

Greater Tacoma Community Foundation

Endowment Pool Investment Policy Statement

Approved June 22, 2016

I. DEFINITIONS

II. INVESTMENT PHILOSOPHY

III. EVALUATION & PERFORMANCE MEASUREMENT

IV. GUIDELINES & RESTRICTIONS

V. ACKNOWLEDGEMENT

I. DEFINITIONS

A. Purpose

The purpose of this Investment Policy Statement (“IPS”) is to establish a clear understanding of the investment objectives and philosophy for the Greater Tacoma Community Foundation (“Foundation”). This policy will describe the standards utilized by the Investment Committee (“Committee”) in monitoring performance, as well as, serve as a guideline for any investment manager retained.

While shorter-term results will be monitored, adherence to a sound long-term investment policy, which balances short-term distributions with preservation of the real, inflation-adjusted value of assets, is crucial to the long-term success of the Foundation.

B. Scope

This policy applies specifically to Endowment Pool assets. The Committee is also responsible for other pools of money with separate investment policies.

C. Investment Objective

The primary investment objective of the Endowment Pool is to achieve an annualized total return (net of fees and expenses), through appreciation and income, equal to or greater than the rate of inflation (as measured by the broad, domestic Consumer Price Index) plus any spending and administrative expenses thus intending to maintain principal of the Endowment Pool.

D. Fiduciary Duty

In seeking to attain the investment objectives set forth, the Committee shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires fiduciaries to apply the standard of prudence “about each asset in the context of the portfolio of investments, as part of an overall investment strategy.” All investment actions and decisions must be based solely on the interest of the Foundation.

Fiduciaries must provide full and fair disclosure to the Committee of all material facts regarding any potential conflicts of interests.

As summarized for the purposes of this Investment Policy Statement, UPMIFA states that the Committee is under a duty to the Foundation to manage the Foundation’s endowment as a prudent investor would, in light of the purposes, scope, objectives and other relevant circumstances. This standard requires the exercise of reasonable care, skill, and caution while being applied to investments not in isolation, but in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Foundation. In making and implementing investment decisions, the Committee has a duty to diversify the investments unless, under special circumstances, the purposes of the Foundation are better served without diversifying.

In addition, the Committee must conform to fundamental fiduciary duties of loyalty and impartiality. This requires the Committee to act with prudence in deciding whether and how to delegate authority, in the selection and supervision of agents, and incurring costs where reasonable and appropriate.

E. Description of Roles

1. Investment Committee

The Committee is responsible for adopting the provisions of this Investment Policy. This responsibility includes approving investment strategy; hiring and firing of investment managers, custodians, and investment consultants; monitoring performance of the Endowment Pool at least quarterly; and maintaining sufficient knowledge about the Endowment Pool and its managers to be reasonably assured of their compliance with the IPS.

2. Investment Consultant

The investment consultant is responsible for assisting the Committee and Vice President, Finance in all aspects of managing and overseeing the investment portfolio. The consultant is the primary source of investment education and investment manager information. On an ongoing basis the consultant will:

- a. Report current asset allocation in relation to the IPS
- b. Provide proactive recommendations
- c. Supply the Committee with reports (e.g., asset allocation studies, investment research and education) or information as reasonably requested
- d. Monitor the activities of each investment manager or investment fund
- e. Provide the Committee with quarterly performance reports
- f. Review this Investment Policy Statement with the Committee

F. Annual Payout/ Portfolio Total Return Goal

Annual Payout /Return Goal = Spending rate (4.3%) + Administrative Fee to GTCF (1.6%) + Inflation (CPI)

II. INVESTMENT PHILOSOPHY

A. Strategy

The Committee understands the long-term nature of the Foundation and believes that investing in assets with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities, including real assets (real estate and natural resources). Real assets are anticipated to provide the added benefit of inflation protection.

Fixed income and absolute return strategies will be used in an effort to lower short-term volatility, especially during periods of deflation and negative equity markets. Cash is not a strategic asset of the Endowment Pool, but is a residual to the investment process and used to meet short-term liquidity needs.

B. Investment Parameters

Investments in the equity or debt securities of any one company shall not exceed 8% of the portfolio. Reasonable asset allocation and diversification shall be maintained, with no more than 25% of the entire portfolio invested in the securities of any one sub-asset class (i.e. U.S. large cap, small cap, international developed markets, emerging markets).

