# ERIE COMMUNITY FOUNDATION

# STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES

# MAY 2013

## I. INTRODUCTION

The Investment Policy Statement was adopted by the Board of Trustees of the Erie Community Foundation (the Foundation) to ensure prudent investment of the pooled endowment "the Pool" in a manner consistent with the objectives stated herein. This Investment Policy Statement shall be used by the Investment Committee in its duty to oversee the investment portfolio. The policies and guidelines herein will be reviewed annually to ensure continued appropriateness.

## II. INVESTMENT OBJECTIVES:

The overall **financial objectives** of the Pool are (1) to support current and future programming and grant-making of the Erie Community Foundation and (2) to preserve the purchasing power of the Pool.

The primary **investment objective** of the Pool is to attain a return net of investment fees, spending and other expenses of 5% above the rate of inflation over a full market cycle (generally defined as a five-year period). Although the real return objective may not be met in every five-year period, it is nonetheless an attainable objective over time.

The spending policy is designed to ensure that the real value of the Portfolio is maintained over time. The amount to be spent in the coming year is estimated each December 31st and reviewed and approved by the Investment Committee annually. Annual spending is comprised of two components:

1. Target spending rate at 4% of generally a 20-quarter rolling average of market value, adjusted to reflect material net cash flows.
2. Annual administrative costs.

## III. ROLES AND RESPONSIBILITIES

A. Board of Trustees (the Board)
   - Approve the Investment Policy Statement.
   - Approve hiring and firing of Advisors based on recommendation of the Investment Committee.
   - Delegate responsibility for implementation of the portfolio to the Investment Committee.

B. Investment Committee (the Committee)
   - Execute fiduciary responsibility to monitor the portfolio.
   - Set asset allocation policy.
   - Approve recommendations related to the investment of funds and on other financial questions; Committee Chairman and Vice Chairman have the authority to direct recommendations, with support of the Committee, between scheduled meetings or conference calls.
   - Conduct annual review of the Investment Policy Statement.
   - Conduct annual review of Investment Advisor to ensure they are providing world class advice to the Foundation. Recommend hiring or firing of Investment Advisor to the Board.
   - Direct investments, trades, transfers and other transactions, within and among the Investment Managers.
   - Report at least annually to the Board a summary of assets over which the Committee has authority and/or oversight. Such reporting should include 1) recent fair market value of major classes of

assets and in total; 2) change in fair market value compared to prior periods previously presented; 3) overall investment returns (net of fees); 4) total fees to manage and maintain the invested assets and major components thereof; and 5) total additions and withdrawal of funds for any recent period(s) presented.

C. Staff

- Day-to-day oversight of the portfolio and the implementation of any changes approved by the Committee.
- Reallocate assets among approved managers and funds in accordance with the policy targets, ranges, and rebalancing policies specified herein.
- Review and execute investment management agreements and related investment guidelines.
- Maintain appropriate fund accounting.
- Monitor existing relationships with managers, the Investment Consultant and the custodian.

D. Investment Advisor/Consultant

- Communicate and consult with the Committee on matters relating to the investment portfolio, e.g., via regular Committee meetings, conference calls, and written communications.
- Advise the Committee with respect to asset allocation, asset classes and managers.
- Report on developments that have had or may have a material effect on portfolio performance.
- Periodic review of investment policies and objectives.
- Measure and evaluate the overall portfolio and investment manager performance.
- Deliver regular performance reports to the Foundation.
- Provide updates on asset allocation, performance and liquidity to the Committee.

E. Investment Managers

- Selection of specific portfolio holdings in accordance with the portfolio's investment policy and manager-specific guidelines. Vote proxies on behalf of the Portfolio.
- Notify the Staff and Advisor as soon as practical of (1) discovery of material malfeasance by any portfolio manager or senior ranking employee associated with the Foundation relationship; (2) any material disciplinary action by any regulatory authority; (3) a material change in portfolio managers, analysts, or ownership control of the manager; (4) any violation of investment guidelines; (5) new developments or circumstances that warrant a change in the investment guidelines.
- Provide timely reporting of monthly and quarterly results, values and attribution.

