers and the communities in which they are located**.** They can change their practices to diminish pollution and other negative environmental impacts. Because the purpose of this Foundation is to promote improved quality of life for both people and the environment, we believe the portfolio should be invested in companies which make consistent, committed efforts to be socially responsible, as defined in our guidelines.-We will seek out companies whose products, services, and methods of conducting business enhance the human condition and sustain our natural environment.

We recognize that no company is perfect, and that companies may excel in one social criteria and lag behind in another. We will look for quality of corporate disclosure, consistent efforts to be responsive to social concerns and changes, and environmental impacts as we evaluate investments on an individual basis for their ethical suitability.

**OBJECTIVES**

The overall goal of the Foundation is to ensure the maximum level of grant making by preserving the Foundation's real (inflation adjusted) capital base and**,** over time, modestly increasing it.

The specific objective for the account is to achieve an average annual real total rate of return (net of investment fees) of at least 6% over the rate of inflation, over a rolling three-year period.

**CONSTRAINTS**

*Taxes* - The foundation is tax exempt. It must distribute 5% of its market value annually to maintain its tax-exempt status.

*Use of Social and Environmental Investment Criteria*

The portfolio manager will judge potential portfolio additions or changes on their quality, financial soundness, effect on asset mix, and congruency with the Foundation's social and environmental criteria guidelines. Since companies are often involved in controversies around areas of qualitative concern, the portfolio manager is requested to discuss with the investment committee, any confusion or question about the intent of that criterion.

*Time Horizon* - The time horizon is long term, which for planning purposes, means in excess of 3-5 years.

**SOCIAL JUSTICE CONCERNS**

The account shall **avoid** domestic investments in companies with the following characteristics:

- derivation of more than 5% of revenues from alcohol production and distribution
- any involvement in tobacco production or processing
- derivation of more than 3% of revenues from the sale of tobacco products
- gambling services, and production and manufacture of gambling equipment
- genetic engineering and genetically modified products
- animal testing unless accredited by the AAALAC or the National Institutes of Health
- manufacture and distribution of weapons of war and/or weapons whose sole purpose is to kill people (not including hunting guns)
- derivation of more than 3% of revenue from the Department of Defense. This criterion does not apply to goods and services that have no direct military purpose. The Foundation wishes to avoid companies providing weapons and other goods or services created solely for the purpose of harming people or the earth.

**ENVIRONMENTAL CONCERNS**

The account shall **avoid** investments in companies with the following characteristics:

- disregard for a clean, healthy and sustainable environment; i.e. polluting, not disclosing information, substantially or repeatedly violating air water, hazardous waste management, or other environmental regulations
- nuclear power generation or processing
- refusing to change harmful production methods or practices when alternative technologies or practices are available.
- high toxic emissions levels in relation to their peer group
- production of ozone-depleting and agricultural chemicals
- derivation of revenues from the sale or combustion of coal or oil and their derivative fuel products
- extractive fossil fuel companies, except for natural gas

**INTERNATIONAL INVESTING**

The account shall **avoid** international investments with the following characteristics:

- strategic support for repressive regimes
- sweatshop labor, including unacceptable labor conditions and practices and use of forced labor or child labor
- conflict with indigenous peoples
- use of chemicals, pesticides, drugs, or environmental abuse which would be banned in the United States
- operational support of the government in Burma

Corporate practices abroad should be carefully examined. If any doubts exist, the Investment Manager should consult with the Investment Committee to decide whether to invest, divest, or file shareholder resolutions/protest.

## AFFIRMATIVE SCREENING

The account shall **seek out** socially responsible investments in companies that have the following characteristics:

- pro-active environmental policies
- a focus on alternative energy
- a focus on sustainable agriculture
- pro-active employment policies
- commitment to community affairs and charitable giving
- signing the CERES Principles
- a diverse board of directors with regard to gender and race
- reasonable compensation packages for CEOs relative to other employees

## COMMUNITY INVESTING

The Foundation considers community investing to be an additional way to align our assets with our mission, and to leverage our grant making activity. Therefore, we will designate a percentage of the average annual market value of the portfolio to community investing. This is currently set at 1%.

## SHAREHOLDER ACTIVITIES

Shareholder activities are a component of aligning the socially responsible investment guidelines with the investment activities. Voting on the proxies, co-filing, and filing shareholder resolutions are all part of this effort. Proxies shall be voted in accord with the concerns stated in the policy guidelines.

Proxies shall be voted in opposition of the following corporate board characteristics and actions:

- incentive payments unrelated to financial performance
- increasing salaries and options for executives that far exceed salary increases for average company employees
- boards composed mostly of "inside directors"
- nominating and compensation committees that are not composed exclusively of independent directors
- board nominees who serve on multiple (more than 3) boards, when the boards have many of the same people
- lack of diversity by gender, race and age
- golden parachutes for executives
- pension plans for non-employee directors

# STATEMENT OF INVESTMENT POLICY, OBJECTIVES, AND GUIDELINES

# Statement of Investment Policy, Objectives, and Guidelines

## GENERAL INFORMATION

This statement of investment policy reflects the investment policy, objectives, and constraints of the entire ________ Foundation.

## PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This statement of investment policy is set forth by the Trustees in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives for Foundation assets.
3. Offer guidance and limitations to all Investment Managers regarding the investment of Foundation assets.
4. Establish a basis for evaluating investment results.
5. Establish the relevant investment horizon for which Foundation assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

## ASSIGNMENT OF RESPONSIBILITY

### Responsibility of the Trustees

The Trustees are charged by law with the responsibility for the management of the assets of the Foundation. The Trustees shall discharge their duties solely in the interest of the Foundation, with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent man, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.

## DEFINITIONS

1. "Foundation" shall mean the [full name of the foundation]
2. "Trustees" shall refer to the Board of Trustees, which is the governing board of the Foundation.
3. "Fiduciary" shall mean any individual or group of individuals, employed to manage the investments of all or part of the Foundation assets.
4. "Investment Manager" shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Foundation assets.

5. "Investment Management Consultant" shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
6. "Securities" shall refer to the marketable investment securities which are defined as acceptable in this statement.
7. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Foundation is 10 years.

## DELEGATION OF AUTHORITY

The Board of Trustees is a fiduciary under ERISA, and is responsible for directing and monitoring the investment management of Foundation assets. As such, the Board of Trustees is authorized to delegate certain authority to professional experts in various fields. These include, but are not limited to:

1. Investment Management Consultant. The consultant may assist the Board of Trustees in: establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluation investment performance; and other tasks as deemed appropriate.
2. Investment Manager. The investment manager may choose specificsecurities, within the asset class for which they were chosen, to meet the Foundation's investment objectives. Such services also include economic analysis, and deciding when to purchase, sell, or hold these individual securities.
3. Custodian. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Foundation, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Foundation accounts.
4. Co-Trustee. The Board of Trustees may appoint an outside individual or entity, such as a bank trust department, to be co-trustee. The Co-trustee will assume fiduciary responsibility for the administration of Foundation assets.
5. Additional specialists such as attorneys, auditors, actuaries, consultants, and others may be employed by the Board of Trustees to assist in meeting its responsibilities and obligations to administer Foundation assets prudently.

