
UNITED METHODIST FOUNDATION

OF WESTERN PENNSYLVANIA

UNIFIED ACCOUNT AND FIXED FUND
STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

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(REPLACING 1999-01 & 1999-02)

APPENDICES I & II 2008-02
(REPLACING 2004-04)

DECEMBER 13, 2004

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STATEMENT OF INVESTMENT POLICY AND OBJECTIVES
UNITED METHODIST FOUNDATION UNIFIED ACCOUNT AND FIXED FUND
REVISED DECEMBER 13, 2004

This Statement of Investment Policy and Objectives (the "Policy") is approved by the Board of Directors (the "Board") of the United Methodist Foundation (the "Foundation") and adopted by the Western Pennsylvania Annual Conference of the United Methodist Church (the "Member") for the guidance of the Foundation Investment Committee (the "Committee"), fiduciaries and investment professionals employed by the Foundation to assist in investing the assets of the Unified Account (the "Unified Account") and the Fixed Fund ("Fixed Fund"), (collectively referred to as "the Funds.")

I. PURPOSE OF THE FUNDS

The purpose of the Funds is to provide vehicles for the socially responsible investment and management of assets on behalf of United Methodist entities and causes, including local churches, boards, agencies and institutions as well as individual trusts where a United Methodist cause is the beneficiary.

The Unified Account is managed as a "balanced" account, primarily investing in domestic and international stocks and bonds with a modest cash position for liquidity. Its primary objective is to provide for current income as well as long-term growth consistent with the conservation of principal.

The Fixed Fund is managed as a fixed income portfolio, primarily investing in obligations of the U.S. Government and its agencies, marketable corporate bonds, debentures, preferred stocks, commercial paper, and certificates of deposit. The primary objective of the Fund is to provide for current income consistent with the conservation of principal.

II. PURPOSE OF THE POLICY

The purposes of this Policy are fourfold:

- A. Set forth the responsibilities of the respective parties involved in the Foundation's investment processes and guide the Board's and Committee's ongoing oversight of invested assets.
- B. To set forth requirements for Fund valuation, unit value calculation and income distributions as well as the treatment of deposits and withdrawals.
- C. Develop investment objectives, policies and guidelines which are appropriate and prudent in consideration of the Funds' respective purposes.
- D. Establish criteria against which to measure the investment managers selected by the Board.

III. ROLE OF THE COMMITTEE, BOARD AND INVESTMENT PROFESSIONALS

A. RESPONSIBILITIES OF THE BOARD AND INVESTMENT COMMITTEE

The Board is responsible for oversight of the investment activities of the Foundation. In this regard, the Board shall consider the purposes, terms and other circumstances of the funds in the Foundation's care and pursue an overall investment strategy reasonably suited to the Foundation's purposes, including those purposes stated in accepting funds for investment from others. The Foundation shall require the same standard of prudence from investment managers, consultants, and other investment professionals the Foundation engages to assist it.

Under the oversight of the Board, the Committee shall monitor the management of the Foundation's investments by the investment managers engaged by the Foundation ("Investment Managers") and recommend to the Board investment policies, objectives and guidelines (hereinafter investment "policies") by:

1. Recommending for Board approval investment policies for the investment of assets owned by or entrusted to the Foundation by depositors, donors, settlors and others (together "Foundation investments"). Periodically reviewing such policies and recommending appropriate changes therein.
2. Regularly evaluating the performance of the Investment Managers as to adherence to investment policies, conformity with investment objectives for which engaged, and achievement of investment results; directing the rebalancing of investments among asset classes.
3. Advising the Board as necessary with respect to investment matters. Communicating with depositors, donors and others as appropriate the investment objectives of the Foundation's investment programs, the investment results achieved, and related matters.
4. Appropriately authorizing Foundation management and staff, under the supervision of the Executive Director, to have the responsibility for executing transactions, communicating with the Foundation's investment professionals, depositors and others, voting of proxies, and performing other duties; receiving periodic reports from the Executive Director on the voting of proxies for investments held by the Foundation.
5. Meeting and taking action between meetings of the Board and Executive Committee of the Foundation, to the extent such action is not inconsistent with the Policy or the reservations of authority to the Board or to the Member of the Foundation, and reporting such actions to the Directors of the Foundation at the next regularly scheduled Board or Executive Committee meeting.
6. Selecting and engaging, subject to Board approval, qualified investment professionals, including Investment Managers, Investment Consultants, and Custodians, to which may be assigned the responsibilities delineated in the sections that follow.