F. Custodian

- Communicate with managers relating to trading and settlement of trades; overall safekeeping of assets and fund accounting.
- Collection of income.
- Communicate any concerns regarding portfolio transactions or valuation, or material changes in trustee personnel/procedures.

## IV. INVESTMENT GUIDELINES:

In determining suitable investments for the Pool, the Investment Committee will periodically assess the full scope of the Foundation's financial holdings and obligations to evaluate the extent to which the overall financial position seems reasonably consistent with the organization's objectives and risk tolerance. The asset allocation parameters outlined below will be the primary mechanism by which the Committee will adjust the risk exposures in the Pool. Assets held outside of the Pool will be governed by their own set of guidelines as detailed in the appendix.

| Asset Class: | Long-Term Policy Target (%) | Range (%) | Specified Asset Class Benchmark Indices |
|---|---|---|---|
| Global Equity | 49 | 44 - 54 | MSCI All Country World Index |
| Private Equity | 9 | 4 - 14 | Russell 3000 Index |
| Diversifying Assets | 16 | 11 - 21 | HFR Fund of Funds Diversified Index |
| Real Assets | 12 | 7 - 17 | 33% DJ UBS Commodity Index, 33% FTSE EPRA/NAREIT Developed Real Estate Index, 33% MSCI World Natural Resources Index |
| Fixed Income | 14 | 9 - 19 | Barclays Government/Credit Bond Index |

The Pool's investments shall also be diversified within asset classes and by manager. The purpose of this diversification is to provide reasonable assurance that no class of securities, manager or individual holding will have a disproportionate effect on the Pool's aggregate results. To achieve its long-term investment objective, the Pool's assets shall be invested primarily in equities, but will also include allocations to asset classes that serve to offset the effects of inflation and deflation and provide enhanced diversification. The overall portfolio shall be well diversified. Unless approved by the Committee, single active managers will be limited to a maximum position size of 10% of the total Pool and aggregate fund family exposure will be capped at 35% of the total Pool.

In order to accomplish the investment goals, portfolio investments must be diversified to seek the real return objective at a tolerable level of risk. The following types of assets are among those approved for investment:

> **Global Equities.** This is comprised of equity investments in U.S. and non-U.S. companies, including emerging and frontier markets. With a primary objective of providing for the long-term growth of the portfolio, this asset class comprises the largest portion of the portfolio. The portfolio will be diversified by country, economic sector and market capitalization. Exposure can be achieved through the employment of investment managers or through passive investments in index funds.
>
> The Global Equity portfolio may include investments in non-marketable securities, including venture capital and buyout investments. These securities are included for return enhancement and are expected to outperform traditional equity investments over the long term. Given the illiquidity and higher risk of these investments, this portion of the portfolio will primarily be implemented through funds of funds, providing diversification by both manager and vintage year. Direct private equity investments will be considered on an opportunistic basis. Liquidity will be considered in the context of the overall portfolio.
>
> **Diversifying Assets.** The purpose of Diversifying Assets is to reduce the return volatility of the overall portfolio while generating long-term returns between Global Equity investments and Fixed Income investments. The Diversifying Assets investments will be diversified by manager and strategy, and shall be implemented through funds of funds or individual managers. In general, the Portfolio will be comprised of funds with high levels of transparency, reasonable liquidity and little portfolio leverage.
>
> **Real Assets Investments.** The primary objective of the Real Assets investments is to support the portfolio during periods of unexpected high inflation, while maintaining a similar long-term return profile to that of the Global Equity portfolio. Investments in the portfolio may include U.S. and non-U.S. public and private real estate, natural resource equities, commodities and commodity futures (including public and private energy investments).
>
> While real estate, commodities and commodity futures generally perform well during periods of unexpected inflation, none of these are a perfect hedge against inflation and there can be no guarantee that these investments will perform as desired. However, the portfolio will be well diversified among these types of investments and should therefore perform relatively well across a range of different market environments.
>
> **Fixed Income.** The principal purpose of the Fixed Income investments is to reduce risk by reducing the overall volatility of returns. Components of this part of the portfolio may also serve as a partial hedge

against periods of prolonged economic contraction associated with poorly performing equity investments in the case of nominal bonds.