The Board of Trustees will not reserve any control over specific investment decisions, with the exception of specific limitations described in these statements. Managers will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment managers, each manager should request modifications which they deem appropriate.

If such experts employed are also deemed to be fiduciaries, they must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the Foundation as deemed appropriate and necessary.

## GENERAL INVESTMENT PRINCIPLES

1. Investments shall be made solely in the interest of the Foundation and for the exclusive purpose of providing benefits accrued thereunder and defraying the reasonable expenses of administration.
2. The Foundation shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that prudent man acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
3. Investment of the Foundation shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
4. The Board of Trustees may employ one or more investment managers of varying styles and philosophies to attain the Foundation's objectives.

## INVESTMENT OBJECTIVES

In order to meet its needs, the Foundation's investment strategy is to emphasize net total return; that is, the aggregate return from capital appreciation and dividend and interest income after expenses.

Specifically, the primary objective in the investment management for Foundation assets shall be:

Long-Term Growth of Capital- To emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated inasmuch as it is consistent with the volatility of a comparable market index.

## SPECIFIC INVESTMENT GOALS

Over the investment horizon established in this statement, it is the goal of the aggregate Foundation assets to meet or exceed:

5% per year spending plus inflation and expenses annualized over a 10 year time frame.

We expect this to be approximately 10% total return.

The investment goals above are the objectives of the aggregate Foundation, and are not meant to be imposed on each investment account (if more than one account is used). The goal of each investment manager, over the investment horizon, shall be to:

1. Meet or exceed the blended market index, selected and agreed upon by the Board of Trustees that most closely corresponds to the style of investment management.
2. Display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified above.

Risk will be measured by the standard deviation of quarterly returns.
Deterioration of one quartile in any of the Foundation's managed accounts within a six month period will be brought to the Committee for review.

## INVESTMENT MANAGEMENT POLICY

1. Preservation of Capital - Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.
2. Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the Board of Trustees recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Foundation's objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
3. Adherence to Investment Discipline - Investment managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

## LIQUIDITY

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Board of Trustees will periodically provide investment counsel with an estimate of expected net cash flow. The Board of Trustees will notify the investment consultant in a timely manner, to allow sufficient time to build up necessary liquid reserves.

## INVESTMENT GUIDELINES

### Allowable Assets

1. Cash Equivalents
   - Treasury Bills, Commercial Paper (rated A1, P1 or better), CD's, Bankers' Acceptance Notes
   - Money Market Funds
   - Repurchase Agreements

2. Fixed Income Securities
   - U.S. Government and Agency Securities
   - Corporate Notes and Bonds with BAA ratings or higher. In measuring bonds the Foundation will use the estimated maturity rather than the stated maturity.
   - Mortgage Backed Bonds
   - Preferred Stock

- Fixed Income Securities of Foreign Governments (not to exceed 5% of total fund, no country to represent more than 20% of total foreign country exposure, all A rated or better)

3. Equity Securities
   - Common Stocks
   - Convertible Notes and Bonds
   - Convertible Preferred Stocks
   - American Depository Receipts (ADRs) of Non-U.S. Companies
   - Stocks of Non-U.S. Companies (Ordinary Shares)

Stock Exchanges

To ensure marketability and liquidity, investment advisors will execute equity transactions through exchanges that are expected to provide the same liquidity and marketability when a sale is necessary: The New York Stock Exchange; American Stock Exchange; and NASDAQ over-the-counter market are to be the primary exchanges.

Prohibited Assets

Prohibited assets include the following and any similar transactions as determined by the trustees in their discretions, but are not limited to the following:

1. Commodities and Futures Contracts
2. Private Placements
3. Options

Prohibited Transactions

Prohibited transactions include the following and any similar transactions as determined by the trustees in their discretions, but are not limited to the following:

1. Short Selling
2. Margin Transactions

Asset Allocation Guidelines

Investment management of Foundation assets shall be in accordance with the following asset allocation guidelines:

1. Aggregate Foundation Asset Allocation Guidelines (at market value)

| **Asset Class** | **Minimum** | **Maximum** | **Preferred** |
|---|---|---|---|
| Equities | 30% | 95% | 70% |
| Fixed Income | 10% | 95% | 25% |
| Cash & Equivalents | 5% | 100% | 5% |
| Alternative Investment Vehicles | 0% | 10% | None |

2. The Board of Trustees may employ investment managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Foundation, such disciplines must fit within the overall asset allocation guidelines established in this statement. Such investment managers will receive written direction from the Board of Trustees regarding specific objectives and guidelines.

Diversification for Investment Managers

The Board of Trustees does not believe it is necessary or desirable that securities held in the Foundation represent a cross section of the economy.
However, in order to achieve a prudent level of portfolio diversification, the securities of any one company shall not exceed 5% of the total fund a government agency should not exceed 10% of the total fund, and no more than 20% of the total fund should be invested in any one industry. Individual treasury securities may represent 20% of the total fund, while the total allocation to treasury bonds and notes may represent up to 100% of the Foundation's aggregate bond position.

Guidelines for Fixed Income Investments and Cash Equivalents

1) Foundation assets may be invested only in investment grade bonds rated BAA (or equivalent) (example BBB) or better, but bonds of this rating may not exceed 10% of the fixed income portion of the total fund. In measuring bonds the Foundation will use the estimated maturity rather than the stated maturity. Foundation assets may be invested in bonds with lower quality ratings with the following restrictions:

    a) Bonds bought when rated BBB and BAA and whose rating at one service drops below BBB/BAA may be held. Bonds must be sold within a reasonable amount of time if both services downgrade.

    b) Bonds rated by only one service BBB or BAA may be bought, but the total not to exceed 5% of holdings. If a bond is downgraded, it must be sold within a reasonable amount of time.

2) Fixed income maturity restrictions are as follows:
    - Maximum maturity for any single security is 30 years
    - Weighted average portfolio maturity may not exceed 10 years
    - Weighted average portfolio maturity may not be less than 1 year

SELECTION OF INVESTMENT MANAGERS

The Board of Trustee's selection of Investment Manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. The Board of

Trustees requires that each investment manger provide, in writing, acknowledgement of fiduciary responsibility to the Foundation.

INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

Performance reports generated by the Investment Consultant shall be compiled at least quarterly and communicated to the Board of Trustees for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Board of Trustees intends to evaluate the portfolio(s) manager over at least a three year period, but reserves the right to terminate a manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and risk parameters established or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.

Investment managers shall be reviewed annually by the Board of Trustees regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

This statement of investment policy is adopted by the trustees of The ________ Foundation whose signatures appear below.

