EBD #13.4
ET #16.5
2012 – 13 Midwinter Meeting

TO: Finance & Audit Committee
ALA Executive Board

RE: Recommended Changes to the Endowment Fund Investment Policy

ACTION REQUESTED/INFORMATION/REPORT:

The Finance & audit Committee and ALA Executive Board are being asked to review and approve the recommended changes to the ALA Endowment Fund investment policy.

ACTION REQUESTED BY:

Endowment Trustees

DRAFT OF MOTION:

To approve the recommended changes to the ALA Endowment Fund investment policy as forwarded by the Endowment Trustees.

DATE: January 26, 2013

BACKGROUND:

During its fall meeting in Chicago on November 29th, the Endowment Trustees and the ALA investment advisor – Merrill Lynch - conducted our annual review of the ALA Investment policy. While most of the suggested changes are cosmetic in nature, the most significant change occurred with an enhancement of the index used to measure the overall performance of the portfolio – see pages 12 & 13. It is as follows:

Current Index		Revised Index
Russell 3000	- 55.0%	50.0%
MSCI EAFE[1]	- 10.0%	10.0%
ML Domestic Bond[2]	- 35.0%	32.5%
HFRI[3]	- 0%	7.5%

Alternatives via the Endowment Fun have been part of the portfolio since October 2009. This asset category is managed by the Endowment Fund and accounts for approximately 10% of the portfolio. During this time no change was made to adjust the weighting in the benchmark to account for this new asset category. The Trustees and Merrill Lynch felt that at a 10% level, some adjustment needed to be made to the benchmark. By making such an adjustment in the benchmark, the portfolio's performance can now be more fairly and accurately measured.

[1] Morgan Stanley Capital International Europe, Australasia and Far East International Stock Index
[2] Merrill Lynch Domestic Master Bond Index
[3] HFRI Fund of Funds Diversified

American Library Association

Investment Policy Statement

Long-Term Investment Fund

(aka Endowment Fund)

Adopted: ~~May 2010~~November 2012

I. Introduction

Purpose of this Policy Statement

This policy statement outlines the goals and investment objectives for the American Library Association's Long-Term Investment Portfolio ("Portfolio") aka the Endowment Fund. This document is intended to provide guidelines for managing the Long-Term Investment, and to outline specific investment policies that will govern how those goals are to be achieved. This statement:

- Describes an appropriate risk posture for the investment of the Long-Term Investment fund's assets,
- •Specifies the asset allocation policy for those assets
- Establishes investment guidelines regarding the selection of investment managers, permissible securities and diversification of assets,
- Specifies the criteria for evaluating the performance of the investment managers and of the Long-Term Investment as a whole,
- •Defines the responsibilities of the Trustees, Executive Board and other parties responsible for the management of the Long-Term Investment fund.

The Trustees believe that the investment policies described in this statement should be dynamic. These policies should reflect the financial needs and circumstances of the American Library Association and the Trustees' philosophy regarding the investment of assets. These policies will be reviewed annually and revised periodically to ensure they adequately reflect the current financial requirements of the American Library Association, the Long-Term Investment fund, and the capital markets.

Investment Objective

The Long-Term Investment fund's assets shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. In establishing the investment objectives of the Long-Term Investment fund, the Trustees have taken into account the financial needs and circumstances of the American Library Association, the time horizon available for investment, the nature of the Long-Term Investment fund's cash flows and liabilities, and other factors that effect their risk tolerance. Consistent with this, the Trustees have determined that the investment of these assets shall be guided by the following underlying principles:

- To achieve the maximum rate of return, within established risk parameters, over the long-term that would significantly contribute to the cash flow needs of the Long-Term Investment fund for on-going operations, special initiatives and capital projects in support of the American Library Association;
- To provide for asset growth at a rate in excess of the rate of inflation, net of expenses;
- To diversify the assets in order to reduce the risk of wide swings in market value from year-to-year, or of incurring large losses that could occur from concentrated positions;
- To achieve investment results over the long-term that compare favorably with those of other endowments and foundations, professionally managed portfolios and of appropriate market indexes.
- To invest in a manner that is consistent with the values of the Associations' membership.

It is expected that these objectives can be obtained through a well-diversified portfolio structure in a manner consistent with this investment policy.

This investment policy is intended to be a statement of an investment philosophy that provides guidance for the Trustees, Investment Advisor and Investment Managers interested in the management of the Long-Term Investment fund. The guidance and limitations set forth in this statement are intended to provide the Trustees, Investment Advisor and Investment Manager with a clear understanding of the investment policies and objectives of the Portfolio. It is the intent of this investment policy statement to act as a meaningful framework for the investment objectives of the Portfolio and that these policies will not be overly restrictive given changing economic, business and capital market conditions. It is understood that there can be no guarantees about the attainment of the goals or investment objectives outlined here.