The majority of the Fixed Income portfolio shall be comprised of intermediate-term and long-term investment-grade government and corporate securities, as these securities typically outperform other fixed income securities in an economic contraction or a flight to quality associated with a short-term economic shock.

Investments in each of these asset classes can be implemented through separately managed accounts or commingled vehicles (e.g., institutional-class mutual funds, non-marketable partnerships). The appendix contains specific investment guidelines for separately managed accounts. Assets managed in a commingled vehicle are subject to the investment guidelines outlined in the prospectus.

The liquidity profile of the overall portfolio will be closely monitored. A minimum of three years of expected spending plus outstanding capital commitments to private investments should be easily accessible within a three-month period. The Global Equity investments and Real Assets investments include a venture capital/buyout portfolio and private real estate portfolio comprised of illiquid partnerships with lives of 7-12 years. The Diversifying Assets portfolio will typically be comprised of partnerships with lock-ups of 1-3 years. After these lock-ups have expired, the Foundation may withdraw its assets on a monthly or quarterly basis. The Fixed Income portfolio will be comprised entirely of highly liquid securities.

Derivatives may be used by asset managers or directly as a risk reduction tool or in situations where they offer a more practical or lower cost alternative to cash instruments. They may not be used for speculative purposes or to facilitate highly leveraged investments.

Leverage is a complex factor whose risk cannot be adequately captured in a single number. Individual managers may use leverage consistent with their risk controls and strategy; however the Pool shall not extend beyond the dollar amount placed with the manager. Leverage is not permitted at the total fund level.

## V. ONGOING MONITORING

The Committee will monitor the Pool’s performance. On a quarterly basis the investment advisor/consultant will prepare a report detailing performance compared to relevant market benchmarks. The investment advisors/consultant will also provide commentary on the market environment and the specific portfolio investments in various asset categories.

Two primary benchmarks will be employed.

1. The **“policy”** benchmark will reflect the long-term target weights and associated long-term asset class benchmarks specified in the investment guidelines.

2. The **“complex”** benchmark will reflect the portfolio’s actual manager weights and associated manager benchmarks.

From time to time, the Committee may change benchmarks to more accurately reflect the Pool’s policies and actual investments.

The ultimate measure of success for the Pool is the total return relative to the investment objective of 5% over the rate of inflation over a full market cycle. While short-term performance will likely deviate substantially from this return objective due to the volatility of capital market returns, the portfolio is expected to meet this objective over most long-term periods (i.e., rolling five-year periods). As an additional objective, performance will also be compared to the performance of similar sized peer institutions.

The performance of each of the four asset classes will be measured against asset class-specific benchmarks, with expectations specific to each asset class.

The investment managers will be monitored on a continual basis for consistency in each manager's investment philosophy and return relative to a manager-specific benchmark. Portfolio information will be reviewed by the Committee on a quarterly basis, but results will be evaluated over longer-term rolling five-year periods. However, the Committee will review managers regularly in order to confirm that the factors underlying performance expectations remain in place.

The Committee has adopted a three-part rebalancing policy:

1. **Cash Flow Rebalancing**: whenever there is to be a contribution to, or withdrawal from, the Pool, staff will review the relative market values of the asset class segments and attempt to place/withdraw the new money such that the target asset allocations are maintained.

2. **Performance Based Rebalancing**: to the extent that adequate rebalancing among asset categories cannot be effected via cash flows, the staff will redirect monies from one manager to another to maintain the target ranges in this policy.

3. **Range Rebalancing**: if an allocation is outside of the allowable range, rebalancing to target will be required.

# APPENDIX

**ADDENDUM A**

AREA INVESTMENT MANAGERS INVESTMENT ADVISORY POLICY

Investment Advisor Responsibilities

All assets of The Erie Community Foundation (the "Foundation") placed with an Investment Advisor (i.e., an entity or organization with which the Foundation places its assets for investment purposes) remain at all times the exclusive property of the Foundation. Subject to the guidelines set forth in this Policy, all investment decisions must be made by the Foundation.

- Investment performance will be measured by the Foundation's investment consultant and reviewed quarterly by its staff and Investment Committee. The Foundation may replace an Investment Advisor at any time for any reason. Examples include performance which does not meet or exceed established benchmarks after notice and a reasonable opportunity to cure a deficiency in investment performance, excessive fees, or deviation from the terms of this Policy.

