**COMMUNITY FOUNDATION OF NORTH TEXAS**
**INVESTMENT POLICY STATEMENT**
**Approved by:**

**Investment Committee November 11, 2015**
**Board of Directors November 19, 2015**

# I. Purpose

The purpose of this Investment Policy Statement ("the IPS") is to create guidelines for the investments of funds for the Community Foundation of North Texas ("CFNTX" or "the Foundation"). This IPS addresses the investment of endowed and non-endowed funds of the Foundation including investments of working capital funds, donor advised assets. The IPS presents investment objectives, asset allocations, restrictions on investments, and procedures to carry out the policy.

# II. Guiding Principles

The guiding principles of the investment program of the Foundation are:

- to preserve and expand the assets of the Foundation,
- to provide flexibility to meet the varying needs of our donors in terms of investment style and liquidity, and
- to balance the competing needs of current payout and maintaining the value of the assets in real terms – often referred to as a required return – with the desire to grow assets beyond required returns.

Additionally, the investment policy will be guided by the principles of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and all applicable federal and state law, rules and regulations.

To achieve these principles, the Foundation assets will be allocated among a number of asset classes in pools of varying allocations based on an evaluation of the investment objectives and acceptable risk levels of each pool. These asset classes may include: cash and cash equivalents, equity, fixed income, and alternative investments.

# III. Delegation of Authority and Responsibilities

**Board of Directors**

The Board of Directors of the CFNTX ("the Board") shall have final responsibility for ensuring the prudent investment and management of assets held by the Foundation. The Board shall have the authority to approve or reject the IPS developed by the Investment Committee of the CFNTX ("IC" or "the Committee"). Once the IPS has been approved by the Board, the Board authorizes the Committee to perform necessary work to implement the IPS.

Specific responsibilities

A. Receive an annual performance report for assets managed under this IPS.
B. At least annually or as reasonably soon thereafter (not to exceed 15 months), the Board will review the IPS.

**Investment Committee**

The Investment Committee is responsible for the development and implementation of the IPS. This responsibility includes determining investment objectives, selecting third parties to implement any part of the IPS and establishing the scope and terms of the delegation, and monitoring any third party in their performance and compliance within the scope and terms of the delegation.

*Specific responsibilities:*

A. Submit an IPS approved by the Committee for vote by the Board. Accept any changes from the Board approved IPS.
B. Review IPS annually in its entirety. During this review, establish that the IPS is being implemented as written.
C. Establish asset allocation targets and ranges for long term portfolio, balanced portfolio, and short term portfolio. Evaluate the need to establish new pools when appropriate.
D. Establishing procedures for monitoring the investment performance, including appropriate benchmarks.
E. Monitor investment expenses and evaluate reasonableness of expenses based on peers, intricacy of investment management being performed, and performance after fee adequacy.
F. Evaluate non-cash assets held outside pools at the time of donation and continue evaluation during the holding period, performing evaluation at least annually on each individual holding. See Section IV below for further discussion on non-cash assets held outside pools.
G. Evaluate agency assets held outside pools, performing an evaluation at least annually on the overall agency portfolio held outside pools. See Section IV below for further discussion on non-cash assets held outside pools.
H. Disclose any self-interest related to any transaction being contemplated by the Committee or where the Committee's actions or inaction would case a benefit to accrue directly or indirectly to the affected party. Any instance of self-interest, either actual or implied, will exclude the party from participating in a vote on the matter unless a majority of the Committee votes that the self-interest is not material or significant.
I. Implement the IPS or delegate the implementation of the IPS to a third party.
J. For any responsibilities delegated, establish procedures to evaluate and monitor performance of the responsibilities delegated.
K. Review investment performance at least quarterly.
L. If the Committee does not retain an Investment Consultant, the responsibilities assigned to the Investment Consultant will be the responsibility of the Committee.

**Officers and Staff**
As it relates to implementation of the IPS, appropriate Officers and Staff shall assist the Committee in any duty. This includes signing all appropriate contracts, opening appropriate accounts, and working with any third party designated by the Committee or Board to assist the Foundation in performing investment activity when in compliance with this policy.

**Investment Consultant**
The Committee may utilize an Investment Consultant to advise and assist the committee in the discharge of its duties and responsibilities.