B. RESPONSIBILITIES OF THE INVESTMENT MANAGERS

Contract for Services and Adherence to Investment Policies

Investment Managers will provide investment management services in accordance with formal agreements with the Foundation which will provide, *inter alia*, that investments are to be managed in accordance with the guidelines expressed herein, or, when the Board on the recommendation of the Investment Committee deems deviation prudent and desirable, expressed by separate written instructions. Written instructions amending this document must be authorized as required by this policy and shall be communicated through the Committee Chair and/or the Executive Director. However, Investment Managers shall at all times follow the Social Principles of the United Methodist Church in their selection of investments for Foundation accounts.

As a fiduciary, each investment manager is expected to diversify, within the boundaries of the investment strategy for which it was engaged, the portfolio to minimize the risk of large losses. The investment manager is expected to acknowledge its obligation and intention to comply with the Statement of Investment Policy and Guidelines as it currently exists or as it may reasonably be modified by the Foundation in the future.

The Investment Managers are expected to act within the boundaries of the restrictions outlined in this Statement of Investment Policy and Guidelines, the agreements engaging them, and their representations made in connection with their engagement.

Each investment Manager's responsibility includes decisions to buy, hold, or sell equity or fixed-income securities (including cash equivalents) in amounts and proportions reflective of the current investment strategy for which the respective manager was engaged. However, the Committee is aware that its decision to invest in a commingled account or mutual fund may make it impracticable to strictly follow the Social Principles and the asset allocation prescribed in the Policy.

Communication and Reporting

The Investment Managers are responsible for frequent and open communication with the Foundation and the Investment Consultant on all significant matters pertaining to the investment of Foundation assets. The Investment Managers will advise the Foundation of any major changes in investment outlook, investment strategy, asset allocation, portfolio structure, market value of the investments, and other substantive matters affecting the assets under their management. The Investment Managers will advise the Foundation promptly of any significant changes in the ownership, organization structure, financial condition, or senior personnel of the investment management organization. Audited financial statements of the management organizations are to be furnished annually.

Review meetings with Investment Managers may take place periodically at the Committee's direction. As a practical matter, most communications from the Investment Manager will occur through the Executive Director of the Foundation and the Investment Consultant. The burden remains with the Investment Manager to ascertain that such communications reach the Committee in all necessary detail. Investment Managers shall take the initiative to communicate, in writing, directly with the Chair of the Board with a copy to the Chair of the Investment Committee when direct access to those with oversight responsibility is warranted or prudent.

The Committee recognizes that this Policy requires periodic re-examination and perhaps revision if it is to continue to serve as a working document to encourage effective investment management. Whenever an Investment Manager believes that the Statement should be altered, it is the responsibility of the Investment Manager to initiate written communication with the Committee through the Committee Chair or the Executive Director.

The Committee expects the Investment Managers to forward, on a timely basis, quarterly reports containing portfolio activity, valuations at market, and quarterly strategy updates.

C. RESPONSIBILITIES OF THE CUSTODIAN

The Custodian is responsible for the safekeeping of Foundation investments and timely/reliable reporting of holdings and transactions. The Custodian will maintain possession, in customary form and on behalf of the Foundation, of securities representing Foundation investments, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales of securities. The Custodian may also perform accounting for assets sold, purchased or owned as well as movement of assets into and out of Foundation accounts. The Custodian will provide monthly documentation of portfolio activity and portfolio value. Securities purchased should be delivered against payment and held in a custodian safekeeping account(s) segregated from the custodian's own assets. The Custodian annually must furnish to the Foundation a copy of its "SAS 70 Report" from its independent auditors.