C. Asset Allocation

Asset allocation will likely be the key determinant of the Endowment Pool's returns over the long-term. Therefore, diversification of investments across multiple markets that are not similarly affected by economic, political, or social developments is highly desirable. A globally diversified portfolio, with low correlation of returns across various assets, should reduce the variability of returns over time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories shall be based on the impact to the total Endowment Pool, rather than judging asset categories on a stand-alone basis. The asset allocation for the Endowment Pool, excluding the amount designated by the Board of Directors for the Impact Investing Portfolio, will be set with the following target percentages and within the following ranges:

ASSET CATEGORY	TARGET	RANGE
GLOBAL EQUITY	55%	35%-65%
<i>Public</i>	45%	30%-55%
U.S. Equities	25%	15%-35%
<i>Large Cap</i>	15%	5%-25%
<i>Mid Cap</i>	5%	0%-10%
<i>Small Cap</i>	5%	0%-10%
International Equities	20%	10%-30%
<i>Developed Large Cap</i>	10%	5%-20%
<i>Developed Small Cap</i>	2%	0%-10%
<i>Emerging Markets</i>	8%	0%-12%
<i>Private</i>	5%	0%-15%
Venture Capital	2%	0%-10%
Buyout	2%	0%-10%
Special Situations	1%	0%-5%
<i>Hedged Equity</i>	5%	0%-15%
GLOBAL FIXED INCOME	20%	10%-35%
<i>Interest Rate Sensitive</i>	10%	5%-20%
Investment Grade	8%	0%-30%
Inflation Protected (TIPS)	2%	0%-15%
<i>Credit</i>	10%	0%-25%
Publicly Traded	10%	0%-20%
Private Debt	0%	0%-10%
REAL ASSETS	10%	0%- 25%
<i>Real Estate</i>	5%	0%-10%
Public (REITs)	5%	0%-10%
Private	0%	0%-10%
<i>Natural Resources</i>	5%	0%-10%
Private Energy	0%	0%-10%
Commodities	5%	0%-10%
DIVERSIFYING STRATEGIES	15%	0%-25%
<i>Absolute Return Hedge Funds</i>	15%	0%-25%
CASH	0%	0%-10%

E. Impact Investing Portfolio

In 2013 the Foundation established a dedicated portfolio designated for local impact investments. These investments may take the form of low-interest loans, loan guarantees, etc. but all are designed to provide a modest rate of return as well as enhance the impact of the Foundation's dollars on the community. While these investments will remain segregated from the Endowment in terms of performance monitoring, the Committee will maintain oversight of investment performance and approval of new impact investments.

F. Active vs. Passive Management

The asset allocation will be implemented using both active and passive investments. Those areas of the market that the Committee and consultant believe are better suited to gain passive exposure to the asset class will do so using primarily index funds and enhanced index strategies. This is due to the low probability of traditional active management outperforming an appropriate benchmark in these asset classes.

G. Investment Styles

The Committee understands investment styles (growth and value) are cyclical, but believes that over the long-term, value stocks outperform growth stocks and this is more pronounced for smaller market capitalization (cap) stocks. Therefore, the Endowment Pool will employ a strategic overweight to value stocks, particularly small cap value. Additionally, the Endowment Pool will employ a strategic tilt towards smaller market cap stocks, due to the Committee's belief that over the long-term, small cap stocks outperform large cap stocks, although with higher volatility relative to larger cap stocks.

H. Rebalancing

The Committee and consultant will monitor the asset allocation structure of the Endowment Pool and attempt to stay within the ranges identified for each asset category. If the portfolio moves outside of the ranges the Committee, with advice from the investment consultant, will develop a plan of action to rebalance. In many cases the additions of new money or withdrawals for spending will be used to rebalance in a cost effective manner.

I. Liquidity

A goal of the Endowment Pool is to maintain a balance between investment goals and liquidity needs. Liquidity is necessary to meet the spending policy payout requirements and any extraordinary events. The Committee understands that in some instances, compelling investment options may come with liquidity constraints. The tradeoff between appropriateness and liquidity will be considered throughout the portfolio construction process.

- The Committee and consultant shall strive to maintain at least 70% of the portfolio in liquid securities convertible to cash within a matter of days.
- The Committee and consultant shall strive to have no more than 15% of the portfolio allocated to illiquid securities (i.e. private capital).
- The Committee and consultant shall strive to have no more than 25% of the portfolio allocated to semi-liquid securities (i.e. hedge funds).