*Specific responsibilities of the Investment Consultant:*

A. Select, retain, and terminate Investment Managers as necessary to implement the IPS.
B. Provide quarterly reporting on the various assets pools established by the IPS on an absolute and relative basis, using appropriate benchmarks.
C. Regularly review and monitor the activities of Investment Managers for compliance with the IPS and to establish the Investment Manager is executing the mandate they were hired to perform. Report any deviations to the Committee and take appropriate action if necessary.
D. Provide education and manager information for the Committee.
E. Help the Committee evaluate compliance with the IPS.
F. Know and comply with the IPS. Help identify policies that may have an adverse impact on performance, and initiate discussion with the Committee of these findings.
G. Perform rebalancing activities to maintain allocations within the defined ranges.
H. Review investments monthly to ensure policy guidelines continue to be met.
I. Provide a complete accounting of transactions to the staff at least quarterly and perform a reconciliation of this activity from beginning of the period to the end of the period for each asset class.
J. The Consultant shall supervise and direct the investment of the Fund as specified in this Policy Statement. Supervision is continuous, with limited discretion. Limited discretion means that the Consultant is responsible for assessing the appropriateness of asset allocation strategies but does not have discretion to change the strategy without the Committee’s approval. The Consultant has discretion and is required to rebalance the Fund to maintain the asset allocation using the methodology approved by the Consultant's Investment Committee. The Consultant also has discretion to change managers as required by the Due Diligence Policy described in this Policy Statement.

**Custodian**
Custodians are responsible for the safekeeping of the Foundation's assets. The specific duties and responsibilities of the custodian are:

A. Value the holdings,
B. collect all income and dividends owed to the portfolio,
C. settle all transactions (buy-sell orders), and
D. provide statements of activity at least quarterly or as requested.

**Investment Manager**
Investment managers are responsible for investing assets in the strategy based on the mandate provided by the Committee or a designated Investment Consultant. Investment Managers will respond to reasonable request for information related to their investment strategy and performance.

## IV. Investment Philosophy

The Community Foundation will construct and maintain investment pools to meet the varying needs of funds as well as donors. The pools will provide variety in terms of asset allocation, liquidity, and managers so that the needs of various funds may be met by choosing among the pools. The number and structure of pools should be sufficient to meet varied needs, yet not overly burdensome to Community Foundation staff. The list of pools, along with a description, allocation targets and ranges, and liquidity terms are shown in Appendix B.

**Non-cash assets held outside pools**
When the Foundation receives non-cash assets from donors, circumstances may arise in which the Foundation chooses to hold the assets given to it by a donor rather than selling and placing the asset in one of the pre-approved pools. In these cases, the Committee shall make the initial decision to hold the asset by considering: a) the purpose of the fund b) the nature of the asset and c) the preferences of the donor. The Committee shall review and specifically confirm a decision to hold assets outside the investment pools no less than annually. In all cases, the Investment Committee and the Board of Directors reserve the right to evaluate and make changes as needed without taking into consideration the preferences of the donors if, in its assessment of risk and return, holding assets for a specific fund is not in the best interests of the Foundation as a whole.

**Agency Funds**
From time to time, the Foundation receives funds from a non-profit for endowment or reserve stewardship services provided by the Foundation. Generally, these assets will be held in a Foundation defined pool. These assets are the fiduciary responsibility of the Foundation; however, the non-profit may submit investment recommendations to the Foundation. These investment recommendations will be considered by the Committee for suitability on a case-by-case basis and consider the overall portfolio of the non-profit held at the Foundation. The Committee shall review and specifically confirm a decision to maintain the investment recommendations from the non-profit no less than annually.

## V. Investment Objectives

The Foundation’s investment approach is aligned with the grant making timelines of the charitable funds offered by the Foundation. The Foundation has three defined portfolios or pools: The Long Term Portfolio, The Balanced Allocation Portfolio and The Short Term Portfolio.

**Long Term Portfolio**

The investment objective of the Long Term Portfolio is to assure a long-term rate of growth sufficient to offset normal inflation, administrative fees, and investment fees plus regular distributions in perpetuity in accordance with the Foundation’s defined spending rate.

The Long Term Portfolio consists of the following types of funds:

- Endowed funds;
- Non-endowed funds that act like endowed funds i.e. quasi-endowed funds; and
- Other non-endowed funds as approved by the Committee and with donor acknowledgement of risk.

**Balanced Allocation Portfolio**

The primary investment objective of the Balanced Allocation Portfolio is to provide a less volatile return option. This portfolio may experience some reduction of purchasing power over time due to inflation. This Fund is generally appropriate for funds that require minimal, or no nominal growth (before inflation) after payouts, or funds that have a time horizon that is between five and ten years.

**Short Term Portfolio**

The Short Term Portfolio is intended for non-endowed funds with predictable grant making over a period of greater than three years. The investment objective of the Short Term Portfolio is to provide payouts with moderate year to year volatility. The Portfolio will most likely experience moderate fluctuations to principal and may experience some reduction of purchasing power over time due to inflation.