II. Information about the American Library Association Endowment Fund

American Library Association

Endowment Fund
50 East Huron St.
Chicago, IL 60611
Tel. (312) 280-3209

Primary Contact .... AED Finance

Endowment Value .... $33~~28.5~~ million
(~~December 31, 2009~~September 30, 2012)

Endowment Fiscal Year .... August 31st

Federal Tax ID # 36-2166947

Mission and Objectives of the Endowment

The mission of the American Library Association Endowment Fund is to support the development and enhancement of the Associations programs and activities, in addition to fostering and promoting the growth, progress and general welfare of the American Library Association.

All funds managed or controlled by the Trustees, which are classified as "Long Term Investment Funds", are covered by this policy, and such funds are to be accounted for in the American Library Association's annual financial reports.

Cash Flows and Liquidity Needs

The Trustees are responsible for monitoring and managing all investments in the Endowment. The assets are to be invested with prudent levels of risk and with the expectation that long-term total returns (yield plus capital appreciation) will preserve or increase the purchasing power of the Endowment's assets, net of all expenses.

From time-to-time, donations of securities in-lieu of cash may be received by the Endowment. Subject to any constraints or stipulations from donors, and subject to conditions established by donors, the Trustees shall liquidate the securities unless contrary advice is received from the Investment Advisor

Tax Status

The American Library Association is organized as a private not-for-profit corporation under IRS Section 501 (c)(3). As a result, the income and earnings of the Endowment are exempt from State and Federal taxes.

III. Governing Authority – Policy 8.5.1

Use/Withdrawal and Repayment

In the preparation of the ALA annual budget the ALA Executive Director is authorized to include a) interest and dividend income generated annually in the ALA Future Fund or b) up to but not to exceed 50% of the five year moving average of the appreciation realized in the ALA Future Fund less any interest and dividend income transferred to the operating fund. Additionally, the Executive Directors of the Divisions and the liaisons for the Round Tables are authorized to include in the preparation of their annual budgets a) interest and dividend income generated annually or b) up to but not to exceed 50% of the five year moving average of the appreciation realized in their respective unrestricted funds. The 50% five-year moving average shall be calculated by averaging the interest, dividends and market gains (realized/unrealized) less bank fees, other investment related expenses and any interest and dividends that have been transferred to the operating budget. This calculation excludes any contributions or withdrawals made over the trailing five-year period. Withdrawals using the net 50% five-year moving average do not require repayment.

Use of Fund

Listed below are the primary instances whereby withdrawals from the Long-Term Investment Fund can be made.

A. Program Support

The General Fund, Divisions and Round Tables can request funds from their respective Long- Term Investment funds to support one-time programs.

B. Emergencies

Emergencies will include financial disaster due to a major revenue shortfall, act of God, building catastrophe, major lawsuit, etc.

C. New Initiatives

New Initiatives will include projects or programs that are multi-year in nature and deemed important to the future of the Association, Divisions, Round Tables or units.

Withdrawal of the investment funds for uses stated above may be supported by interest and dividends or the 50% five year moving average. Amounts requested to be withdrawn in excess of the greater of interest and dividends or the 50% five year moving average will require repayment with interest.

D. Scholarships & Awards

Allowable withdrawals from temporarily restricted and unrestricted Long-Term Investment funds designated for named scholarships and awards will be made to the extent necessary to support the award or scholarship according to stipulations and requirements. If the interest and dividends of a scholarship or award is not adequate, the amount in the temporary restricted and unrestricted investments designated for named scholarships may be used up to the limits of any permanent or donor restrictions.

E. Life Membership Funds

Allowable withdrawals from temporarily restricted and unrestricted Long-Term Investment funds designated for Life Membership, will be made from the Life Membership Fund to the extent necessary to support the annual membership fee for the participants.

F. Transfer of Existing Funds

It is allowable to make a transfer from an existing unrestricted fund for the establishment of a new and or in support of an existing scholarship fund, program or initiative fund within the Long-Term Investment Fund.

Withdrawal, Transfer, and Repayment

Each withdrawal for any of the purposes referenced in A, B, C and the 50% five year moving average must be approved by the Executive Board.

Withdrawals from the Long-Term Investment Fund for any of the following events:

a. Program Support
b. Emergencies
c. New Initiatives

will require repayment at the prevailing ALA borrowing rate with the term to be recommended by management and approved by the Executive Board.

The annual withdrawal of interest and or dividends from the Long-Term Investment Fund will not require repayment.

IV. Responsibilities of the Endowment Representatives

Executive Board

The Executive Board is the body that has ultimate fiduciary responsibility and acts on behalf of Council in the establishment and administration of endowment policies and programs. The Executive Board appoints a minimum of 3 and a maximum of 7 Endowment Trustees for 3-year terms. The ALA Treasurer serves as the Executive Board's liaison in a voting capacity. Specifically, the responsibilities of the Executive Board include:

- To review and approve investment policy, strategies and guidelines as developed by the Endowment Trustee.
- To exercise fiduciary responsibility for the operation and performance of the Endowment Fund.
- To ensure the Endowment Fund's strategic purpose and objectives are consistent with overall ALA strategic planning.
- To approve the creation of any endowment or scholarship.
- To select and appoint all Endowment Trustees.
- To approve all and direct unrestricted gifts and bequests over $20,000 to be added to the Future Fund.