- Only authorized officers of the Foundation may request distributions from the investment account held by the Investment Advisor. All distributions must be made directly to the Foundation.

The historical performance of the Foundation's Investment Advisors will be maintained and reported to donors, charities, and the public as part of the Foundation's open communication practices.

The Investment Advisor and its employed investment managers will be held to the highest professional and ethical standards. The Investment Advisor must monitor the performance of its investment managers, who are involved in its relationship with the Foundation, to assure adherence to these standards. The Investment Advisor acknowledges that it will be required to conduct its activities in a manner that is consistent with the following:

1. Adherence to prudent investor guidelines and fiduciary standards widely used in the investment management industry is required. Investment responsibilities must be carried out in a manner that always promotes the best interests of the Foundation.

2. Monthly written reports in form and content approved by the Foundation, including portfolio activities and expected changes in the portfolio make-up or value, must be furnished to the Foundation by the 8th day of the following month (See Reporting Requirements below).

3. Representatives of the Investment Advisor will be expected to attend meetings with the Foundation's consultant, staff, or Investment Committee, as needed.

4. The Investment Advisor will be expected to adhere to the investment strategy agreed upon during the approval process, or as modified by the Foundation and the Investment Advisor in writing from time to time.

5. The Investment Advisor will be expected to execute all transactions in the best interests of the Foundation, including procurement of the best net realized price for the purchase or sale of a security. Research and other services are expected to be included in the basic fee arrangement between the Foundation and the Investment Advisor.

6. Except as set forth in this paragraph, investments of the Foundation handled by the Investment Advisor will be "pooled" into a single account, regardless of the number of separate managers employed by the Investment Manager who share responsibilities for that account.

7. The Investment Advisor will be expected to promptly communicate all pertinent information to the Foundation regarding investments overseen by the Investment Advisor. Communications must include, but are not limited to:

- Changes in the Investment Advisor's personnel involved in the relationship with the Foundation
- Changes in ownership of the Investment Advisor
- Changes in the responsibilities of personnel involved in the relationship with the Foundation
- Proposed changes in investment style or process
- Proposed changes to the fee structure of the investment program

8. Any findings against the Investment Advisor or its principals, either by the SEC or any other regulatory authority, must be immediately reported to the Foundation. In addition, any litigation initiated against the Investment Advisor or its principals related to the firm's business activities should also be immediately reported to the Foundation.

<u>Reporting Requirements</u>

The Investment Advisor agrees to the following reporting requirements:

- Monthly reports in form and content satisfactory to the Foundation
- A single 12-month cumulative report at year end for the "pooled" investment fund, as well as similar reports for any "non-pooled" funds permitted by this Policy
- Monthly cost basis of all investments
- Summary of monthly activities including:
    - Management fees, commissions, or other charges
    - Performance, net of fees, against benchmark(s) identified by the Foundation
    - Transaction costs (if any)
    - Addition/withdrawal activity in the account
    - Realized gains and losses
    - Unrealized gains and losses
    - Interest/dividend income
    - Total market value of the portfolio
    - Total cost basis of the portfolio

<u>Asset Allocation</u>

The Investment Advisor will be provided with a copy of the Foundation's Investment Policy, as it may be amended from time to time by the Foundation. The Investment Advisor will be expected to adhere to that policy, as it may be modified by the Foundation and the Investment Advisor in writing from time to time.
The Investment Advisor may not initiate alternative asset strategies without the advance written approval of the Foundation's Investment Committee. Permitted asset allocation ranges are shown below. By maintaining the Foundation's portfolio within these permitted ranges, the Investment Advisor will be deemed to have complied with the Foundation's asset allocation requirements.