D. RESPONSIBILITIES OF THE INVESTMENT CONSULTANT

The Investment Consultant's role is to provide investment advice to the Board of Directors concerning the investment management of Foundation assets. The Investment Consultant is expected to take the initiative in pro-actively bringing all relevant matters to the Foundation's attention for consideration. The Investment Consultant's advice will be offered with an awareness of the investment objectives, policies, guidelines and constraints as established in this Policy. Specific responsibilities of the Investment Consultant include: assisting in the development and periodic review of investment policies; conducting Investment Manager searches; monitoring the qualifications and performance of the Investment Managers and other investment professionals; providing reports quarterly and as requested detailing the performance of Investment Managers against established criteria; identifying where investments should be rebalanced among asset classes; and providing the Investment Committee with timely periodic reports and recommendations with respect to these matters. The Investment Consultant will also communicate on behalf of the Foundation with the Investment Managers and other investment professionals engaged by the Foundation.

E. RESPONSIBILITIES OF OTHERS

Additional specialists, such as attorneys, auditors, and others, may be engaged by the Foundation from time to time to assist the Board and Committee to meet their responsibilities under this Policy.

IV. VALUATION, DISTRIBUTIONS, DEPOSITS AND WITHDRAWALS

A. Valuation

The Funds will be valued quarterly for the purpose of establishing unit values to be used in reporting to depositors and in measuring deposits, withdrawals and distributions. These quarterly valuations will be derived by the sum of the fair market value of all assets held in the account. The fair market value on the business day immediately preceding the valuation date will be used if the valuation date is not a business day.

The unit value will be computed on each valuation date by dividing the sum of the fair market value of the assets by the total outstanding units. This value will be expressed to the nearest whole cent value.

B. DISTRIBUTIONS

The Unified Account will utilize a "total return" approach, as contemplated by Pennsylvania Act 141, to determine the amount of its quarterly distributions. This methodology bases income distributions upon the combination of interest, dividends, other earnings *and* capital appreciation/depreciation. Annual distributions will be between 2% - 7% of the average unit value as determined by the Board as of the end of each calendar year. This value, net of broker fees and commissions, investment advisor fees, administrative service charges and bank charges, will be distributed quarterly on a pro rata basis to the unit holders.

The Fixed Fund will distribute quarterly the interest and dividends earned by the fund net of broker fees, commissions, investment professionals' fees, administrative service charges and bank charges on a pro rata basis to the unit holders.

Distributions of either Fund may be reinvested if the unit holder so desires. Accounts which have been designated to have income reinvested will have net income reinvested on a quarterly basis. Any distribution so reinvested will buy units in the respective Fund on the day following the quarterly valuation at the unit value on the valuation date.

C. DEPOSITS AND WITHDRAWALS

Assets will be received into the Funds for investment subject to rules established from time to time by the Board as set forth in Appendix III. Withdrawals from the Funds will be permitted subject to rules established from time to time by the Board as set forth in Appendix III.

V. INVESTMENT SELECTION, MANAGEMENT AUTHORITY AND DIVERSIFICATION

A. Social Principles of the United Methodist Church

An overarching principle for the investment of funds entrusted to the Foundation is the adherence to the Social Principles of the United Methodist Church. To the extent possible, the Funds' assets shall be invested in a socially conscious manner consistent with the Social Principles of the United Methodist Church. This includes, but is not limited to, investing in companies that respect human rights, play a role in local communities, produce useful products in an environmentally sound way and seek workforce diversity and avoiding investing in companies engaged in gambling or in the manufacture of weapons systems, alcohol or tobacco products. To that end, the Board and its duly appointed Investment Managers recognize their fiduciary responsibility to follow the Social Principles and will attempt to balance these requirements with the overall objectives and constraints of the Funds.