Endowment Trustees

The Trustees shall have authority to hold, invest, reinvest, disburse, and otherwise manage all endowment funds in accordance with such directions as may be given them by the Executive Board of the Association.

The Endowment Trustees have the responsibility of acting on behalf of the Executive Board and within established policies, procedures and guidelines, in the management of the Endowment Fund. Specifically, the responsibilities of the Trustees include:

- To hold, invest, reinvest and distribute endowment funds as directed by the Executive Board.

- To act as custodian for all receipts from life memberships and gifts/bequests for endowment purposes.
- To recommend to the Executive Board operating procedures for the effective management of the Endowment.
- To develop, review and recommend investment policy, strategies and guidelines to the Executive Board.
- To select an Investment Consultant (Advisor)
- To select or terminate investments (e.g. individual investment managers, mutual funds, exchange traded funds, etc.).
- Prudently diversify, or oversee the diversification of, the portfolio assets to meet an agreed upon risk/return profile,
- Monitor the –investments and the performance of the assets under management,~~To~~ and report to the Executive Board at their Spring, Annual Conference, Fall and Midwinter Meetings, on the status of the Endowment and performance.
- To communicate to the Executive Board, as appropriate, about the Endowment and its performance.
- That the assets of the Endowment shall be invested in a manner that is consistent with generally accepted standards of fiduciary responsibility for the "Prudent Investor".

Investment Consultant (Advisor)

The Investment Consultant retained by the Trustees shall have the following responsibilities:

- To assist the Trustees in strategic planning and assessment of the Endowment. This includes providing assistance in developing an investment policy, asset allocation strategies, and investment structure;
- To provide the Trustees quarterly performance measurement reports on each of the investment managers and to assist the Trustees in interpreting the results;
- To act as a liaison between investment managers and the Endowment Trustees and Staff, and thereby facilitate the communication of important information in the management of the Endowment;
- Such other duties as may be mutually agreed to;
- The Endowment Trustees shall periodically evaluate the Investment Advisor and call for an RFP at least five years.

Custodian

The Custodian is responsible for the safekeeping of the Endowment's investment assets. The specific duties and responsibilities of the custodian include:

- ♦ Maintain separate accounts by legal registration;
- ♦ Value the holdings;
- ♦ Collect all income and dividends owed to the Endowment in its custody;

- Settle all transactions initiated by the investment manager; and
- Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall portfolio since the previous report.

Ethics and Conflicts of Interest

The Trustees and American Library Association staff involved in the investment process are to refrain from personal or other institutional business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Members of the Trustees, American Library Association staff and investment agents are to disclose to the ALA Senior Trustee and Treasurer any material interests in financial institutions that conduct business with the American Library Association. The Trustees, American Library Association staff and investment agents are to further disclose any large personal financial/investment positions that could be related to the performance of the Endowment.

V. Responsibilities of the Investment Managers

It is the Endowment Trustee's responsibility to select prudent investment managers to manage the assets. Such managers can include regulated banks or insurance companies; mutual funds registered under the Investment Company Act of 1940, exchange traded funds or registered investment advisors. With respect to any mutual or other commingled funds that have been purchased by the Portfolio, the prospectus or Declaration of Trust documents of the fund(s) will govern the investment policies of those assets.

The following guidelines apply to separately managed accounts.

Fiduciary Responsibilities

Each investment manager is expected to prudently manage the Portfolio's assets in a manner consistent with the investment objectives, guidelines, and constraints outlined in this Policy Statement and in accordance with applicable laws, including the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted by the State of Illinois.

Each investment manager shall:

- Be a bank, insurance company or be registered as an investment adviser under the Investment Advisers Act of 1940 (where applicable);
- Maintain adequate fiduciary liability insurance and bonding for the management of this account; and
- Acknowledge in writing that it is a fiduciary with respect to the assets under its management.

Security Selection/Asset Allocation

Except as noted below, each investment manager shall have the discretion to determine their portfolio's individual security selections.

Each investment manager has been delegated responsibility for establishing and maintaining the asset allocation strategy for their individual portfolio. It is expected, however, that each investment manager will utilize a stable asset allocation strategy and not engage in tactical or market-timing asset allocation decisions. The performance of each investment manager is measured versus a fully invested market index, or combination of market indexes, representative of the investment manager's investment style, asset allocation, and risk level.

Proxy Voting

Each investment manager is responsible for and empowered to exercise all rights, including voting rights, as they are acquired through the purchase of securities, where practical. Each investment manager shall vote proxies according to their established Proxy Voting Guidelines. A copy of those guidelines, and/or summary of proxy votes shall be provided to the Trustees upon request.

The Trustees are responsible for voting any proxies received for investments retained in the Endowment and for any other "Trustee Directed" investments. The Trustee Chair and or the ALA Executive (Finance) staff shall receive and vote the proxies according to the best long-term interests of the American Library Association.