# VI. Spending Policy for Endowment Funds

The spending policy for endowment funds should be considered in setting investment strategies for endowment fund assets. The endowment funds seek to earn a rate of return that is at least equivalent to the rate of inflation plus the spending rate including administrative fees.

Funds available for expenditure are calculated once a year according to a formula which takes into account prior history, the inflation rate and a ceiling and floor which will constrain spending within certain boundaries for continuity. The spend rate may be changed only by a vote of the Board of Directors.

The amount available from each endowment fund shall be an amount determined by the sum of:

a) the amount available during the prior fiscal year multiplied by one plus the percentage change in CPI-U (Dallas-Fort Worth) over the prior year, multiplied by 80 percent; and
b) the rolling twelve-quarter average fair market value of the Fund multiplied by the spending rate of 4.0 percent, multiplied by 20 percent.

In no event can this spending amount be less than 3 percent nor more than 6 percent of the value of the Fund for the end of the fiscal year immediately past.

# VII. Donor Recommended Investment Managers

**Introduction**

The Committee and the Foundation wish to be responsive to its donors when possible. The Foundation will consider donor suggestions for management of donor assets outside of the pre-approved pools when it serves the interests of the Foundation. The Foundation recognizes that the pooling of invested assets reduces administrative and investment-related expenses and thereby allows more money to go toward the charitable good. For this reason, the Foundation has established certain limitations and guidelines for situations when a donor wishes to recommend a specific investment manager to hold donated funds.

Donor Recommended Investment Managers ("the Recommended Manager") have the same responsibilities as Investment Managers.

**Policy**

Upon request by a donor at the time of a gift and establishment of a fund, and subject to the approval of the Board, the Foundation may enter into a contract with a Recommended Manager to manage assets given to the Foundation, provided:

*Minimum Requirements*

- The Recommended Manager, at a minimum, must be a registered investment advisor under the Investment Advisors Act of 1940;
- the donor does not have a family relationship with the Recommended Manager or with the employees or owners of the Recommended Manager's firm; and
- the assets must be managed in a separate account belonging to the Foundation and the donor may not exercise control over that account.

*Revocation or Termination*

The donor and the Recommended Manager acknowledge that the Board may, at any time, revoke the privilege of the donor recommendation. The donor acknowledges that Internal Revenue Service regulations require that the Foundation retain the sole discretion to terminate the relationship with the Recommended Manager, and to transfer the funds held by the Recommended Manager to other investment managers under any facts or circumstances that the Board in good faith believes warrant such termination and transfer. Such facts and circumstances will include but not be limited to a determination made in the sole discretion of the Board that the Recommended Manager has failed to meet appropriate benchmark requirements, including any amendments that may be made from time to time; has failed to perform comparably to other managers; has charged fees that are incommensurate with services provided; has failed to adhere to the Consultant's investment instructions, advice or guidance; or has otherwise failed to perform as requested by the Foundation.

*A Recommended Manager Serving Additional Clients/Donors*
If a Recommended Manager has met the requirements set forth above, has entered into a contract with the Foundation to manage assets given to the Foundation by a donor, and serves a client who wishes to establish a short-term donor advised fund and/or an endowment fund at the Foundation for any amount that complies with the Foundation's minimum requirements for new named funds; the client may request that the gifted assets be held by the Recommended Manager. The client/donor must make this request in writing, as a condition of the gift. All of the Minimum Requirements set forth above shall apply.

Each instance of the requests contemplated by this Policy will be evaluated individually. As always, the Board reserves the right to refuse any gift deemed to be against the best interests of the Foundation.

# VIII. Rebalancing Policy

The purpose of rebalancing is to control portfolio risk and maintain the policy asset allocation within the upper and lower bounds. Tactical rebalancing, which represents portfolio positioning to opportunistically capture short term market anomalies, is permissible as long as the trades do not violate the stated ranges for each asset class and do not cause undue expense to the portfolio.

Rebalancing shifts may be tactical in nature and must fall within the specified asset allocation ranges as defined by this statement. Rebalancing that would result in a new investment in an illiquid investment program or an allocation outside of the guidelines in this IPS are not permitted without the prior approval of the Committee.