B. Investment Selection Authority

1. The monies at any time forming part of the Unified Account shall be invested and reinvested in such investments as the Board or its duly appointed Investment Manager(s) may select including, but not limited to, stocks, bonds, notes, debentures, money market securities, mortgages, preferred stocks, mutual funds, institutional collective trusts, publicly traded limited partnerships and publicly traded Real Estate Investment Trusts (REITs).
2. The monies at any time forming part of the Fixed Fund shall be invested and reinvested in such investments as the Board or its duly appointed Investment Manager(s) may select including, but not limited to, bonds, notes, debentures, money market securities, mortgages, preferred stocks, mutual funds, and institutional collective trusts.
3. Neither the Unified Account nor the Fixed Fund shall be limited in the making of such investments to securities or property in which fiduciaries are by law or any rule of court authorized to invest trust funds.
4. The Unified Account and the Fixed Fund shall each maintain in cash and short-term money market instruments and readily marketable securities such part of the assets of the Unified Account or fixed Fund as the Committee deems necessary to provide adequate liquidity for the needs of the participants.

C. Powers of Management

1. The Board and its duly appointed Investment Manager(s) shall have in respect to any and all securities or property at any time received or held for the Funds or for any liquidating account, the same power of management as if the Foundation were the absolute owner thereof, including, but not by way of limitation, the power to sell, exchange or convert the same, to consent to and join in any plan of reorganization, and pursuant thereto or to any right of conversion granted by such plan, to receive in exchange for any such investment another investment although the same may not be eligible for original investment in the Funds, to vote in respect to all securities held by the Funds and to give proxies, general or special, to others to vote such securities

- with or without power of substitution; and, with respect to any real property which at any time may form part of the Fund, the power to maintain and improve such real property, to remove or raise the improvements thereon, to borrow monies thereon and to mortgage the same, and to lease the same for any period.
2. The Board and its duly appointed Investment Managers shall have the power to cause any security or other property to be registered and held in the name of one or more nominees, without increase or decrease of liability with respect to such security or other property so registered.

D. Investment Asset Classes and Diversification

The Board recognizes that the asset allocation forms the essence of any investment policy and that 80-90% of the Unified Account's investment returns are attributable to the manner in which the assets are invested in broad asset classes. Further, the Board recognizes that broad asset class diversification has a beneficial impact on risk but may result in a sub-optimal structure for maximizing return. Accordingly, guidelines have been adopted (see Appendix I) for both Funds to achieve diversification. For the Unified Account, these guidelines feature a material commitment to equities while allowing for broad diversification both within and outside the equities segment. Diversification may be accomplished in each of the selected asset classes by the use of commingled or mutual funds that are actively managed, comply with the Social Principles of the United Methodist Church, and are approved by the Committee. In those instances where investments are made in commingled or mutual funds, the investment approach of the fund should be substantially consistent with the requirements of this policy. Asset classes are described in Appendix I.

E. Prohibited Investments

The Board will not authorize investment in the following:

- Venture capital
- Private placement or other securities not publicly traded, other than "144a" securities
- Limited partnerships and trusts not publicly traded
- Oil, gas or other natural resource properties
- Short sales, detached warrants, or options (except qualifying hedges)
- Margin purchases or other forms of leverage
- Direct real estate investments without Board approval of the specific transaction
- Direct placement of mortgages without Board approval of the specific transaction
- Structured notes – except Collateralized Mortgage Obligations(CMO's), Asset-Backed Securities, Commercial Mortgage-Backed Securities or other publicly traded products
- Interest Only (IO) CMO's
- Principal Only (PO) CMO's
- Z-traunch CMO's
- Commodities
- Art objects or other collectibles

The Board is conscious of the widespread use of derivatives (options, futures, pass-through securities, structured notes, etc.) in implementing investment strategy. It is also aware that derivatives can be used prudently to establish investment positions and as risk control devices. The Board will not authorize the use of derivatives as speculative

instruments or in a leveraged manner such that the risk of loss from a particular position would be materially larger than if actual securities were utilized.

VI. REVIEW PROCESS

Appendix II lists quantifiable benchmarks against which the progress toward investment goals can be measured. All returns are to be measured net of all investment professionals' fees and costs other than the Foundation's administrative service fees.

At least quarterly, the Committee will review the actual results achieved to determine whether the Investment Managers have performed in accordance with this Policy and the return objectives as set forth herein. On a periodic basis, the Committee will review the broad asset class guidelines and benchmarks and make recommendations for changes.