VI. 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 (*i.e.* volatility of return) is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Endowment is the determination of an appropriate risk tolerance. The Trustees examined two important factors that affect their risk tolerance:

Financial Ability to accept risk within the investment program and,

Willingness to accept greater return volatility.

Positive factors that contribute to a higher risk tolerance are:

1. The long-term time horizon available for investment of the Endowment's assets;
2. Income from fund raising activities and other operations are generally sufficient to satisfy most of the American Library Association's operating cash flow needs;
3. The lack of any significant liabilities that must be funded by the Endowment.

Offsetting these factors are:

1. The low probability of replenishing assets in the event of any large losses that may occur from holding concentrated positions;
2. The need for some liquidity in the Endowment's investments to fund on-going operations;
3. The Endowment represents the bulk of the long-term endowment assets of the American Library Association and large fluctuations in market value from year-to-year can disrupt budgetary planning.

VII. Asset Allocation Strategy

The objective of the Endowment is an overall long-term capital appreciation strategy in line with the return objectives and risk parameters of the Endowment. The mix of assets should be generally maintained as follows (percentages are of the market value of the Endowment):

Asset Class	Minimum	Target Avg.	Maximum
Domestic Large/Medium/Small Capitalization Stocks*	20%	45%	50%
Foreign Equity	0%	10%	20%
Real Assets (REIT Securities, Commodities, TIPS)	0%	~~10~~5%	~~20~~15%
Total Equity	**30%**	**60%**	**70%**
Domestic Fixed Income	20%	32.5%	45%
Convertible Bonds (Tactical)	0%	0%	10%
Global Fixed Income (Tactical)	0%	0%	10%
Cash and Ultra-Short (Tactical)	0%	0%	20%
Total Fixed Income	**25%**	**32.5%**	**65%**
	%	%	%
Total Alternative Investments	0%	7.5%	15%
Total		**100%**	
*Includes SRI mutual fund portion			

Deviations from the minimum and maximum allocation guidelines may be authorized in writing to the investment managers by the Senior Trustee with notification to the ALA Executive Board.

The maximum percentage designated for the "Cash and Cash Equivalents" category is intended to apply after the initial start-up of any one portfolio in the Endowment. The Trustees recognize that this initial start-up period to become fully invested could be as long as three months after the initiation of a portfolio.

Rebalancing Procedures

The allocation to each asset class is expected to remain somewhat stable over the course of multiple market cycles.

Since capital appreciation (depreciation) and trading activity in each individually managed portfolio can result in a deviation from the overall asset allocation, the aggregate asset allocation will be monitored and the Trustees shall review the asset allocation and manager structure at least annually. Should an allowable range for the asset classes be violated, the Trustees must meet or conference to decide whether to rebalance the existing assets to the target asset mix. In addition, the Trustees shall review the actual asset allocation at each meeting in order to ensure conformity with the adopted strategic allocation.
To achieve the rebalancing of the Endowment, the Trustees may re-direct contributions and disbursements from individual investment managers as appropriate, in addition to shifting assets from one investment manager to another. The Trustees shall coordinate all rebalancing actions with the Investment Consultant and the Investment Managers.

VIII. Performance Objectives

In consideration of the long-term investment objectives of the Endowment's assets and the Trustees' risk tolerance, the Trustees have adopted an overall investment objective of long-term growth and income. This is a balanced approach that is expected to earn long-term total returns from capital appreciation and growth in income sufficient to outpace the long run inflation rate while providing a substantial and stable source of funds, net of expenses.

The Trustees will monitor the performance of the Endowment Fund on a quarterly basis. The Trustees will evaluate each investment manager's contribution toward meeting the investment objectives outlined below over a three to five year time period and a full market cycle, unless otherwise noted. In the event an investment managers performance falls below its stated benchmark for four successive quarters a written explanation will be required. The request will be made by the Chair and Investment Advisor.

Style Index[1]: It is desired that the Endowment earn returns higher than the "market", as represented by a benchmark index or mix of indexes reflective of the Endowment's return objectives and risk tolerance. This benchmark or *"style index"* is to be constructed as follows:

~~55~~50% Russell 3000 Stock Index

[1] The stated style index may change during the year based on decisions made by the Trustees in adjusting to changing market conditions. As such, the above stated index may not reflect style index in use throughout the year.

10% Morgan Stanley Capital International Europe, Australasia and Far East (MSCI EAFE) International Stock Index (Net)

~~35~~32.5% Merrill Lynch Domestic Master Bond Index

7.5% HFRI Fund of Funds Diversified~~.~~

The Endowment is expected to exceed the average annual gross return of this benchmark on a risk-adjusted basis over a three- to five-year rolling time period and a full market cycle.