J. Illiquid and Semi-Liquid Investments

Illiquid investments include private equity, private real estate, and natural resources. Hedge funds are considered semi-liquid due to lock-up periods, redemptions, restrictions, and in some cases, illiquidity of the underlying investments.

1. Private Equity

The objective of the private equity allocation is to outperform, over the long-term, the public equity markets by 3-5% points, net of fees. The return premium exists due to the higher risk, lack of liquidity, and the uneven distribution of information and access inherent in private markets.

For the private equity allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to top-quality managers and be diversified. Individual funds may be concentrated in a particular sector, stage, or geographic region, but the overall private equity allocation should be diversified. A prudent investment strategy will consider the following areas for diversification.

a. Sub-Category

The target allocations to venture capital, buyout, and special situations (distressed, mezzanine, infrastructure etc.) will serve as a guideline for committing capital. As commitments to private equity are drawn down and invested over a period of years, and distributions are returned, the committed capital will be greater than the target allocation in order to reach the target market value.

b. Vintage Year

Capital should be committed continuously and thoughtfully over time. Returns are highly dependent on market cycles and stage of the investment cycle. A portfolio diversified by vintage years will reduce unnecessary risk and provide more consistent long-term returns.

c. Manager

Investments should be considered with several private partnerships (or a fund of funds) to mitigate manager specific, as well as deal specific risk.

d. Stage

Investments should be considered across the life cycle of businesses. Within venture capital, this includes early, mid, and late stage companies. Buyout investments consist of small, mid, and large market firms, and may be in the form of traditional buyouts, growth equity, recapitalizations, or restructuring.

e. Geography

Investments should be considered across the U.S. and internationally (developed and emerging markets).

f. Sector

The portfolio should be diversified by sector, as well as across industries within a sector.

2. Private Real Estate

The objective of the private real estate allocation is to provide low correlation to the public equity and fixed income markets and serve as an inflation hedge.

For the real estate allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to top-quality managers and be diversified. Individual funds may be concentrated in a particular region or property type, but the overall real estate allocation should be diversified. A prudent investment strategy will consider the following areas for diversification.

a. Sub-Category

Private real estate investments should be considered in either value-added or opportunistic funds, which are designed to generate excess return for the overall real estate allocation.

These strategies typically require some lease-up, development or repositioning, as well as utilize more leverage than public REITs. As commitments to private real estate are drawn down and invested over a period of years, and distributions are returned, the committed capital will be greater than the target allocation in order to reach the target market value.

b. Vintage Year

Capital should be committed continuously and thoughtfully over time. Returns are highly dependent on market cycles and stage of the investment cycle. A portfolio diversified by vintage years will reduce unnecessary risk and provide more consistent long-term returns.

c. Manager

By combining a public REIT allocation as a core holding (also provides liquidity) with investments in several private partnerships (or a fund of funds), manager specific, as well as property specific risk, within the real estate allocation can be diminished.

d. Geography

Investments should be considered across the U.S. and internationally.

e. Property Type

The portfolio should be diversified across property types (e.g., apartments, office, industrial, and retail).

3. Natural Resources (Energy and Timber)

The objective of the natural resources allocation is to provide low correlation to the public equity and fixed income markets and serve as an inflation hedge. These investments should be primarily in the private markets, which offer inefficiencies that can be exploited.

For the natural resource allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to top-quality managers and be diversified. Individual investments may be concentrated in a particular region, production stage, or commodity exposure, but the overall allocation should be diversified. A prudent investment strategy will consider the following areas for diversification.

a. Sub-Category

The target allocations to energy and timber investments will serve as a guideline for committing capital. As commitments to natural resources are drawn down and invested

over a period of years, and distributions are returned, the committed capital will be greater than the target allocation in order to reach the target market value.

b. Vintage Year

Capital should be committed continuously and thoughtfully over time. Returns are highly dependent on market cycles and stage of the investment cycle. A portfolio diversified by vintage years will reduce unnecessary risk and provide more consistent long-term returns.

c. Manager

Investments should be committed to several private partnerships (or a fund of funds) to mitigate manager specific, as well as deal specific risk.

d. Geography

Investments should be spread across the U.S. and internationally.

Stage/Type

Energy

Investments in energy funds will focus primarily on the upstream end of the energy market with development and production, and to a lesser extent exploration. Exposure to the upstream markets will be gained through private equity investments, working interests, and royalty interests. Investment in downstream activities such as refining, transmission, and distribution may be considered opportunistically. Upstream markets offer two primary benefits:

- 1) Inefficiencies, which offer attractive investment opportunities, and
- 2) Exposure to the underlying commodity (oil and gas), which provides an inflation hedge.