(Signatures are not included on this sample document)

# SAMPLE FOUNDATION INVESTMENT POLICY STATEMENT

# The ________ Foundation, Inc.

# Investment Policy Statement

***[DATE]***

# *Table of Contents*

*EXECUTIVE SUMMARY*

| | |
|---|---|
| Organization | The ______ Foundation, Inc. |
| Type of Organization | Non-taxable Private Foundation |
| Time Horizon | Greater than 5 years |
| Target Rate of Return | Greater of 9 % Annually (net after fees) or 5% (net after fees) Above Inflation |
| Investment Consultants | Various |
| Custodians | Various |

| **Strategic Asset Allocation***<br>Investment Portfolio | Lower<br>Limit* | **Strategic**<br>**Allocation** | Upper<br>Limit* |
|---|---|---|---|
| | **Equity** | | |
| U.S. Large Cap Equity-Value | 10% | 23% | 40% |
| U.S. Large Cap Equity-Growth | 5% | 21% | 35% |
| *Total Domestic Large* | *15 %* | *44 %* | *75 %* |
| U.S. Small/Mid Cap Equity-Value | 0% | 10% | 10% |
| U.S. Small/Mid Cap Equity-Core | 0% | 0% | 10% |
| U.S. Micro Cap-Core | 0% | 0% | 3% |
| *Total Domestic Small/ Mid* | *0%* | *10 %* | *23%* |
| Real Estate (REIT) | 0% | 0% | 5% |
| ***Total Domestic Equities*** | ***25%*** | ***54%*** | ***90%*** |
| Int'l Large Cap Equity-Core | 0 % | 0% | 20% |
| Int'l Large Cap Equity-Value | 10% | 25% | 25% |
| *International Large Total* | *10%* | *25%* | *45%* |
| Int'l Small Cap Equity-Core | 0% | 0% | 5% |

| | | | |
|---|---|---|---|
| Int'l Small Cap Equity-Value | 0% | 0% | 5% |
| *International Small Total* | *0%* | *0%* | *10%* |
| | | | |
| Emerging Market Large Cap | 0% | 0% | 10% |
| Emerging Market Large Value | 0% | 0% | 10% |
| Emerging Market Small Cap | 0% | 0% | 10% |
| *Emerging Markets Total* | *0%* | *0%* | *30%* |
| | | | |
| *Total Equity* | ***35%*** | ***79%*** | ***100%*** |

| Investment Portfolio | Lower Limit* | Strategic **Allocation** | Upper Limit* |
|---|---|---|---|
| *Alternative Investments* | | | |
| Hedge Funds | 0% | 8% | 15% |
| Alternative (Venture Capital Investments) | 0% | 0% | 5% |
| *Alternative Investments Total* | ***0%*** | ***8%*** | ***20%*** |

**Fixed Income**

| | | | |
|---|---|---|---|
| *Total Fixed Income-Intermediate Term* | *5%* | *5%* | *20%* |
| *Cash and Cash Equivalents* | *2%* | *8%* | *20%* |

*** Totals are independent of the sum of each individual asset class limits**

## ***Allowable Assets***

1. Cash Equivalents
   - Treasury Bills
   - Money Market Funds
   - STIF Funds
   - Commercial Paper
   - Banker's Acceptances
   - Repurchase Agreements
   - Certificate of Deposit

2. Fixed Income Securities
   - U.S. Government and Agency Securities
   - Corporate Notes and Bonds, Rated A1, A-, P1 (as applicable)

- Mortgage Backed Bonds
- Preferred Stock
- Fixed Income Securities of Foreign Governments and Corporations
- Planned Amortization Class Collateralized Mortgage Obligations (PAC CMOs) Or other "early tranche" CMOs

3. Equity Securities
   - Common Stocks
   - Convertible Notes and Bonds
   - Convertible Preferred Stocks
   - American Depository Receipts (ADRs) of Non-U.S. Companies
   - Stocks on Non-U.S. Companies (Oridinary Shares)

4. Mutual Funds
   - Mutual Funds, which invest in securities as allowed in this statement.
5. Alternative Investments
   - Hedge Funds
   - Limited Partnerships
   - Real Estate Properties

**Prohibited Transactions**

Prohibited transactions include, but are not limited to the following:

- Short Selling Except of Hedge Fund Money Managers
- Margin Transactions Outside of Hedge Fund Money Managers
- Commodities and Future Contracts
- Options
- Interest-Only (IO), Principal-Only (PO) and Residual Tranche CMO's
- Precious Metals
- Puts, Calls, Straddles, Other Option Strategies
- Private Investments
- Closely Held Companies
- Tax-exempt Securities

The above listed prohibited transactions may be employed so long as with an established manager with at least three (3) years experience in the prohibited discipline, or if employed within a hedge fund strategy.

## PURPOSE

The purpose of this Investment Policy Statement (IPS) is twofold. First, the IPS establishes guidelines that are appropriate for ***The ____ Foundation, Inc.*** ("*Foundation*") to reach its long-term investment goals and objectives. Second, the IPS provides the various financial consultants ("Consultants") and the Foundation with guidelines to effectively implement, manage, monitor and evaluate the third party retained specific style manager ("Money Manager") assets and investment performance. This IPS is intended to clearly define the investment objectives and is to be as specific as possible. It is a dynamic tool that is subject to revision based on changes in the Foundation's specific investment objectives or material changes in the overall economic climate. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS. The Foundation realizes that the usefulness of this IPS depends on the clarity with which the investment objectives and policy guidelines are stated and the rigor and discipline with which they are followed.

The Foundation's investment program is defined in the various sections of the IPS by:

- Stating the Foundation's attitudes, expectations, objectives and guidelines for the investment of the Foundation's assets.
- Setting forth an investment structure for managing the Foundation's assets. This structure includes various asset classes, investment management styles, asset allocations and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the investment time horizon to meet financial objectives.
- Providing guidelines for each investment portfolio that controls the level of overall risk and liquidity assumed in that portfolio so that the Foundation's aggregate assets are managed in accordance with the stated objectives.
- Encouraging effective communication between the Foundation and the Consultants.
- Establishing criteria to monitor, evaluate and compare the performance results achieved by the Foundation's Money Managers and/or mutual funds on a regular basis.
- Defining what is and what is not a suitable investment.
- Complying with all fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international political entities that may impact the Foundation's assets and investments.

The principal reason for developing a long-term investment policy and for putting it in writing is to enable the Foundation and Consultants to protect the portfolio from *ad hoc* revisions of sound long-term policy. The written investment policy will help the Foundation maintain a long-term perspective when short-term market movements may be distressing and the investment strategy might otherwise be questioned.

This IPS is not a contract. Legal counsel has not reviewed this Investment Policy Statement. The Foundation and the Consultants use it at their own discretion. It is understood that there can be no guarantee about the attainment of the goals or investment objectives outlined herein.