Secondary Performance Targets:

1. The nominal net return goal (return after adjusting for inflation) for the Endowment's assets is **Inflation + 4%**. Inflation shall be measured by the U.S. All Urban Consumers Price Index ("*CPI*").
2. The Endowment is expected to outpace the style index return and real return target, each measured on a compound average annual return basis after the deduction of investment management fees and annualized over a three- to five-year rolling time period and a full market cycle.
3. Performance will be compared annually to a peer group universe comprised of other balanced portfolios including other endowments and foundations.

IX. Investment Strategy

Selection Criteria for Investment Managers

Investment managers retained by the Endowment shall be chosen using the following criteria:

- A demonstrated commitment to Diversity within their workplace.
- Past performance, considered relative to other investments having similar investment objectives. Consideration shall be given to both consistency of performance and the level of risk taken to achieve results;
- The investment style and discipline of the investment manager;
- How well the manager's investment style or approach complements other assets in the Endowment;
- Level of experience, personnel turnover, demonstrated commitment to workplace diversity, financial resources, and staffing levels of the investment management firm or fund;
- An assessment of the likelihood of future investment success, relative to other opportunities.

The Endowment will utilize a multi-manager structure of complementary investment styles and asset classes to invest the Endowment's assets.

Should additional contributions and/or market value growth permit, the Trustees may retain additional investment managers to invest the assets of the Endowment. Additional managers would be expected to diversify the Endowment by investment style, asset class, and management structure and thereby enhance the probability of the Endowment achieving its long-term investment objectives.

X. Investment Guidelines

For Commingled Account Investments*: The investment guidelines for any commingled or mutual funds, exchange traded funds and limited partnerships are detailed in the prospectus or Declaration of Trust for the individual funds. The Endowment Trustees have the responsibility to review these guidelines to ensure they are generally consistent with this investment policy. Where there are differences between the investment guidelines of the fund and this investment policy, the Declaration of Trust or prospectus shall govern.

For Separately Managed Accounts: Investment activity must be consistent within the requirements of this policy, the Endowment's management agreement with the investment manager (if applicable) and applicable laws. Where there are differences between the investment guidelines in the investment manager's contract (if any) and this investment policy, the investment guidelines in the investment manager's contract shall govern.

Investment activity must be consistent within the requirements of this policy and applicable laws.

In addition, the following guidelines will apply:

A. Asset Allocation

Each investment manager has been delegated responsibility for establishing and maintaining the asset allocation strategy for their individual portfolio.

Unless otherwise noted below, under normal market conditions, each investment manager is expected to be invested primarily in equities and/or fixed income securities consistent with their investment style. Except for the initial three months after being retained by the Trustees, or as noted below, each investment manager shall not invest more than 20% of the market value of their portfolio in cash or cash equivalents. During the initial three months of the relationship with the Endowment, the investment manager may hold cash and cash equivalents in larger proportions in order to invest the portfolio on an orderly basis.

B. Permitted Securities

Domestic Securities

The securities purchased shall be registered with the Securities and Exchange Commission, and traded on a recognized U.S. stock exchange or over-the-counter-market.

* Commingled funds are pooled investment vehicles where investors own shares of the fund, but do not own the underlying investments of the fund. Commingled funds such as mutual funds, limited partnerships or trust funds are sold to investors by prospectus or trust document only. These documents are the controlling investment guidelines of the fund and the investment advisor(s) to the fund have a fiduciary and legal obligation to abide by the provisions of the prospectus (or trust document), but do not have a fiduciary obligation to the Guild. Therefore, should the Account invest in a pooled investment vehicle, these investment guidelines are not controlling over the fund investment and there is the possibility that fund investments may engage in transactions that are otherwise prohibited by this investment policy. For example, investing in other asset classes that would not otherwise be permitted for an investment manager, utilizing futures and options strategies or cash holdings at higher levels than what is permitted in this policy.

Equity securities include: common stocks, REITs, mutual funds and securities convertible into common stock of U.S.-based companies.

Convertible securities include: securities that are convertible into the common stock of U.S. based companies. This would include convertible bonds, convertible preferred stock, and mandatory convertible securities (*e.g.* PERCs, CHIPs, ELKs). Private placement convertible issues, also known as "144A" convertible securities, may not be purchased. All convertible securities purchased must be U.S. dollar denominated securities. Individual convertible securities should be rated "BBB" (or its equivalent) or higher at the time of purchase by a nationally recognized statistical rating agency. For the purposes of asset allocation, convertible securities shall be considered bonds.

Real Estate Investment Trust (REIT) securities include:

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

Mutual Funds Investments: Funds allocated to a financial intermediary for the purpose of being pooled with other investors to meet a specific predetermined investment objective not covered by a current individual separate account portfolio manager. Additionally:

- The selection of mutual funds of any type must be consistent with the defined values of the Association
- Mutual funds and separately managed accounts must be consistent with the established asset allocation strategy

Fixed income securities include: Domestic fixed and variable rate bonds and notes issued by the U.S. Government and its Agencies, U.S. corporations, Yankee bonds and notes (bonds or notes issued by non-U.S. based corporations and governments but traded in the U.S.), securitized mortgages (*e.g.* GNMA's, FNMA's, FHLMC's), collateralized mortgage obligations, asset-backed securities, taxable municipal bonds, and preferred stock. Private placement "144A" issues are prohibited.