Timber

Investments with Timber Investment Management Organizations (TIMOs) should be diversified by wood type (hard and softwood, species, etc.). Investing in TIMOs exposes the portfolio to timber prices, providing inflation protection, with the potential to generate additional return through the underlying management of the timberland.

4. Hedge Funds

The objective of the hedge fund allocation is to diversify the Endowment Pool and provide returns with low correlation to the public equity and fixed income markets via structural advantages, including controlling market exposure through hedging and increased exposure to manager skill through unconstrained investment management and opportunistic investing.

Hedge funds are not an asset class, but rather an investment vehicle. The majority of hedge funds will have a “lock-up” period of 1-3 years from the date of investment, during which time money generally cannot be withdrawn. Once the lock-up period expires, most hedge funds will then allow redemptions only at scheduled intervals (quarterly, semi-annually, etc.). Hedge funds, therefore, are semi-liquid investments due to the structure of the vehicle rather than the underlying investments (which may or may not be liquid).

For the hedge fund allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to skilled managers and be diversified. Individual hedge funds may be concentrated on a particular strategy, market or geographic region, but the overall allocation should be diversified. A prudent investment strategy will consider the following areas for diversification.

a. **Strategy**

The hedge fund universe can be divided into two broad categories: Equity Hedge and Absolute Return. Below are the definitions and examples of these strategies.

i. **Equity Hedge (Directional)**

These strategies tend to opportunistically invest in a broadly defined market with few constraints. As directional strategies, these funds will tend to be somewhat correlated with market movements, but generally do not closely track a market benchmark.

These funds will take both long and short positions, use leverage, and actively manage market exposure. Examples of these strategies include Equity Hedge, Event-Driven, Global Macro, Distressed Securities, Emerging Markets, and Short Selling. These investments generally fall into the Global Equity category.

ii. **Absolute Return**

These strategies are generally non-directional (not correlated to the markets) and tend to utilize multiple strategies that seek to exploit idiosyncratic (unique, non-market) risks that are not impacted by broad economic, political, or social events. Examples of these strategies include: Equity Market Neutral, Fixed Income Arbitrage, Merger Arbitrage, Convertible Arbitrage, and Relative Value Arbitrage. These investments generally fall into the Diversifying Strategies category.

III. Evaluation & Performance Measurement

A. Benchmarks

The Endowment Pool seeks to outperform its benchmarks over full market cycles and does not expect that all investment objectives will be attained in each performance measurement period. Furthermore, the Committee recognizes that over various time periods, the Endowment Pool may produce significant deviations relative to the benchmarks. For this reason, investment returns will be evaluated over a full market cycle (for measurement purposes: 5 years).

1. The primary objective of the Endowment Pool is to achieve a total return, net of fees, equal to or greater than spending, administrative fees, and inflation. The primary objective of the Foundation is:

Total Return greater than Consumer Price Index + Spending Policy + Administrative Fees

2. A secondary objective is to achieve a total return in excess of the Broad Policy Benchmark comprised of each broad asset category benchmark weighted by its target allocation.

The current Broad Policy Benchmark is:

WEIGHT	INDEX	ASSET CATEGORIES
45%	Russell 3000	U.S. Equity / Real Assets
20%	MSCI ACWI ex-US	International Equity / Real Assets
35%	Barclays Capital Aggregate Bond	Global Fixed Income / Absolute Return

3. Another investment objective is to achieve a total return in excess of the Target Weighted Benchmark comprised of each asset category benchmark weighted by its target allocation.

The current Target Weighted Benchmark is:

WEIGHT	INDEX	ASSET CATEGORY
15%	S&P 500	U.S. Large Cap
5%	Russell Midcap	U.S. Mid Cap
5%	Russell 2000	U.S. Small Cap
10%	MSCI EAFE	International Developed
2%	MSCI EAFE Small Cap	International Small Cap
8%	MSCI Emerging Markets	Emerging Markets
5%	Prequin Private Equity	Private Equity
5%	HFRX Global Hedge Fund	Hedged Equity
20%	Barclays Aggregate Bond	Investment Grade Bonds
5%	NAREIT Index	REITs
5%	S&P Natural Resources	Natural Resources
15%	HFR Conservative Index	Absolute Return