# IX. Short-Term Reserve Management Policy

From time to time the Foundation may maintain large cash balances in reserve for future needs and contingencies. The Consultant is authorized to manage these reserves for enhanced yields consistent with a conservative cash management policy. To manage credit risk, instruments used for cash management will be limited to the following:

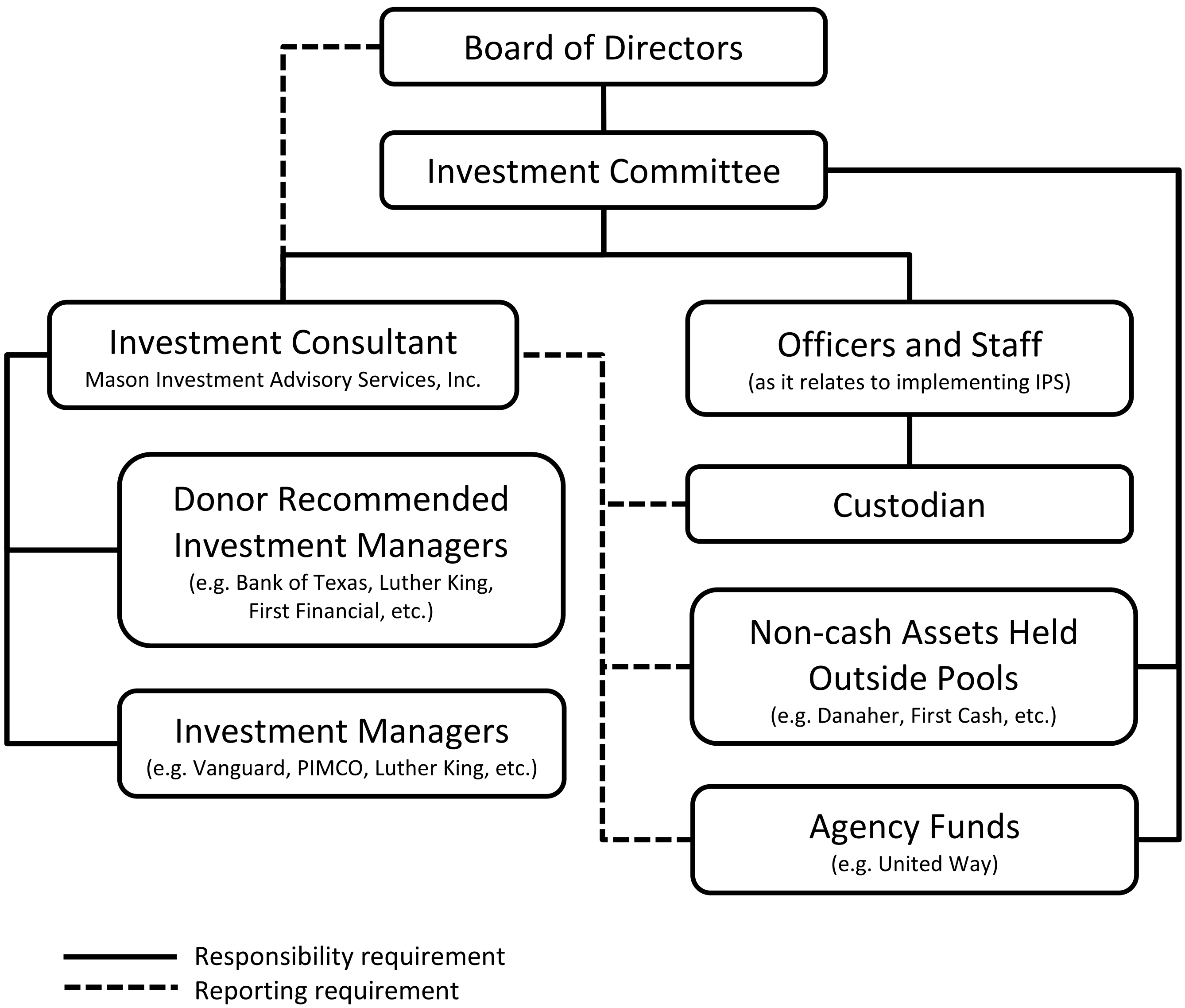
- Money Market Mutual Funds or cash alternatives such as bank deposit accounts and "ultra-short bond funds;"

- Government issues (known as “Treasuries”);
- Government-Sponsored Enterprise Securities (known as “Agencies”), such as Farm Credit System, Federal Home Loan Bank System, Federal National Mortgage Association, some of which are not explicitly backed by the full faith and credit of the U.S. Government;
- FDIC insured Certificates of Deposit, to be bought in increments up to the maximum insured limit per bank to assure insurance coverage and only at banks rated 165 (“Excellent”) or higher, as rated by the *Bank Financial Quarterly*, issued by IDC Financial Publishing, Inc.
- Investment grade corporate debt may be held in limited amounts not to exceed 25% of an identified cash pool. Maturities on investment grade corporate debt may extend to 3 years at issue or remaining maturity at time of purchase. Cash pools eligible for investment grade corporate debt must be specifically identified and an evaluation of the time horizon considered prior to purchasing these types of assets. This investment may be implemented through an investment manager or mutual fund as long as they are a registered investment advisor under the Investment Advisors Act of 1940 or the fund is registered and the maturity restriction and investment grade criteria are maintained.