The Board may retain an independent consultant to assist in the evaluation of investment manager performance.

VII. AMENDMENT

- A. This Statement of Investment Policy and Objectives may be amended from time to time by the Member upon recommendation by the Board; however, matters contained in the Appendices to this Statement of Investment Policy and Objectives may be amended from time to time by the Board. Each such amendment shall be effective on the date specified therein, provided that the effective date of such amendment shall not be retroactive to a date prior to the date of adoption of such amendment resolution except to conform this document to the rules and regulations of the Comptroller of the Currency or to applicable law. All amendments shall be filed in the registered office of the United Methodist Foundation of Western Pennsylvania. Any amendments adopted as herein provided shall be binding upon all participating entities and beneficiaries thereof and all other persons interested in the Funds. Changes in this Policy shall be communicated to participating entities as appropriate.
- B. The Board may at any time in its discretion by resolution direct the termination and liquidation of the Fund(s). A copy of such resolution certified by the Secretary of The Board shall be sent to the appropriate representative of each participating entity. After the adoption of such resolution, no further funds shall be admitted to the Fund(s) and all of the assets then held in the Fund(s) shall thereupon be deemed to constitute a liquidating account and shall be distributed to the participating entities in proportion to their interests therein.

VIII. COMPLIANCE WITH LAWS, REGULATIONS AND FIDUCIARY DUTIES

The Board and each investment manager, trustee, consultant or other investment professional or agent of the Foundation is strictly responsible for compliance with the provisions of all state and federal laws and regulations pertaining to their duties, function and responsibilities as fiduciaries of the Funds.

Approved: United Methodist Foundation Board of Directors at its Meeting: December 13, 2004.

Updated: Policy was approved at Executive Committee Meeting on March 11, 2008.

APPENDIX I: ASSET ALLOCATION GUIDELINES

Unified Account

Historical performance results and future expectations suggest that common stocks generally will provide higher total investment returns than fixed-income securities over a long-term investment horizon. However, one can expect an increase in portfolio volatility as the stock percentage is increased.

Based on the investment goals and risk tolerances stated in this document, the following asset allocation strategy is appropriate for the Unified Account. Investments should not exceed the minimum and/or maximum levels (at market value) without prior written acknowledgement from the Investment Committee.

<u>Asset Class:</u>	<u>Target:</u>	<u>Range:</u>
Large Cap Value	10.00%	7.50-14.00%
Large Cap Core	13.00	10.50-16.50
Large Cap Growth	10.00	7.50-14.00
Small/Mid Cap Equity*	8.25	4.00-12.50
International/Global Equity**	13.75	9.00-17.25
"Core+" Fixed Income***	40.00	35.00-45.00
Cash	<u>5.00****</u>	0.00-10.00
TOTAL	100.00%	

*Market capitalization of \$2 billion or less

**Within this asset class, developed markets will be defined as all those nations included in the Morgan Stanley EAFE index, as well as any others with a per capita GNP greater than \$10,000 in 1977 dollars.

*** The fixed income manager is permitted to include up to 15% of its portfolio in high yield (BB and lower) debt through diversified mutual or commingled funds.

****The cash target will be managed by the Foundation on an overall basis. Individual Investment Managers are expected to be fully invested in the asset class which they have been engaged to manage

The asset allocation will be monitored by the Consultant and reported quarterly to the Investment Committee. Assets will be rebalanced to the target semiannually or if any segment is more than 10% outside the ranges for one calendar quarter. Cash flow will be used to help keep the Funds in compliance with the targets. The Consultant will monitor the asset allocation and make rebalancing recommendations to the Committee at the Committee's regularly scheduled meetings. The Committee retains the authority to rebalance the portfolio at its discretion within the stated ranges for each asset category, permitting it the flexibility to vary, within limits, from the target allocations.

The aggregate market value of stocks, bonds or other obligations of any one person, firm or corporation (including entities in a consolidated group or its significant investees, but excluding mutual funds whose underlying assets meet these diversification requirements) in any one Investment Manager's portfolio for the Foundation shall not exceed 5.0% of the total market value of that Investment Manager's portfolio for the Foundation without the approval of the Investment Committee.