B. Manager Evaluation

1. Each active liquid (and hedge fund) investment manager will be reviewed by the consultant and Committee on an ongoing basis and evaluated upon the criteria listed below. The Committee expects the managers to outperform the benchmarks over a full market cycle (for measurement purposes: 5 years). The Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, investment managers may produce significant underperformance. Each investment manager will be reviewed on an ongoing basis and evaluated on the following criteria:
 - Maintaining a stable organization
 - Retaining key personnel
 - Avoiding regulatory actions against the firm, its principals, or employees
 - Adhering to the guidelines and objectives of this Investment Policy Statement
 - Avoiding a significant deviation from the style and capitalization characteristics defined as “normal” for the manager
 - Exceeding the return of the appropriate benchmark and, for equity managers, produce positive alpha (risk-adjusted return) within the volatility limits set in the “Summary of Quantitative Performance Objectives” table
 - Exceeding the median performance of a peer group of managers with similar styles of investing

- Although there are no strict guidelines that will be utilized in selecting managers, the Committee will consider the criteria above, as well as, the length of time the firm has been in existence, its track record, assets under management, and the amount of assets the Foundation already has invested with the firm.

C. Summary of Quantitative Performance and Risk Objectives

1. Liquid and Semi-Liquid Active Managers

The following table summarizes the quantitative performance objectives for the liquid and semi-liquid (hedge fund) active managers. Managers failing to meet these criteria over a full market cycle will undergo extensive qualitative and quantitative analysis. This analysis will focus on the manager's personnel, philosophy, portfolio characteristics, and peer group performance to determine whether the manager is capable of implementing their defined portion of the overall portfolio structure. These managers are expected to outperform their primary benchmark, and the equity (and REIT) managers are expected to maintain a beta (vs. the primary benchmark) of less than 1.20.

ASSET CATEGORY	PRIMARY BENCHMARK	PEER UNIVERSE
<i>Global Equity</i>		
U.S. Large Cap	S&P 500	Top 50%
U.S. Mid Cap	Russell Midcap	Top 50%
U.S. Small Cap	Russell 2000	Top 50%
International Developed	MSCI EAFE	Top 50%
International Small Cap	MSCI EAFE Small Cap	Top 50%
Emerging Markets	MSCI Emerging Markets	Top 50%
Hedged Equity	HFRX Global Hedge Index	-
<i>Global Fixed Income</i>		
Investment Grade Bonds	Barclays Aggregate Bond	Top 50%
TIPS	Barclays TIPS	Top 50%
High Yield	Merrill Lynch High Yield	Top 50%
Bank Loans	CSFB Leveraged Loan	Top 50%
<i>Real Estate</i>		
Global REITs	NAREIT	Top 50%
<i>Absolute Return</i>	U.S. T-Bills + 3%	-

2. Public Liquid Passive Managers

Passive (or index) managers are expected to approximate the total return of its respective benchmark. The beta for passive equity managers should approximate 1.00.

3. Private Illiquid Managers

The majority of private equity, private real estate, and natural resource funds will be invested with private partnerships. These partnerships typically range from 7-15 years in life, during which time the Foundation may not be able to sell the investment. Additionally, the partnership may not produce meaningful returns for 3-5 years (depending on the strategy). New investments will create a drag on fund performance in the early years (3-5 years) until these investments begin to mature. This drag on performance is often referred to as the J-curve, due to the shape created by plotting a line graph with performance on the y-axis and time on the x-axis. Private, illiquid manager performance will be measured utilizing internal rate of return (IRR) calculations and compared to an appropriate peer group. An IRR

calculated from the inception of the partnership will be the primary performance measurement tool utilized for all private equity, private real estate, and natural resource managers. Time-weighted rates of return will also be included for evaluation and monitoring.

a. **Private Equity**

Returns will be compared to the appropriate peer group in the Prequin Private Equity Universe of similar style (buyout or venture capital) and vintage year.

b. **Private real estate**

Returns will be compared to the NCREIF Property Index, which is reported on a time-weighted basis, but will be translated into an IRR for measurement purposes.

c. **Energy**

There are no suitable benchmarks for private energy. Private energy funds are utilized as an inflation hedge and thus, their returns will be compared to CPI + 8%.

IV. GUIDELINES & RESTRICTIONS

A. Overview

The process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner in which investment risk is managed, will determine whether an appropriate standard of reasonableness, care and prudence has been met for the Foundation's investments.