International Securities

International securities are:

Sponsored and unsponsored American Depositary Receipts (ADR's) or American Depositary Shares (ADS's) or other depositary securities of non-U.S. based companies traded in the U.S., closed-end country funds and mutual funds. Equities of foreign domiciled companies that are traded in the U.S. may also be purchased so long as the securities are registered (or filed) with the Securities and Exchange Commission and traded on a recognized national exchange or over-the-counter market. Investments in emerging market stocks are permitted but should not exceed 10% of the portfolio.

Real Assets

- Real Estate: REITs of U.S.-based and International companies or REIT mutual funds or exchange traded funds.
- Commodities: Mutual funds or exchange traded funds that invest in broadly diversified commodity indices, or the common stocks of commodity-oriented companies.
- Treasury Inflation Protected Securities (TIPS): Mutual funds, exchanged traded funds or bonds of inflation linked securities.

Ultra-Short Fixed Income

The ultra short portfolio can be invested in securities permitted in the U.S. Fixed Income category and should generally be of duration of less than 2-3 years.

C. Diversification Requirements

The primary method to reduce risk for the portfolio is diversification through asset allocation. By allocating assets in different asset classes, the portfolio can reduce risk by avoiding concentration as well as reduce risk through the low-correlation between different asset classes.

To minimize the risk of large losses, each investment manager shall maintain adequate diversification in their portfolio. Subject to the constraints outlined in this investment policy, each investment manager shall have the discretion to determine their portfolio's individual security selections.

Large/Medium Capitalization U.S. Stock Portfolio

- Investments in any one individual equity security should not exceed 8% of the market value of the equity portion of the investment manager's portfolio;
- The maximum allocation to any single economic sector in a portfolio shall not exceed the greater of 15% of the market value of the equity portion of the investment manager's portfolio or 200% of the economic sector's weighting in the S&P 500 Stock Index, or the investment manager's equity policy index, if different. Economic sector definitions shall be according to the investment manager's own classifications, which should be provided to the Trustees upon request;
- Equities are limited to large and medium capitalization stocks. The minimum market capitalization at the time of purchase should be greater than $1 billion;

- Holdings of any single issue in this portfolio should not exceed more than 5% of the total outstanding common stock of any one company.

Small/Medium Capitalization Equity Portfolio

- Investments in any one individual equity security shall not exceed 5% of the market value of the investment manager's portfolio.
- There are no constraints on the economic sector allocations of the portfolio. The investment manager may concentrate portfolio holdings in a limited number of economic sectors.
- Equities are limited to small and medium capitalization stocks. The market capitalization of any one equity security shall be between $100 million and $10 billion at the time of purchase.
- Holdings of any single issue in this portfolio should not exceed more than 5% of the total outstanding common stock of any one company.

Socially Responsible Investing ("SRI") Portfolio

- If the SRI portfolio is invested in a separately managed account, ~~I~~investments in any one individual equity security shall not exceed 3% above the security's weight in the manager's benchmark~~, the Domini 400 index~~.

REIT Capitalization Equity Portfolio

- If the REIT portfolio is invested in a separately managed account, ~~I~~investments in any one individual equity security shall not exceed 5% above the security's weight in the ~~style~~ manager's benchmark~~, the Wilshire Real Estate Securities Index~~.

International Equity Portfolio

Subject to the usual standards of fiduciary prudence, the investment manager shall have the discretion to determine their portfolio's country allocations. However, the country allocations and portfolio structure should conform to these guidelines:

- The portfolio is expected to be diversified by the number of issues, typically holding between 60 and 80 securities. In addition, no single security shall not exceed more than 5% at cost;
- Currency hedging is not permitted;
- No fewer than three countries represented in the portfolio,
- Non-U.S. dollar denominated securities are not permitted;
- Investments in securities issued by or convertible into equities of U.S. based companies shall not exceed 10% of the market value of the portfolio;
- There are no constraints on the economic sector allocations of the portfolio. The investment manager may concentrate portfolio holdings in a limited number of economic sectors.

Fixed Income Portfolio

- Fixed income securities should be investment grade (rated "BBB"* or its equivalent or higher) at the time of purchase by a nationally recognized statistical rating agency, unless an investment manager has been authorized by the Endowment Trustees to invest in below investment grade fixed income ("High Yield Bonds"). The minimum dollar weighted average quality of the portfolio is "AA". Asset backed securities, mortgage backed securities, and Collateral Mortgage Obligations (CMO's) should be rated at least "AAA" (or its equivalent) at the time of purchase by a nationally recognized statistical rating agency.
- Unrated bonds may not be purchased.
- The maximum effective maturity of any single security should not exceed 40 years. The dollar-weighted average duration of the portfolio should be within ±25% of the dollar weighted average duration of the fixed income style index.
- The portfolio is expected to be diversified by the number of issues, typically holding between 25 and 35 securities. In addition, no single security shall not exceed more than 5% at cost (except securities issued or backed by the US Government or its Agencies);
- No more than 30% of the market value of an investment manager's portfolio may be invested in a single sector of the corporate fixed income market. Sector definitions shall be according to the investment manager's own classifications, which should be provided to the Endowment Trustees upon request.
- Mortgage-backed securities may be purchased on a "when issued" or "TBA" basis (a forward contract transaction for