| | | | Min | Target | Max |
|---|---|---|---|---|---|
| ***GLOBAL EQUITY*** | | | ***50%*** | ***75%*** | ***80%*** |
| ***Public*** | | | | | |
| | ***US Equities*** | | *30%* | ***49%*** | *60%* |
| | *Substyles may include:* | *Large Cap Equities* | *25%* | *35%* | *50%* |
| | | *Mid Cap Equities* | *5%* | *7%* | *15%* |
| | | *Small Cap Equities* | *5%* | *7%* | *15%* |
| | | *Equity Substitutes (i.e., publicly traded REITs)* | | | |
| | ***International Equities*** | | *10%* | ***26.0%*** | *30%* |
| | | *Developed International Markets* | *10%* | *12%* | *20%* |
| | | *International Small Cap* | *5%* | *7%* | *15%* |
| | | *Emerging Market Equities* | *5%* | *7%* | *15%* |
| ***GLOBAL FIXED INCOME*** | | | *20%* | ***25.0%*** | *50%* |
| | *Substyles may include:* | *Core Fixed Income* | *20%* | *25%* | *50%* |
| | | *Treasury Inflation Protected Securities* | *0%* | | *10%* |
| | | *High Yield* | *0%* | | *10%* |
| | | *Emerging Market Debt* | *0%* | | *10%* |
| | | *International Fixed Income* | *0%* | | *10%* |

Benchmarking

A primary benchmark will be employed to measure the results of the portfolio.

1. The **"policy"** benchmark will reflect the target weights and associated long-term asset class benchmarks. Current benchmarks are: US Equities – Wilshire 5000; International Equities – MSCI ACWI ex US; Global Fixed Income – Barclays Aggregate

From time to time, benchmarks may be changed to more accurately reflect the portfolio's policies and actual investments.

Rebalancing

At the beginning of each calendar year, the Foundation will advise the Investment Advisor of the Foundation's anticipated quarterly withdrawal requirements, which shall be remitted to the Foundation at the end of each quarter. Withdrawals should be utilized as an opportunity to rebalance the Foundation's investment portfolio if necessary.

Investment-Related Fees

The Foundation reserves the right to evaluate investment fees for the Investment Advisor in light of actual advisory services, investment vehicles employed, custody charges, and trading costs in an effort to assure that fees are reasonable and consistent with industry standards.  On an annual basis, the Investment Advisor will present to the Investment Committee a detailed report of all fees, commissions, and other charges related to the investments under management.

**ADDENDUM B**

NON-POOLED INVESTMENT ACCOUNT POLICY

Guidelines for Separate Non-Pooled Investment Account

If the Investment Advisor produces a donor who establishes a fund at the Foundation of $250,000 or more, that fund may be segregated and administered as a separate investment pool at the request of the donor.

Investment Advisor Responsibilities

All assets of The Erie Community Foundation (the "Foundation") placed with an Investment Advisor (i.e., an entity or organization with which the Foundations places its assets for investment purposes) remain at all times the exclusive property of the Foundation. Subject to the guidelines set forth in this Policy, all investment decisions must be made by the Foundation.

- Investment performance will be measured by the Foundation's investment consultant and reviewed quarterly by its staff and Investment Committee. The Foundation may replace an Investment Advisor at any time for any reason. Examples include performance which does not meet or exceed established benchmarks after notice and a reasonable opportunity to cure a deficiency in investment performance, excessive fees, or deviation from the terms of this Policy.

- Only authorized officers of the Foundation may request distributions from the investment account held by the Investment Advisor. All distributions must be made directly to the Foundation.

The historical performance of the Foundation's Investment Advisors will be maintained and reported to donors, charities, and the public as part of the Foundation's open communication practices.

The Investment Advisor and its employed investment managers will be held to the highest professional and ethical standards. The Investment Advisor must monitor the performance of its investment managers, who are involved in its relationship with the Foundation, to assure adherence to these standards. The Investment Advisor acknowledges that it will be required to conduct its activities in a manner that is consistent with the following:

1. Adherence to prudent investor guidelines and fiduciary standards widely used in the investment management industry is required. Investment responsibilities must be carried out in a manner that always promotes the best interests of the Foundation.

2. Monthly written reports in form and content approved by the Foundation, including portfolio activities and expected changes in the portfolio make-up or value, must be furnished to the Foundation by the 8th day of the following month (See Reporting Requirements below).

3. Representatives of the Investment Advisor will be expected to attend meetings with the Foundation's consultant, staff, or Investment Committee, as needed.