## MISSION STATEMENT

**"The ____ Foundation is a Christian-based private foundation that endeavors to lead by example through practicing its belief in the importance of good stewardship by assisting needy qualified religious, men, women, children and humanitarian organizations, which are primarily located in the South Louisiana Area, by providing such organizations matching and direct grant assistance."**

## STATEMENT OF OBJECTIVES

The objectives have been established in conjunction with a comprehensive review and assessment of the Foundation's goals, expectations, investment time horizon, present investment allocation and current and projected financial requirements. The objectives are as follows:

- To maximize growth within risk volatility parameters that is reasonably consistent with the Foundation's overall financial goals of capital perservation.
- To control cost of administering and managing the investments. The tax cost is not a primary concern for the Foundation as the federal and state income taxes are a maximum of 1 ½%.
- To provide exposure to a wide range of investment opportunities in various markets while limiting risk exposure through prudent diversification.
- To be involved in the investment decisions and to have control over the investment choices.
- To be socially and morally responsible in the types of investments allowed.

### Core Objectives

The core objectives in order of importance are 1) preservation of capital; 2) growth of capital and 3) protection of purchasing power. These critical elements require the earning of a positive rate of return over the time horizon and obtaining long-term growth exceeding inflation of the Foundation's assets.

### Time Horizon

The general investment guidelines are based upon an expected investment horizon of greater than five years. Interim fluctuations and volatility should be viewed with appropriate long-term perspective.

### Liquidity Requirements

The Foundation has an annual operating budget, which covers the annual grants and other various operating expenses. The annual budget should be provided to Consultants each year as soon as the Trustee has approved it. The amount of the annual grants paid will approximate six percent (6%) of the previous year's average balance. However, there may be times when the Foundation will disburse more than the required amount.

**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 risk assumed and the level of return that can be expected in an investment program. In general, higher risk (e.g., volatility of return) is associated with higher return.

In establishing the risk tolerances of the IPS, the ability to withstand short and intermediate term variability was considered. The Foundation's prospects for the future, current financial condition, and several other factors suggest collectively that some interim fluctuations in market value and rates of return may be tolerated in order to achieve the longer-term objectives. Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (e.g., volatility of return) is associated with higher return. There are two primary factors that affect the investor's risk tolerance:

- Financial ability to accept risk within the investment program, and;
- Willingness to accept return volatility

It is important to recognize the difficulty in achieving the Foundation's objectives in light of the uncertainties and complexities of contemporary investment markets. The Foundation has recognized and acknowledged that some risk must be assumed in order to achieve the long-term investment objectives.

**Performance Expectations**

The attached Exhibit A reflects the historical performance for various asset allocation strategies. This information was utilized when designing this strategic asset allocation. The attached Exhibit A will be updated periodically. Past performance cannot guarantee future results. The specific asset allocation of this portfolio will have somewhat different historical returns compared to results of the asset allocation on the attached Exhibit A.

Long-term the portfolio is expected to return the **greater** of 9 % annually (net after fees) or 5% (net after fees) above inflation.

The goal of each investment Money Manager is to exceed, on a net of yearly fee basis, the market/ blended index, which most closely resembles the Money Manager's style. Each Money Manager is to have a level of risk consistent with the benchmark index. Risk will be measured by the quarterly return standard deviation.

**Rebalancing of Strategic Allocation**

The percentage allocation to each specific asset class as outlined may vary depending upon market conditions. However, the portfolio will seek to avoid shifting allocations between stocks and bonds in the short-term. When available, cash inflow/outflows will be deployed in a manner consistent with the strategic asset allocation of the Foundation. If the Foundation and Consultants determines that the cash flows are insufficient to bring the Foundation within the strategic allocation ranges, the Foundation shall decide whether to effect transactions to bring the strategic allocation within the threshold ranges.

## IMPLEMENTATION GUIDELINES

This long-term perspective is based on the concept that Foundation's portfolio will be invested according to the appropriate strategic asset allocation phase at all times. The concept of market timing asset classes or sectors is specifically rejected. The overwhelming academic evidence and empirical studies of market timing reflect that it is highly improbably to assume that there are firms and individuals with the consistent ability to predict which asset classes (or sectors) will have the highest near-term return. Therefore, the strategic asset allocation design and implementation of this portfolio does not include any form of market timing. No effort will be made to determine when short-term superior returns will occur. The emphasis for this portfolio is on steadily increasing the holdings over time and meeting the Foundation's investment objectives. Adjustments to the strategic asset allocation may occur when potential long-term market returns deviate significantly from normal equilibrium.

The most important component of the portfolio strategy is the asset allocation mix. The Foundation's asset allocation will be implemented through the use of both separate account

Money Managers (SAM), (but regulated investment company (RIC) portfolios may also be utilized) and individual stocks.

The following types of securities and transactions are not authorized without receiving specific Foundation approval:

- Letter stock and other unregistered securities; commodities or other commodity contract; and short sales
- Securities lending, pledging or hypothecating securities
- Illiquid investments, hedge funds, limited partnerships, collectibles, any investment that requires assumption of debt
- Investments with any 12b-1 fees, loads, or excessive administrative expenses (it is expected that the majority of domestic Money Managers will have fees of between 10 and 60 bps and international/emerging markets Money Managers between 40 and 150 bps, with the outliers for special asset class Money Managers)
- Investments for the purpose of exercising control management

## Fiduciary Duties

The fiduciaries of this IPS shall be the Board of Trustees of the Foundation. Each shall be held harmless from any liability in regards to the implementation, management and monitoring of this IPS so long as the fiduciaries follow the Prudent Man standard. To meet this standard the Trustees must cause to: 1) have communication to Consultant(s) and Money Managers of the projected financial needs, risk tolerance, investment objectives and responsibilities; 2) develop sound and consistent policy guidelines; and 3) monitor and evaluate performance results.

## Equities

Every separate account Money Manager (SAM) and regulated investment company (RIC)

selected to manage the Foundation's assets must adhere to the following guidelines:

- Equity holdings in any one company should not exceed more than 10% of the market value of the Foundation's equity portfolio, with the exception of proprietary owned companies under the Foundation, Inc. group of companies.
- Allocations for all equities will avoid industry or sector concentration with the exception of real estate, which has certain determined correlative characteristics to other asset classes, except sector specific Money Managers agreed to by the Foundation.
- The Money Manager shall emphasize quality in security selection and shall avoid risk of large loss through diversification.

- The Money Managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the Money Managers will be evaluated against their peers on the performance of the total funds under their direct management.
- Allocations to any specific country shall not be excessive relative to a broadly diversified international equity Money Manager peer group. It is expected that the non-US equity portfolio will have no more than 20% in any one country.
- Foreign exchange contracts may be utilized provided that use of such contracts is limited to hedging currency exposure existing within the Money Manager's portfolio. There shall be no direct foreign currency speculation or any related investment activity.
- Turnover will be monitored to make certain it has a positive effect on the portfolio.