* All rating categories, include qualifiers "+" and "-" for S&P and "1", "2" and "3" for Moody's. In the event of a "split rated" security, that is a security with non-equivalent rating classifications from different rating agencies, the higher of the quality ratings shall apply.

mortgage backed issues that are to be issued in the near term). A short-term investment can back a "when issued" commitment as long as its effective duration does not exceed 180 days. These short-term investments should be considered within the fixed income allocation of the portfolio.

- Collateralized mortgage obligations (CMO's) are limited to securities that are currently paying interest, receiving principal paydowns and do not contain leverage. CMO's are limited to no more than 10% of the market value of the portfolio.
- No more than 20% of the market value of the fixed income portfolio may be invested in zero coupon bonds.
- No more than 15% of the market value of the fixed income portfolio may be invested in High Yield bonds (Rating below BBB- or equivalent).
- Purchases of mortgage securities whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security and pays no principal (*e.g.* interest only securities) are prohibited.
- Mortgage securities whose payment represents the principal payments on the outstanding principal balance of the underlying mortgage-backed security and pays no interest (*e.g.* principal only securities) are prohibited.
- Purchases of mortgage securities whose payment of interest is determined by an index opposite to the changes in a market index (*e.g.* inverse floaters) are prohibited.

Alternative Investments Portfolio(s)

Alternative investments represent investments in investment vehicles that seek to provide diversification through innovative and flexible strategies (such as the ability to short, add leverage and hedge). Investments in such vehicles are expected to provide diversification and the opportunity for capital appreciation. Diversification standards within each investment vehicle shall be according to the prospectus or trust document. Investments in these investment vehicles carry special risks. The fund(s) may utilize speculative investment strategies, trade in volatile securities, and use leverage in an attempt to generate superior investment returns. The fund(s) may invest in illiquid securities for which there is no ready market and place restrictions on investors as to when funds may be withdrawn.

Permitted alternative investments in the Portfolio are:

- Investments may include hedge funds, managed futures funds, venture capital or private equity funds, real estate, or leveraged buy-out funds. Investments in other strategies shall be reviewed and approved by the Board prior to purchase;
- Limited to diversified commingled trust fund vehicles or limited partnerships offered through a third party distribution channel, such as what is offered through many broker-dealer firms. The Board has not authorized investment in any alternative investment vehicles offered directly by any hedge fund or in any investment vehicle where the Portfolio's liability can exceed the value of the ALA's investment are strictly prohibited;

- Diversified by investment style and investment manager. The Portfolio shall emphasize investments in fund-of-fund vehicles that are diversified by investment style and typically utilize multiple investment managers within a fund. The Fund, however, may invest in single manager funds, but these investments shall not comprise the majority of the investment;
- Limited to investment vehicles that offer the ability for the Fund to make contributions or receive distributions at least quarterly without restriction or incurring additional fees; and
- In order to maintain a well diversified portfolio, preference shall be given to fund of fund investments.
- Investments that can meet the valuation requirements of the Generally Accepted Auditing Standards established by the AICPA.

Cash and Equivalents

It is generally expected that the investment manager will remain fully invested in equity and/or fixed income securities; however, it is recognized that cash reserves may be utilized from time to time to provide liquidity or to implement some types of investment strategies. Cash reserves shall be held in the custodian's money market fund*, short-term maturity Treasury securities, or high quality money market instruments.

Transactions or unanticipated market actions that cause a deviation from these policy guidelines shall be brought to the attention of the Trustees by the investment manager prior to executing transactions, when practical. Such deviations may only be authorized in writing by the Trustees. Only the Trustees can determine if the deviation constitutes a material departure from the spirit of this policy.

D. Exclusions

The Endowment's assets in separately managed accounts may not be used for the following purposes:

- Short Sales;
- Purchases of letter stock, private placements (including 144A securities), or direct payments;
- Leveraged transactions;
- Commodities transactions, unless by managers approved for that strategy;
- Puts, calls, straddles, or other option strategies;
- Oil and gas properties, or other natural resources related properties with the exception of Real Estate Investment Trusts or marketable real estate securities or by managers approved for that strategy;
- Investments in tax-exempt securities;

* Investments in money market funds other than the custodian's money market fund must be approved by the Trustees prior to purchase. For investments in mutual or commingled funds, the prospectus or Trust documents of the fund(s) will govern the investment policies of the fund investments. Accordingly, it is understood that the investment manager for the separately managed account shall not be responsible for the investments in the fund.