4. The Investment Advisor will be expected to adhere to the investment strategy agreed upon during the approval process, or as modified by the Foundation and the Investment Advisor in writing from time to time.

5. The Investment Advisor will be expected to execute all transactions in the best interests of the Foundation, including procurement of the best net realized price for the purchase or sale of a security. Research and other services are expected to be included in the basic fee arrangement between the Foundation and the Investment Advisor.

6. Investment strategies applicable to the separate "non-pooled" fund shall be governed by the fund agreement between the Foundation and the donor. The fund agreement will cover any modifications or changes to the

overall policy, specifically changes to the financial objectives, investment objectives or asset allocation policy. Unless approved by the Committee, non-pooled funds will conform with the asset allocation and benchmarks detailed in the Area Investment Managers Advisory Policy.

7. The Investment Advisor will be expected to promptly communicate all pertinent information to the Foundation regarding investments overseen by the Investment Advisor. Communications must include, but are not limited to:

    - Changes in the Investment Advisor's personnel involved in the relationship with the Foundation
    - Changes in ownership of the Investment Advisor
    - Changes in the responsibilities of personnel involved in the relationship with the Foundation
    - Proposed changes in investment style or process
    - Proposed changes to the fee structure of the investment program

8. Any findings against the Investment Advisor or its principals, either by the SEC or any other regulatory authority, must be immediately reported to the Foundation. In addition, any litigation initiated against the Investment Advisor or its principals related to the firm's business activities should also be immediately reported to the Foundation.

Reporting Requirements

The Investment Advisor agrees to the following reporting requirements:

- Monthly reports in form and content satisfactory to the Foundation
- A single 12-month cumulative report at year end for the "pooled" investment fund, as well as similar reports for any "non-pooled" funds permitted by this Policy
- Monthly cost basis of all investments
- Summary of monthly activities including:
    - Management fees, commissions, or other charges
    - Performance, net of fees, against benchmark(s) identified by the Foundation
    - Transaction costs (if any)
    - Addition/withdrawal activity in the account
    - Realized gains and losses
    - Unrealized gains and losses
    - Interest/dividend income
    - Total market value of the portfolio
    - Total cost basis of the portfolio

Asset Allocation

The Investment Advisor will be provided with a copy of the Foundation's Investment Policy, as it may be amended from time to time by the Foundation. The Investment Advisor may not initiate alternative asset strategies without the advance written approval of the Foundation's Investment Committee.

Investment-Related Fees

The Foundation reserves the right to evaluate investment fees for the Investment Advisor in light of actual advisory services, investment vehicles employed, custody charges, and trading costs in an effort to assure that fees are reasonable and consistent with industry standards. On an annual basis, the Investment Advisor will present to the Investment Committee a detailed report of all fees, commissions, and other charges related to the investments under management.

**ADDENDUM C**

SOCIALLY RESPONSIBLE INVESTMENT POLICY

I. INTRODUCTION

The Foundation's SRI Principles will be implemented in the context of the Foundation's overall Investment Objectives and Long-Term Asset Allocation. Investment strategy will be governed by the fund agreement between the Foundation and the donor. Unless approved by the Committee, non-pooled funds will conform with the asset allocation and benchmarks detailed in the Area Investment Managers Advisory Policy. The fund agreement will cover any modifications or changes to the overall policy, specifically changes to the financial objectives, investment objectives or asset allocation policy. The Investment Committee will assess the full scope of the Foundation's financial holdings and obligations to evaluate the extent to which the overall financial position seems reasonably consistent with the organization's objectives and risk tolerance.

II. SRI INVESTMENT GUIDELINES:

The portfolio's investments shall be diversified within asset classes and by manager. The purpose of this diversification is to provide reasonable assurance that no class of securities, manager or individual holding will have a disproportionate effect on the portfolio's aggregate results. To achieve its long-term investment objective, the portfolio's assets shall be invested primarily in equities, but will also include allocations to asset classes that serve to offset the effects of inflation and deflation and provide enhanced diversification. It may be appropriate to seek non-traditional strategies, particularly managers that employ Environmental, Social and Governance (ESG) characteristics to implement this policy.