Advance Committee approval is also required if "sector" (as defined by the Standard&Poor's 500 index) weightings of funds under any one Investment Manager's supervision (measured at market value) are to exceed the following limits: Any one sector weighting should not exceed the lesser of 25% of the Investment Manager's

portfolio for the Foundation or, for large capitalization managers, the S&P 500 index weighting by more than 2.5 times, for small and mid-capitalization managers, the Russell 2000 index sector weighting by more than 2.5 times, and, for international managers, the MSCI-EAFE sector weighting by more than 2.5 times.

These limitations shall not apply to investments in direct obligations of the United States or other obligations that carry a direct guarantee by the United States as to principal and interest.

Fixed Fund

Based on the investment goals and risk tolerances stated in this document, the following asset allocation strategy is appropriate for the Fixed Fund. Investments should not exceed the minimum and/or maximum levels (at market value) without prior written acknowledgement from the Investment Committee.

“Core+” Fixed Income*	100.00	90.00-100.00%
Cash	<u>0.00</u>	0.00-10.00
Total	100.00%	

* The fixed income manager is permitted to include up to 15% of its portfolio in high yield (BB and lower) debt through diversified mutual or commingled funds.

The asset allocation will be monitored by the Consultant and reported quarterly to the Investment Committee. Assets will be rebalanced to the target semiannually or if any segment is more than 10% outside the ranges for one calendar quarter. Cash flow will be used to help keep the Funds in compliance with the targets. The Consultant will monitor the asset allocation and make rebalancing recommendations to the Committee at the Committee’s regularly scheduled meetings.

The aggregate market value of bonds or other obligations of any one person, firm or corporation (including entities in a consolidated group or its significant investees, but excluding mutual funds whose underlying assets meet these diversification requirements) in any one Investment Manager’s portfolio for the Foundation shall not exceed 5.0% of the total market value of that Investment Manager’s portfolio for the Foundation without the approval of the Investment Committee.

These limitations shall not apply to investments in direct obligations of the United States or other obligations that carry a direct guarantee by the United States as to principal and interest.

Description of Asset Classes

U.S. Equity – Large Capitalization (Value)

This asset class consists of large capitalization stocks which offer both growth potential and dividend income. Investments will generally be concentrated in well-established, large companies (i.e., market capitalization of \$2 billion or greater). The structure and performance of this asset class should be representative of the broad U.S. stock market.

U.S. Equity – Large Capitalization (Core)

This asset class consists of large capitalization stocks blending value and growth characteristics. Investments will generally be concentrated in well-established, large companies (i.e., market capitalization of \$2 billion or greater). The structure and performance of this asset class should be representative of the broad U.S. stock market.

U.S. Equity-Large Capitalization (Growth)

This asset class consists of large capitalization stocks which offer more growth potential than dividend income. Investments will generally be concentrated in well-established, large companies (i.e., market capitalization of \$2 billion or greater). The structure and performance of this asset class should be representative of the broad U.S. stock market.

U.S. Equity – Small and Mid- Capitalization

This asset class consists primarily of companies expected to grow at a greater rate than the overall economy. Investments may occasionally be concentrated in specific economic sectors. This asset class is expected to earn most of its returns from capital appreciation and little from dividend income and to have a greater degree of volatility than the overall equity market. Investments will emphasize smaller companies.

International Equity – Developed Markets

This asset class consists primarily of companies in developed international markets, but a modest allocation to companies in emerging markets is acceptable. Non-U.S. developed market equity investments are defined as those in the common stocks and convertible securities of publicly traded companies in developed nations outside of the U.S. as well as the American Depositary Receipts (ADR's) of developed foreign companies traded on the New York Stock Exchange.