The requirements stated below apply to investments in non-mutual and non-pooled funds, where the investment manager is able to construct a separate, discretionary account on behalf of the Foundation. Although the Committee cannot dictate policy to pooled/mutual fund investment managers, the Committee's intent is to select and retain only pooled/mutual funds with policies that are similar to this Investment Policy Statement. All managers (pooled/mutual and separate), however, are expected to achieve the performance objectives. Each traditional equity and fixed income investment manager shall:

1. Have full investment discretion with regard to security selection consistent with this Investment Policy Statement
2. Immediately notify the Committee and consultant in writing of any material changes in the investment philosophy, strategy, portfolio structure, ownership, or senior personnel
3. Make no purchase that would cause a position in the portfolio to exceed 5% of the outstanding voting shares of the company or invest with the intent of controlling management

B. Public Equity Manager Guidelines (including REITs)

1. Each active equity investment manager shall:
 - a. Assure that no position of any one company exceeds 8% of the manager's total portfolio as measured at market
 - b. Vote proxies and share tenders in a manner that is in the best interest of the Foundation and consistent with the investment objectives contained herein
 - c. Maintain a minimum of 25 positions in the portfolio to provide adequate diversification;
 - d. Construct a properly diversified portfolio across sectors and industries
 - e. U.S. equity managers should have no more than 20% of the total portfolio invested in foreign stocks or American Depository Receipts (ADRs)

C. Public Fixed Income Manager Guidelines

1. Each investment grade fixed income investment manager shall:
 - a. Maintain an overall weighted average credit rating of A or better by Moody's and Standard & Poor's
 - b. Hold no more than 10% of the portfolio in below investment grade (Baa/BBB) securities. Split rated securities will be governed by the lower rating
 - c. Maintain a duration within +/-20% of the effective duration of the appropriate benchmark (does not apply to TIPS managers)
 - d. Assure that any one issuer does not exceed 5% of the manager's portfolio, as measured at market value, except for securities issued by the U. S. government or its agencies
2. Each high yield/bank loan investment manager shall:
 - a. Maintain an overall weighted average credit rating of B or better by Moody's and Standard & Poor's
 - b. Hold no more than 20% of the portfolio in investments rated below B. Split rated securities will be governed by the lower rating
 - c. Assure that any one issuer does not exceed 5% of the manager's portfolio, as measured at market value, except for securities issued by the U. S. government or its agencies

D. Illiquid and Semi-Liquid Investment Guidelines

Each investment will require a signed Subscription Agreement and Limited Partnership Agreement. The Foundation may wish to have these documents reviewed by independent legal counsel. As these investments are typically private limited partnerships or offshore corporations, the Committee cannot dictate policy. The Committee, however, can request side letters for revisions or addendums to the Limited Partnership Agreement. The manager is ultimately responsible to manage investments in accordance with the Private Placement Agreement (PPM) and Limited Partnership Agreement.

The Foundation is a tax-exempt organization, but certain investments may be subject to taxation on Unrelated Business Taxable Income (UBTI). Given that net risk-adjusted returns are the primary objective of the Foundation, potential tax ramifications must be considered during the

investment analysis and selection process. The Foundation shall seek to minimize UBTI by selecting investment structures and geographic locations most beneficial to the Foundation.

E. Derivative Security Guidelines

1. For definition purposes, derivative securities include, but are not limited to, structured notes, lower class tranches of collateralized mortgage obligations (CMOs), collateralized loan obligations (CLOs), principal only (PO) or interest only (IO) strips, inverse floating rate securities, futures contracts, forward contracts, swaps, options, short sales, and margin trading. Before allowing managers to utilize derivative instruments, the Committee shall consider certain criteria including, but not limited to, the following:
 - a. Manager's proven expertise
 - b. Value added by utilizing derivatives
 - c. Liquidity of instruments
 - d. Amount of leverage
 - e. Management of counterparty risk
 - f. Manager's internal risk controls and procedures
2. The strategies in which derivatives can be used are:
 - a. Index Funds – Derivatives (typically futures contracts) will be used to securitize cash in order to fully replicate the performance of the index being tracked.
 - b. Portable Alpha – Derivatives (typically futures or swaps) will be used to generate “beta”, while the notional exposure amount is actively managed to generate “alpha”.
 - c. Fixed Income – Derivatives will be used as a cost efficient means to control and/or hedge risks such as duration, credit, and currency.
 - d. Hedge Funds – Derivatives will be used for many purposes. These uses include hedging, risk management, leverage, and market exposure.

V. ACKNOWLEDGEMENT