It is not anticipated nor expected that SRI investing will adversely impact the performance of the portfolio. The Committee recognizes that there are tangible benefits to environmental stewardship, positive corporate action, and positive employee relations. The Committee further recognizes that it is difficult to dictate specific instruction to a mutual fund and these guidelines are just that, guidelines. Investment managers should seek to adhere to the spirit of these policies.

Efforts to mitigate environmental degradation, address issues of social justice and promote healthy communities should be incorporated as part of business and investment decision making. In light of the social, environmental and economic challenges of our time, fiduciary responsibility in the coming decades will dictate the integration of prudent financial management practices with principles of environmental stewardship, concern for community, and corporate accountability to shareholders and stakeholders alike.

The following are socially responsible considerations that we expect managers to consider.

A. Investments should not be made in any company which is a developer or a manufacturer of products in the general category of weaponry, including chemical and biological warfare, nuclear weapons systems, anti-personnel weapons, small arms and goods for the automated battlefield.

B. Investments in other companies deriving revenue from military contacts should be considered individually to determine the attitude of management to military contracts, their total amount and the percentage of sales they represent, the type of materials and services contracted for, and the direction of the company toward increasing or decreasing military involvement. Investments in companies among the top 100 defense contractors should be scrutinized with particular care.

C. Investments should be avoided in companies primarily involved in products or services of limited or questionable social value, such as intoxicants, tobacco, some luxury items or land speculation.

D. In judging investments, consideration should be given as to whether companies have a superior rather than an inferior record within their industry in areas such as the following:

i. Environmental, conservation and pollution problems.
ii. Hiring and personnel practices.
iii. Health and safety of workers.
iv. General business practices, including advertising and financial practices.
v. Disclosure to their stockholders of information on business and social responsibility practices.
vi. Natural resource companies' recognition of the rights and cultures of native peoples.
vii. Relations with unions and with worker-organizing committees.

E. Because of differences in culture and values, it is exceedingly difficult to make judgments about companies with international operations. Further study will be required to determine ways of measuring whether the foreign operation of a corporation: (1) benefits the host country; (2) is consistent with the local culture and fosters human dignity; (3) avoids unnecessary depletion of resources of the host country; and (4) is sensitive to the aspirations of that country. Absolute size of the operation relative to the host country will be a factor.

**ADDENDUM D**

# FIDUCIARY MANAGEMENT, INC.
# INVESTMENT POLICY GUIDELINES
Large Capitalization Equity Portfolio

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**1. Investment Objective:**

- The objective of Fiduciary Management, Inc. (“the manager”) is to buy good businesses at value prices in order to achieve solid investment results over a full market cycle.

**2. Portfolio Guidelines:**

- The manager is permitted to invest this account in the marketable common stocks of corporations that are traded on a recognized U.S. Exchange.

- Up to 30% of the portfolio may be invested in international common stocks. These investments will typically be made in American Depository Receipts (ADR’s) that are traded on a recognized U.S. Exchange. If the ADR does not have sufficient liquidity, the manager might invest in the common stock of a company that is traded on a recognized non-U.S. Exchange.

- The portfolio will typically hold 20-30 companies in the mid- to large-capitalization sector. As a general guideline, no single issuer shall exceed 8% of the portfolio.

- The manager will rely upon the portfolio custodian for the investment of cash reserves. The cash investments should be of institutional quality and marketability with maturities of less than one year.

**3. Performance Objective:**

- Over a full market cycle (typically three-five years), the portfolio’s return should exceed that of the S&P 500 Index.

**4. Reporting:**

- The manager will provide a quarterly report with a performance summary, list of portfolio holdings, and commentary. Review meetings with the client will be scheduled at least annually or as agreed upon with the client.

**No amendment or change to these Investment Policy Guidelines will be effective or binding on either party unless agreed to in writing by both parties.**

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**Account Name:**

| | |
|---|---|
| **Fiduciary Management, Inc.** | **{Client Name}** |
| ______________________ | ______________________ |
| **Signature** | **Signature** |
| ______________________ | ______________________ |
| Print Name and Title | Print Name and Title |

| | |
|---|---|
| **Signature** | **Signature** |
| Date | Print Name and Title |
| | Date |