Investment Grade Debt

This asset class consists of obligations of the U.S. Government and its agencies, marketable corporate bonds, debentures, preferred stocks, commercial paper, certificates of deposit and other such debt instruments as may be deemed prudent by the Investment Manager and not prohibited by this Policy. Non-government publicly traded bonds should be selected and managed so as to ensure an appropriate balance of maturity, quality, marketability and adequate diversification with respect to industry and issue. Not more than 5% of this class may be individual securities of foreign issuers or can 1% be from individual issues of one foreign country. Where investments are in mutual funds or commingled accounts, the specific limits on individual issues or prohibited investments may be waived if the Board, on the recommendation of the Committee, is satisfied that the asset allocation policy of the mutual fund or commingled account reasonably accomplishes investment diversification. The investment manager is permitted to invest a portion, as specified in Appendix I to this Policy, of its portfolio in high yield debt as described below. The investment grade debt asset class together with high yield debt below is to have a duration of not greater than 120% of the LB Intermediate Aggregate Index, and the dollar-weighted average credit quality is not to fall below A.

High Yield Debt

This asset class consists of higher yielding corporate debt securities which can be rated BB or lower. Such investments are to be through diversified mutual or commingled funds rather than through individual issues. These investments feature less certain payouts than higher rated debt, offering higher coupon payments as compensation. While default risk is greater, interest rate sensitivity is lower as bonds often trade on the merits of the

underlying company. This asset class has no strict limitations on credit quality and may also include U.S. government obligations, time and savings deposits, commercial paper, preferred stocks, and convertible debt securities.

Cash Equivalents

A cash component will be maintained for liquidity purposes. It shall be invested in appropriate short term cash account(s) of the custodian or other account selected by the Committee. The underlying investments of these funds may include any instrument issued, guaranteed by or insured by the U. S. Government or its agencies; commercial paper issued by domestic corporations which is rated both "P-1" and "A-1" by Moody's and Standard & Poor's rating agencies, respectively certificates of deposit; bankers acceptances, or other such irrevocable primary obligations; and repurchase agreements. The maturity of these instruments shall be less than 90 days.

APPENDIX II: PERFORMANCE MEASUREMENT

The performance of total portfolio assets (Unified Account and Fixed Fund) as well as the underlying component managers will be measured against market and peer group benchmarks. Trailing three year performance should exceed the market benchmark target **OR** the peer universe ranking target detailed in this section.

A. Total Fund Assets

- Relative to appropriate indices:

<u>Section</u>	<u>Index</u>	<u>Target</u>
Unified Account	Target Market Index (TMI)*	Exceed Net of Investment Manager Fees
Unified Account	CPI	Exceed by 4.00% Net of Investment Manager Fees
Fixed Fund	Target Market Index (TMI)**	

* 12.00% Russell 1000 Value, 14.50% S&P 500, 12.00% Russell 1000 Growth, 8.25% Russell 2000, 8.25% MSCI-World ex-US, 40% LB Intermediate Aggregate, and 5% Treasury Bills.

** 100% LB Intermediate Aggregate

- Relative to other professionally managed accounts (Trailing 3-year basis and two most recent quarters individually):

<u>Section</u>	<u>GRID® Universe</u>	<u>Target</u>
Unified Account	Total Fund Core Balanced*	Rank in top 50%
Fixed Fund	Total Fund Core Plus Fixed Income	Rank in top 50%

* Universe consisting of balanced funds with an equity exposure of 40% to 60% of the total assets.

B. Equity Assets

- Relative to appropriate indices:

<u>Section</u>	<u>Index</u>	<u>Target</u>
Large Cap Value	Russell 1000 Value	Exceed Net of Investment Manager Fees
Large Cap Core	S&P 500	Exceed Net of Investment Manager Fees
Large Cap Growth	Russell 1000 Growth	Exceed Net of Investment Manager Fees

Mid Cap Value	Russell Mid Cap Value	Exceed Net of Investment Manager Fees
Mid Cap Core	Russell Mid Cap	Exceed Net of Investment Manager Fees
Mid Cap Growth	Russell Mid Cap Growth	Exceed Net of Investment Manager Fees
Small Cap Value	Russell 2000 Value	Exceed by 1.00% Net of Investment Manager Fees
Small Cap Core	Russell 2000	Exceed by 1.00% Net of Investment Manager Fees
Small Cap Growth	Russell 2000 Growth	Exceed by 1.00% Net of Investment Manager Fees
International	MSCI World ex-US	Exceed by 1.00% Net of Investment Manager Fees
Global	MSCI World	Exceed by 1.00% Net of Investment Manager Fees
Emerging Markets	MSCI Emerging Markets	Exceed by 1.00% Net of Investment Manager Fees