## Fixed Income

The fixed income strategy will employ a variable maturity approach that involves no interest rate forecasting, but shifts the maturity structure in response to changes in the shape of the yield curve. In addition, fixed income investments will generally have short to intermediate term durations to minimize interest rate volatility. The weighted average duration of all securities in the fixed income portfolio will be no more than seven (7) years. The minimum rating of a fixed income instrument will be no less than A-, and must be assigned by two (2) of the nationally recognized rating agencies.

## Cash/Cash Equivalents

Every money market mutual fund selected must adhere to the following guidelines:

- Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1, P-1 or higher. Certificates of Deposit, commercial paper and repurchase agreements are also acceptable investment vehicles.
- Any idle cash not invested by the Money Managers shall be invested daily through an automatic tax-exempt interest bearing sweep vehicle.

## Execution

Although this portfolio is not intended to time the market, the Foundation recognizes that random market movements relative to the time of the initial investment can affect the evaluation of returns. Although it is appealing to minimize the short-term emotional impact of any such movement, the Foundation will have Consultants implement the portfolio as soon as possible once all assets have been transferred into their respective accounts.

## Down Market Cycles

While the objective of the portfolio is to preserve capital and garner appreciation by the greater of 9% or 5% above the inflation rate, it is noted that over a long period of time the portfolio will experience down market cycles. It is crucial during these periods that the portfolio is diversified and the Money Managers are closely reviewed against the applicable indices. The review will consider a trailing twelve and thirty-six month performance and risk analysis. Under performing Money Managers will be considered for removal. During the down cycles it is noted that certain new opportunities will present themselves to enhance performance. These new devices should be considered and evaluated as alternatives in the investment allocation.

It should be noted that the decline would present an opportunity for dollar cost averaging to existing Money Managers. Issues of global and national economic platforms, investor confidence, FOMC policy, interest rates, etc. should be considered to make an informed decision as to when to start dollar cost averaging into the market.

***Derivative Investments***

Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, CMOs (PAC bonds, IOs, POs, residual bonds, etc.), and interest rate swaps, among others. The Investment Committee feels that many derivative securities are relatively new and therefore have not been observed over multiple economic cycles. Due to this uncertainty, the IPS will take a conservative posture on derivative securities in order to maintain its risk minimization posture. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form a general policy on derivatives**.** Unless a specific type of derivative security is allowed in this document, the Money Manager(s)/ Consultants must seek permission from the Foundation to include derivative investments in the Fund's portfolio. The Money Manager(s)/ Consultants must present detailed information as to the expected return and risk characteristics of such investment vehicles.

## SELECTION OF MONEY MANAGERS

**The Foundation, with the assistance of the Consultants, will select appropriate Money Managers to manage the Foundation assets. Money Managers must meet the following minimum criteria:**

- Be a bank, insurance company, investment management company, or investment adviser as defined by the Registered Investment Advisers Act of 1940.

- Provide historical quarterly performance numbers using AIMR standards, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.
- Provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the Money Manager relative to other Money Managers of like investment style.
- Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel. This information can be a copy of a recent Request For Proposal (RFP) completed by the Money Manager.
- Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
- Selected firms shall have no outstanding legal judgments or past judgments, which may reflect negatively upon the firm.

## CONTROL PROCEDURES

### Duties and Responsibilities of the Money Managers

The duties and responsibilities of each Money Manager retained by the Foundation include the following:

- Managing the Foundation 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 when deviation is deemed prudent and desirable by the Foundation.
- Exercising investment discretion (including holding cash equivalents as an alternative) within the IPS objectives and guidelines set forth herein.
- Informing the Foundation and Consultants in writing regarding all significant and/or material matters and changes pertaining to the investment of the Foundation assets on a timely basis.

### Performance Objectives

Investment performance will be reviewed at least annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the IPS for achieving those objectives. In addition, the Consultants will monitor the performance on a monthly and quarterly basis as a standard practice as more further described below under *Monitoring Money Managers*.

It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

## Proxy Voting

*As part of the duties and responsibilities, the Money Managers are to vote any and all proxies solicited in connection with securities held in the managed account. The Money Managers shall keep an accurate record of the votes and submit the same upon request to the Foundation.*

**Investment Transactions**

The Money Managers will provide copies of the transactions to the Foundation of all transactions. The Foundation reserves the right to direct trades to particular brokerage firms.

## Monitoring Money Managers

Quarterly performance will be evaluated to test progress toward the attainment of long-term financial goals and objectives. It is understood that there are likely to be short-term periods during which performance deviates from market indices.

On a timely basis, at a minimum annually, the Foundation and Consultants will meet to discuss:

- Each Money Manager's adherence to the IPS guidelines and portfolio construction
- Material changes in the Money Manager's organization, investment philosophy and/or personnel
- Comparisons of the Money Manager's results to appropriate benchmarks
- Portfolio based performance attribution
- Portfolio based style analysis
- Portfolio based fundamental review

The performance of the Foundation's Money Managers will be monitored on an ongoing basis and it is at the Foundation's discretion to take corrective action by replacing a Money Manager if they deem it appropriate at any time. Money Managers can be removed if Consultants observes deterioration in the qualitative factors mentioned above which can influence the management of the Foundation's accounts. Money Managers may also be removed for sub-par performance if they consistently underperform their benchmark over a market cycle for their particular asset class. Some examples of deterioration are:

Failure to Adhere to IPS – If a Money Manager fails to adhere to the aspects of the IPS, including communication, significant style drift, reporting requirements, may be an underpinning of a change in internal policy or control.

Personnel Change - The potential for disrupting the investment process increases dramatically whenever a key investment professional departs. Consultants will thoroughly analyze each situation and assess the impact of any significant personnel change. If Consultants believes that the firm is weaker as a result, removal may be recommended.

Investment Process - Consistent application of the investment process is critical. Consultants will terminate a Money Manager who changes the characteristics of the portfolio so that the style and risk posture differ from the mandate for which the firm was hired. Example: consistent violation of a sell or buy discipline, which may result in a deviation from previously stated portfolio construction characteristics.

## *SOCIALLY RESPONSIBLE INVESTING*

The Foundation is to follow the guidelines of: 1) Do no harm, 2) do good and 3) use its resources for social stewardship. The Money Managers employed will be instructed to not invest in companies whose products and policies are counter to the Foundations moral statements and objectives, seek out and invest in companies whose business models embrace the major charitable goals of the Foundation and use its investment criteria as a reminder of its mission and commitment to humanity.

## *SPENDING POLICY*

While the needs for funding by the Foundation is great, prudence should be observed when market situations significantly reduce the value of the Foundation investments. A Significant Decrease is a reduction of total investment market value over a twelve (12) month period of ten (10%) percent or greater or in a given contiguous twenty-four (24) month period a decline of eighteen (18%) percent of total investment market value. This decline is without consideration of withdrawals for charitable work. When this Significant Decrease occurs the Foundation will fund its outstanding commitments but will reduce all other grants by at least twenty (20%) percent until such time as the Foundation investments increase by at least seventy-five (75%) of the total Significant Decrease measured from the point at the beginning of the Significant Decrease.