- Investments in non-US dollar denominated securities;
- Investments in limited partnerships except for publicly traded Master Limited Partnerships, unless by managers approved for that strategy;
- Investments in futures, use of margin, or investments in any derivatives not explicitly permitted in this policy statement;
- Investments by the investment managers in their own securities, their affiliates, or subsidiaries (excluding money market or other commingled funds as authorized by the Trustees);

Any other security transaction not specifically authorized in this policy statement, unless approved, in writing, by the Trustees. Requests by investment managers to execute transactions that are not currently authorized in this policy should be made prior to executing such transactions.

XI. Investment Transactions

Trading for the Endowment is directed by and is the responsibility of each investment manager to whom the Trustees have granted the discretionary authority to determine (subject to the investment objectives and policies outlined herein) the securities to be bought or sold on behalf of the Endowment, the amount of such securities, and the brokers or dealers to be used in such transactions. The investment manager is generally obligated, absent the Trustees' direction to the contrary, to effect transactions with or through those brokers or dealers that in the investment manager's view, are capable of providing best price and execution of client orders. Consistent with this general obligation, it is anticipated that the investment manager will direct most, if not all transactions to Merrill Lynch both in view of its execution capabilities and because the Consults and Unified Managed Account fees paid by the Endowment cover transaction charges only when transactions are executed through Merrill Lynch.

XII. Meetings and Communications

- As a matter of course, each investment manager shall keep the Trustees or their Investment Consultant apprised of any material changes in the investment manager's outlook, investment policy, and tactics;
- A representative of each investment manager shall ~~meet~~ be available to speak with the Trustees or their Investment Consultant on ~~an annual~~regular basis to review and explain their portfolio's investment results; and
- ~~A representative of each investment manager~~ shall be available on a reasonable basis for telephone communication when needed;
- Any material event that affects the ownership or capital structure of the investment management firm, senior investment, marketing, or administrative personnel changes at the investment management firm or any material event that affects the management of this account must be reported promptly to Trustees or their Investment Consultant. This requirement does not include routine employee stock ownership awards or partnership announcements;

- The Investment Consultant will provide written performance reports on a quarterly basis for each separately managed account portfolio and for the composite portfolio of separately managed accounts~~ invested in the Merrill Lynch Consults Service~~;
- The custodian shall provide monthly statements of assets and transactions.

XIII. Performance Evaluation

As noted above, the Trustees will monitor the performance of the investment managers and of the composite of these accounts invested on a quarterly basis.

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

The Endowment fund's performance and that of the investment managers should be reported in terms of rate of return and changes in dollar value. The returns should be compared to appropriate market indexes and peer group universes, for the most recent quarter and for annual and cumulative prior time periods.

The Endowment's asset allocation in separately managed accounts shall be reported on a quarterly basis.

Risk as measured by volatility, or standard deviation of quarterly returns, shall be evaluated after twelve quarters of performance history have accumulated. An attribution analysis shall also be performed for the separately managed accounts, to evaluate how much of the Endowment's investment results are due to the investment managers' investment decisions, as compared to the effect of the financial markets. It is expected that this analysis will use the "style index" as the performance benchmark for evaluating both the returns achieved and the level of risk taken.

Guidelines for Corrective Action

The Trustees recognize the importance of a long-term focus when evaluating the performance of investment managers. The Trustees understand the potential for short-term periods when the performance of individual managers may deviate significantly from the performance of representative market indexes. The Trustees, however, may require an extra level of scrutiny, which may include termination, of an investment manager based on the following conditions:

- Any material event that affects the ownership or capital structure of the investment management firm or the management of this account (such as described in Section XI). Failure on the part of the investment manager to notify the Trustees or the Investment Consultant may be grounds for termination;
- Any material client-servicing deficiencies, including a failure to communicate in a timely fashion significant changes as outlined in Section XI of this investment policy;

- Violation of terms of contract without prior written approval of the Trustees constitutes grounds for termination;
- Diversification strategy – as part of its overall asset allocation strategy, the Endowment will utilize a multi-manager structure of complementary investment styles and asset classes to invest the Endowment' assets. Therefore, it is very important that investment managers remain consistent with the intended investment style at the time the manager was engaged;
- The Trustees will not as a rule terminate an investment manager on the basis of short-term performance. If the organization is sound and the firm is adhering to its investment style and approach, the Trustees will allow a sufficient interval of time over which to evaluate performance. The Trustees expects that the Investment Consultant will provide guidance to the Trustees to determine an appropriate length of time. The investment manager's performance will be viewed in light of the firm's particular investment style and approach, keeping in mind at all times the Endowment's diversification strategy as well as the overall quality of the relationship;
- The investment manager may be replaced at any time as part of an overall restructuring of the Endowment.

XIV. Approval

It is understood that this investment policy is to be reviewed periodically by the Trustees to determine if any revisions are warranted by changing circumstances including, but not limited to, changes in financial status, risk tolerance, or changes involving the investment managers. Should the Trustees permit a deviation from this policy or implement a change in policy, the circumstances and rationale for the change shall be documented and attached to this investment policy.

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Senior Trustee