- Relative to other professionally managed accounts (Trailing 3-year basis and two most recent quarters individually):

<u>Section</u>	<u>GRID® Universe</u>	<u>Target</u>
Large Cap Value	Total Fund Large Cap Value	Rank in top 50%
Large Cap Core	Total Fund Large Cap Core	Rank in top 50%
Large Cap Growth	Total Fund Large Cap Growth	Rank in top 50%
Mid Cap Value	Mutual Fund Mid Cap Value	Rank in top 50%
Mid Cap Core	Mutual Fund Mid Cap Core	Rank in top 50%
Mid Cap Growth	Mutual Fund Mid Cap Growth	Rank in top 50%
Small Cap Value	Mutual Fund Small Cap Value	Rank in top 50%
Small Cap Core	Mutual Fund Small Cap Core	Rank in top 50%

Small Cap Growth	Mutual Fund Small Cap Growth	Rank in top 50%
International	Mutual Fund International Equity	Rank in top 50%
Global	Mutual Fund Global Equity	Rank in top 50%
Emerging Markets	Mutual Fund Emerging Markets	Rank in top 50%

C. Fixed-Income Assets

- Relative to appropriate index:

<u>Section</u>	<u>Index</u>	<u>Target</u>
"Core+" Fixed Income	LB Intermediate Aggregate	Exceed by 0.35% Net of Investment Manager Fees
High Yield Fixed Income	LB High Yield	Exceed by 0.75% Net of Investment Manager Fees

- Relative to other professionally managed accounts (Trailing 3-year basis and two most recent quarters individually):

<u>Section</u>	<u>GRID® Universe</u>	<u>Target</u>
"Core+" Fixed Income	Total Fund "Core+" Fixed Income	Rank in top 50%

APPENDIX III: VALUATION AND DISTRIBUTION MATTERS, ACCEPTANCE OF DEPOSITS, PERMITTED WITHDRAWALS

Selection of Valuation Dates

The Funds will be valued on the following dates of each year: March 31, June 30, September 30 and December 31. Calculation of numbers of units in either the Unified Account or the Fixed Fund will be rounded to four decimal places.

Distributions

Distributions from the Unified Account will be between 2% - 7% of the average unit value over the past 12 quarters as determined by the Board as of the end of each calendar year. This value will be distributed on a pro rata basis to the unit holders as of the last day of each calendar quarter (March 31, June 30, September 30, December 31). This average unit value is net of broker fees and commissions, investment advisor fees, administrative service charges and bank charges.

The Fixed Fund will distribute the interest and dividends earned by the fund net of broker fees, commissions, investment professionals' fees, administrative service charges and bank charges on a pro rata basis to the unit holders as of the last day of each calendar quarter (March 31, June 30, September 30, December 31).

Acceptance of Deposits

Deposits will be accepted from time to time subject to the following rules:

- A. Only cash and marketable income producing securities will be received into the Funds. (Subject to the approval of the Board, other assets may be received by the Foundation and held outside the Funds until liquidated for investment into the Fund(s).)
- B. Assets received into the Funds will buy units at the next valuation date on the basis of net cash received or realized upon conversion of other assets received.
- C. Deposits will be assigned units in the respective Fund at the unit value of the next valuation date. However, units will not be considered to be purchased until the day following valuation. Units will be assigned to a deposit by dividing the fair market value of the deposit by the unit value.
- D. Deposits will not earn short-term interest or any other return from the date of receipt until units are purchased at the next valuation date of the respective Fund.

Permitted Withdrawals

Withdrawals will be permitted from time to time subject to the following rules:

- A. At the option of the Foundation, a minimum of 30 days notice will be required for all withdrawals of principal.
- B. Withdrawals will only be permitted at quarterly valuation dates.
- C. Units assigned to withdrawals will be determined by dividing the amount of withdrawal by the unit value on the valuation date of the withdrawal.