The objective is to minimize the long-term impact of spending devalued assets that are removed from the investment mix and the opportunity for return enhancement.

*AFFIRMATION*

This level of risk is intended to be sustained over our investment horizon, unless there is a significant change in financial circumstances or other goals and objectives.

The Foundation will review its Investment Policy Statement at least annually and determine any necessary adjustments to fully and accurately express their investment goals and objectives. The Foundation will review and analyze results and meet with Consultants periodically (and no less than annually) to reflect and discuss matters affecting the management of the portfolio.

Prepared by:
The ____ Foundation, Ltd.

Reviewed and Accepted by:

______________________________

________________________________
Name .
Trustee Chair
Date:____________________________

Date: __________________________

## DEFINITIONS

A. *Risk Adjusted Return* is a computer-basted, quantitative analysis performed to evaluate the return earned on a portfolio commensurate with the risk assumed by the portfolio.
B. *Portfolio Segment* is any portion of the portfolio that may be treated as a homogeneous group, i.e., equity securities, fixed income securities, cash equivalents.
C. *Tendency* is where the investment position will tend to be the majority of the time.
D. *I*nflation is measured by changes in the Consumer Price Index (CPI) for the United States economy for a given time period.
E. *Industry* refers to business activities all directly or indirectly related to a single type of business activity, such as drugs, construction, high technology, etc.

F. *Restricted Securities* are securities that have not been registered under the Securities Act of 1933 and, as a result, are subject to restrictions on resale.

G. *Foreign Securities* shall be not be limited to American Depository Receipts (ADRs), which are the registered shares of an overseas corporation denominated in U.S. dollars and traded on a U.S. exchange. This asset class may include shares of foreign enterprises.

H. *Investment Time Horizon* shall be in the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Fund is five (5) to ten (10) years.

I. *Foundation* shall mean *The ____ Foundation, Inc.*

J. *Fiduciary* shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or an authority or control over management, disposition or administration of the Foundation's assets.

K. *Consultant* shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.

L. *Prudent Man Rule* shall mean the investments are to be made consistent with the safeguards and diversity to which a prudent investor would adhere, i.e., exercising judgment and care, under the circumstances prevailing, which men of ordinary prudence would employ in the management of their own affairs, not in regard to speculation, but to the permanent disposition of their funds, considering both income and safety of capital.

M. *Alternative Investment* A non traditional type of investment, such as REIT's, hedge funds, venture capital, distressed securities, oil and gas leases, timberland, etc., with low correlation to more traditional asset classes, i.e. equities and fixed income.

N. *Hedge Fund* shall mean a private partnership with a limited number of investors which may take both long, and short positions, and use leverage in attempting to provide absolute returns which are less correlated to traditional equity returns.

*O.* *Money Manager* shall mean an organization employed by the Foundation with the expressed assignment to acquire, sell, trade, exchange securities within a certain market style/ class (ex. Large Cap Value) that will yield a greater after fee return than the applicable index. A fee between 10 and 200 basis points is usually charged for such services.

P. *Consultants* shall mean retail investment brokers, normally associated with a national retail brokerage house (ex. Prudential, UBS PaineWebber) that charges a fee for advice.

# MISSION INVESTING POLICY

## Mission Investing Policy

The Foundation shall, to the extent practicable, align its investments with its mission. All investments shall pass 2 separate tests: (1) the investment must be aligned with the foundation's mission in accordance with the following principles and (2) the investment must pass those risk/reward financial and diversification tests contained elsewhere in this Investment Policy Statement.

Specifically, to the extent practicable, the Foundation's investments shall be in accord with the following:

**1. No investments shall <u>knowingly</u> be made in entities which, <u>to a significant degree:</u>**

a. Produce tobacco products.

b. Cause or exacerbate pollution of the environment.
(Note: The publicly published "Toxic 100" list, and similar publicly available lists, may be used as guides in fulfilling this requirement.)

c. Produce handguns or other firearms for dissemination to the general public, or produce landmines.

d. Utilize sweatshops or other forms of forced labor.

e. Aid the Sudanese government in perpetrating genocide in Darfur. (Note: The publicly published list at www.sudandivestment.org may be used as a guide in fulfilling this requirement.)

f. Conduct fast food businesses or other businesses which adversely affect the health of consumers or others.

**2. Certain investments shall be considered particularly appropriate for the foundation to utilize, provided that they also pass risk/reward financial and diversification tests. Such particularly appropriate investments shall include investments in entities which:**

a. Are environmentally friendly or aid the environment, such as alternative energy investments.

b. Are gender neutral in their treatment of employees and others.

c. Are fair and honest in the treatment of their employees.

d. Are exemplary in their corporate governance processes.

e. Aid the fight against domestic or world poverty, homelessness, or hunger.

f. Enhance the education of the economically disadvantaged.

g. Are community development financial institutions (CDFIs) which support the cause of community development.

h. Are microfinance enterprises which help to fight domestic or world poverty.

**3. Shareholder advocacy activities in accordance with the above may be undertaken if they are practicable, appropriate, and helpful to the foundation's mission. No specific shareholder advocacy activities, including the voting of proxies, are required to be undertaken.**

**4. Investments in mutual funds or ETFs shall generally be in accordance with the above principles, while acknowledging that full 100% compliance within mutual funds and ETFs may not be practicable and may from time to time not be achieved.**

**5. The above requirements apply to fixed income as well as equity investments.**

The investment committee shall have the authority to interpret and apply the above requirements as it deems appropriate, and decisions of the committee made in good faith shall be considered to be in compliance with the above requirements.

# MISSION-RELATED INVESTING

# MISSION-RELATED INVESTING

## Investment Policy

### *Statement of Fiduciary Responsibility*

We begin the endowment management process recognizing that our responsibility does not end with maximizing return and minimizing risk. We recognize that economic growth can come at considerable cost to community and environment.

We believe that efforts to mitigate environmental degradation, address issues of social justice and promote healthy communities will be successful to the extent that these concerns are brought from the margins to the center of business and investment decision making.

We recognize that addressing such concerns while pursuing financial objectives is an imperfect process. However, we believe that the development of healthier corporate cultures, and through them a healthier economy, depends upon the recognition of these concerns by management, directors, employees and investors. Within foundations, this means reducing the dissonance between philanthropic mission and endowment management.

We believe that in light of the social, environmental and economic challenges of our time, fiduciary responsibility in the coming decades will dictate the integration of prudent financial management practices with principles of environmental stewardship, concern for community, and corporate accountability to shareholders and stakeholders alike. Foundations have a particular role to play in this process, by coming to understand mission not only in terms of the uses of income to fund programs, but also in terms of the ends toward which endowment assets are managed.

### *Investment Philosophy*

In concert with the Foundation's mission to protect and restore Earth's natural systems and promote a sustainable society by strengthening individuals, institutions and communities pledged to pursuing those goals, we seek to invest our endowment assets in companies that:

- provide commercial solutions to major social and environmental problems; and/or
- build corporate culture around concerns for environmental impact, equity and community.

The environmental impact of a business is tied to the throughput of materials, generation of waste and to the long-term value of the goods or services it produces. Equity within a corporation derives from participatory management, employee ownership, salary structures, workforce diversity, employee benefit programs or other demonstrated commitments to the well-being of all individuals involved in an enterprise. A corporation can promote community through openness and accountability to all stakeholders, local job creation especially for the economically disadvantaged, corporate giving to and active involvement with community organizations, or other initiatives that provide net benefits to the local economy.

### ***Spending And Investment Goals***

The spending and investment goals of the foundation are:

- to generate income and capital gains necessary to support the foundation's operations and fund its grantmaking over the long-term;
- to provide capital directly to or own the equity or debt of enterprises which further the foundation's mission;
- to avoid investing in companies whose environmental or social impacts contribute to the problems which the foundation's grant-making seeks to remedy;
- to set spending levels based primarily on an assessment of current need by the program staff and the Board as a whole, and secondarily on Finance Committee assessments of current and projected investment returns; and,
- to preserve, to the extent possible consistent with the foundation's spending levels, the real (inflation adjusted) value of its assets over the long term.

We recognize that to the extent that our grantmaking budgets, in combination with our operating expenses, exceed investment returns over a multi-year period, the preservation of the real value of our assets over the long-term becomes increasingly difficult. Because the Board has determined that the foundation should be viewed as a perpetual institution, investments that have the potential to generate substantial long-term capital gains will be particularly important.

### ***Investment Guidelines***

Investment guidelines are based on a 50 year horizon. Interim performance will be monitored as appropriate.

Appreciation and income may be used to finance cash requirements for grants and operating expenses. Assets may be spent down during periods in which neither appreciation nor income are sufficient to fund grantmaking budgets.

The foundation's assets will be managed by professional money managers selected by the Finance Committee in accordance with the asset allocation guidelines set forth by the Finance Committee and approved by the Board. Investment managers have complete discretion to manage the assets in each particular portfolio to best achieve investment objectives and requirements, within the social and financial guidelines set forth in the Foundation's Investment Policy. Managers will be monitored on a regular basis, as described below.

Consistent with the Foundation's Investment Policy, the responsibilities of investment managers include:

- The exercise of a high degree of professional care, skill, prudence and diligence in the management of assets under their direction.
- Thorough professional analysis and judgment with respect to all investments held in the account.
- Selection and disposition of individual securities and related matters.

- Diversification of securities by issuer, industry, geography, type, and maturity of investments, etc.
- Full compliance with all provisions of any governmental regulations and decisions thereunder dealing with the management and investment of foundations.
- Cooperating with the Foundation on shareholder activities.

***Asset Allocation***

Assets will be diversified both by asset class (domestic equities, foreign equities, fixed income, venture capital, private placements and real estate) and within each asset class (by indexation vs. active management, growth vs. value, large-cap vs. small-cap, and by economic sector, industry and quality).

Asset allocation will fall within the following ranges (as of September, 1997):

| | Current | Target Range |
|---|---|---|
| **EQUITIES** | | 50-65% |
| *Active* | | |
| Domestic | 21% | |
| International | 13% | |
| *Index* | | |
| Domestic | 20% | |
| International | *Not currently available* | |
| **FIXED INCOME** | 24% | 25-30% |
| **ALTERNATIVE INVESTMENTS** | | |
| Venture Capital/ Private Equity | 9% | 5-20% |
| Absolute Return (Hedge Funds) | 13% | 10-20% |

***Screening***

All public equity portfolios, indexed and active, will be managed by investment managers who employ social and environmental screens in addition to traditional financial analysis in their investment decision-making. Because the screening of fixed income portfolios investments is not generally available through institutional money managers, fixed income managers will be sought who are willing to work with the Finance Committee on a case by case basis with respect to avoidance of the debt of companies whose social or environmental impacts are deemed to be adverse to the Foundation's mission.

Notwithstanding the above, the Foundation may deem it desirable to own shares of certain companies whose actions are contrary to the concerns of the Foundation's grantees, creating particular problems for communities and the environment. If, in the judgment of the Foundation, ownership of such shares will afford the Foundation the opportunity to influence the behavior of these companies, ownership positions will be maintained at minimum levels necessary to support requisite shareholder activities.

Venture capital investments will be screened, with particular attention to the use of investments in early stage private companies as a tool for shaping corporate culture and furthering the Foundation's mission. Later stage venture investments and private equity investments will be screened to the extent possible, recognizing, however, that in later stage investments the opportunities for proactive interventions in support of our mission are limited or, in the case of certain partnerships or asset classes, unavailable. In such cases the Foundation will try to assure itself that the investments will be benign in relation to its mission.

As a general rule, the Foundation will seek to have no more than 20 percent of its assets invested in asset classes in which social and environmental screening is not available.

The Foundation recognizes that screening is a blunt instrument for achieving change. The screens typically employed by money managers are broad and imprecise with respect to the Foundation's mission. Companies that are deemed acceptable by many social investment screens may not be acceptable to the Foundation. Further, the impact of screening portfolios on the behavior of investee companies is generally indirect and limited. Screening has limited impact on the cost of capital to companies, although that impact might increase in the case of small cap companies and over time as the cumulative capital under management in screened accounts increases. On the positive side, interactions among committed money managers who screen, the Foundation Board and staff, and investee companies can play a role in influencing corporate behavior and changing corporate culture.

The impact of screening on financial returns is a subject of on-going analysis, both internally, with respect to the Foundation's own investment performance, and externally, with respect to the social investment movement as a whole. A number of recent studies, however, confirm the Foundation's own assessment: the application of social and environmental screens does not significantly affect financial performance, positively or negatively. The differences in performance between screened and unscreened portfolios can be found in manager selection and stock selection. The Finance Committee, however, will continue to monitor, assess and seek to improve its understanding of the relationships which may exist between financial returns and the impact of screening on our mission.

In evaluating the impact of a company, we look for:

- demonstrated Board and management commitment to environmental issues, including an environmental policy statement, incentive packages that reflect positive and negative environmental performance, and demonstrated support for strong public environmental policies;

- accountability to all stakeholders, including employees, consumers and the communities in which they are located;
- a commitment to environmental justice;
- products, processes and services that have a direct and positive environmental impact;
- efforts in the manufacture, processing or marketing of food that are consistent with sustainable agriculture;
- a record of maintaining healthy and safe workplaces;
- a record of regulatory compliance;
- an on-going audit program that goes beyond regulatory requirements;
- a record of waste and toxic emission reduction toward a goal of zero emissions, including commitment to reuse and recycling;
- a commitment to sustainable use of natural resources;
- diversity of Board, management and workforce;
- nondiscrimination in employment on the basis of race, ethnicity, gender, sexual orientation, and disability;
- R & D funding for new processes and materials that minimize environmental impact; and
- respect for the reproductive rights of all women.

We will not invest in companies that:

- produce and/or use nuclear power (including those that mine uranium ore or develop or maintain nuclear reactors);
- produce synthetic pesticides, herbicides or other agricultural chemicals, especially those that are believed to cause birth defects or disrupt endocrine systems in humans and animals; or
- derive more than five percent of their revenue from the manufacture and sale of tobacco products.

In industries that do not meet our screens, companies that have signed the CERES Principles or demonstrated particular leadership within their industry with respect to social responsibility and environmental impact may be considered on a case by case basis.

***Venture Capital And Alternative Investments***

Because it involves investments and, in some cases, active involvement in early stage, private companies, venture capital can be a powerful tool for contributing to the Foundation's mission.

Financial objectives of venture capital and private equity investments are to generate returns, through the realization of long-term capital gains, that are superior to those of public markets.

Investments will be sought which provide premiums over public market returns sufficient to compensate for the risk and illiquidity of private investments, and which, in some instances, take into account value added to our philanthropic mission. Early stage investments and investments that have particularly higher mission-related potential will be balanced with later stage private equity investments which usually do not afford opportunities for either screening or shareholder involvement.

### ***Shareholder Activities***

The Foundation believes that shareholder activities are a key component of its efforts to deploy investment assets in ways that add value to philanthropic mission. Shareholder activity is considered a program activity since its goal is to work with grantees, adding an additional component to their strategies to meet their goals.

The Foundation will exercise its social responsibility as an investor by:

- writing letters to management;
- meeting with portfolio companies;
- publicizing our votes and general philosophy;
- filing and co-filing shareholder resolutions in cooperation with other foundations and institutional investors, especially in support of the work of our grantees; and,
- voting its proxies on shareholder resolutions.

The Foundation will engage the management of portfolio companies through letters, meetings, and, where necessary, the filing or co-filing of shareholder resolutions. The decision to become involved in shareholder action relating to a particular company or group of companies will be guided by the Foundation's desire to support its philanthropic mission, and particularly to assist its grantees in meeting their goals and objectives, adding the power of the shareholder to the work of other stakeholders.

Where grantees have organized activities relating to the policies and practices of our portfolio companies, the Foundation, in consultation with the grantee, will add its voice to the concerns expressed by the them. If the grantee believes that a shareholder resolution would be a useful tool in their strategy to change corporate behavior, the Foundation will consider filing the necessary resolution, and will, in consultation with the grantee, seek to enlist the support of money managers and other institutional investors. One of the Foundation's goals in such activities is to make corporations accountable to the communities in which they are located. Details of the problems being addressed must be the subject of discussions between the companies and the communities, and not between the Foundation and the companies.

If the grantees' campaigns involve companies not in the Foundation's portfolio, the Foundation will consider purchasing the minimum amount of stock necessary to make our participation possible. In addition, the Foundation is prepared to receive a request from the grantee for the purpose of their purchasing shares in the company that is the object of their organizing so that they too can become shareholders, thereby leveling the playing field.

In all of these activities the Foundation works closely with the Interfaith Center on Corporate Responsibility and the Council of Institutional Investors.

### ***Proxy Voting Guidelines***

Just as citizenship in the polity requires that a person let his/her opinions be known through voting, the same responsibility applies to shareholders. Passive holding of corporate stocks without assessment of the social and environmental, as well as financial performance of a corporation does not fulfill one's obligation as a shareholder.

The Foundation asks each of our managers, the Interfaith Center on Corporate Responsibility (ICCR) and the Council of Institutional Investors (CII) to inform us in a timely fashion of shareholder resolutions being considered at the annual meetings of corporations in which we hold stock.

The Foundation votes its proxies, exercising our corporate citizenship obligations, as follows:

The President of the Foundation, in cooperation with the Chair, the Treasurer and the Chair of the Finance Committee, reviews and votes proxies according to the following general principles:

A. When program interests are directly involved, votes proxies in a manner consistent with them.
B. When a shareholder resolution concerns a social or environmental issue that is not directly related to the Foundation's program interests, the Foundation will review each individual case and consult with our grantees, managers and others, as appropriate.
C. On issues of corporate governance the Foundation will consult with ICCR, CII, and others, and will vote our proxies according to the following general guidelines:
    1. Ratify Auditors.
    2. Ratify Directors unless a governance or a program interest issue has been raised or their is lack of diversity on the Board.
    3. Vote against golden parachutes for executives.
    4. Vote for proposals requiring a majority of independent directors.
    5. Vote for proposals requiring nominating and/or compensation committees to be composed exclusively of independent directors.
    6. Vote against incentive payments not related to financial performance.
    7. Vote for incentive payments that are tied to social and environmental performance.
    8. Vote for proposals recognizing the standing of stakeholders other than shareholders in governance and control.

***Monitoring***

The Finance Committee will monitor the performance of the Foundation's managers on a quarterly basis, with at least one face-to-face meeting each year. Issues to be addressed include:

- Year-to-date and cumulative performance will be assessed in terms of our screened portfolio as against other screened and nonscreened portfolios under management, in comparison to the relevant indexes, including the Domini Social Equity Index, and in relation to the performance of other foundations.
- Social research and interactions with portfolio companies, including shareholder activities will be reviewed.
- Adherence to the Foundation's screens and values.
- Transactions and transaction costs.

- Market capitalization, portfolio balancing and holdings overlap among managers.
- Systematic risk (beta) and standard deviation (sigma) for each portfolio.

Additional materials include:

- "Dissonance, Responsibility and Corporate Culture Or, How Two Camps Struggle For Our Hearts and Minds and What We Can Do About It." In Jessie Smith Noyes Foundation *1994 Annual Report*, pp.5-10;
- "New Concepts of Fiduciary Responsibility." In *Steering Business Toward Sustainability*, eds. Fritjof Capra and Gunter Pauli, pp.125-141. United Nations University Press, 1995;
- "Foundations Must Invest With a Social Conscience." *Chronicle of Philanthropy*, Editorial - October 5, 1995;
- "Foundations' Shareholder Activism." *Chronicle of Philanthropy*, January 25, 1996.
- "Foundations Explore Shareholder Activity," *Responsive Philanthropy*, Fall 1996, 16 ff.
- "Adding Value to Your Grants," *Foundation News and Commentary*, January/February 1997, 68 ff.

Also available from the Harvard Business School is Case N9-295-056, "Social Investing at the Jessie Smith Noyes Foundation," December 2, 1994.

Additional information on developments in the field of socially responsible investing is available from the Social Investment Forum.