With the possible exception of the "ultra-short bond funds" and as specifically noted in the investment grade corporate debt, no instrument will have a maturity at issue, or remaining maturity at purchase, of greater than twelve months. Generally, and depending upon the specific liquidity needs of the Foundation, a ladder strategy may be employed to further manage interest rate risk.

# Appendix A: Investment Decision Authority Matrix and Responsibility Organization Chart

| | Board of Directors | Investment Committee | Officers and Staff | Investment Consultant | Donor or Agency |
|---|---|---|---|---|---|
| Set Investment Strategy | Approve & Implement | Approve | | | |
| Appoint Investment Committee | Approve & Implement | Identify Candidates | | | |
| Investment Policy Statement (IPS) | Approve & Implement | Create, Review, Approve | Monitor Adherence | Recommend | |
| Investment Consultant | Approve & Implement | Recommend, Monitor | | | |
| Manager Selection and Monitoring | | Monitor | | Research, Select, Implement, Monitor | |
| Manager Selection and Monitoring-Donor, Non-Cash Donation, Agency | | Approve, Implement & Monitor | | Performance Reporting | Recommend |
| Custodian | Approve & Implement | Recommend | | Recommend | |
| Asset Allocation/Rebalance | Approve | Approve | | Implement | |
| Performance Reports | Annual Review | Quarterly Review | | | |
| Administrative Operations | | | Implement | | |


Board of Directors
Investment Committee
Investment Consultant
Mason Investment Advisory Services, Inc.
Officers and Staff
(as it relates to implementing IPS)
Donor Recommended Investment Managers
(e.g. Bank of Texas, Luther King, First Financial, etc.)
Custodian
Non-cash Assets Held Outside Pools
(e.g. Danaher, First Cash, etc.)
Investment Managers
(e.g. Vanguard, PIMCO, Luther King, etc.)
Agency Funds
(e.g. United Way)
Responsibility requirement
Reporting requirement

# Appendix B: Asset Allocations

**Long Term Portfolio**

Considering the Long Term Portfolio's investment objective, time horizon, risk tolerances, performance expectations, and asset class preferences, an appropriate portfolio allocation was selected as follows:

| Asset Category | Lower Bound | Target Allocation | Upper Bound |
|---|---|---|---|
| | | | |
| **I. Safety Assets** | 0.70% | 1.00% | 1.30% |
| **Total Safety Assets** | | **1.00%** | |
| | | | |
| **II. Income Assets** | | | |
| Domestic Bonds | | | |
| Short-term Maturities (1-5 years) | 2.80% | 4.00% | 5.20% |
| Intermediate-Term Securities (5-10 years) | 2.98% | 4.25% | 5.53% |
| Long-Term Maturities (10+ years) | 0.00% | 0.00% | 0.00% |
| Inflation Protected Bonds | 2.80% | 4.00% | 5.20% |
| International Bonds | 3.85% | 5.50% | 7.15% |
| **Total Income Assets** | | **17.75%** | |
| | | | |
| **III. Growth Assets** | | | |
| Large Cap U.S. Stocks - Value | 14.88% | 21.25% | 27.63% |
| Large Cap U.S. Stocks - Growth | 7.70% | 11.00% | 14.30% |
| International Stocks - Value | 6.30% | 9.00% | 11.70% |
| International Stocks - Growth | 4.20% | 6.00% | 7.80% |
| Growth Real Estate | 4.90% | 7.00% | 9.10% |
| **Total Growth Assets** | | **54.25%** | |
| | | | |
| **IV. Aggressive Assets** | | | |
| Small-Cap U.S. Stocks - Value | 7.70% | 11.00% | 14.30% |
| Small-Cap U.S. Stocks - Growth | 3.50% | 5.00% | 6.50% |
| International Small Cap | 2.10% | 3.00% | 3.90% |
| Energy/Natural Resources | 2.80% | 4.00% | 5.20% |
| Commodities | 2.80% | 4.00% | 5.20% |
| **Total Aggressive Assets** | | **27.00%** | |
| | | | |
| **Total Portfolio** | | **100.00%** | |

**Long Term Portfolio Benchmarks**

**77/23 Domestic Stock Domestic Taxable Bond Mix**

- 77% Wilshire 5000 Total Market Index
- 23% Barclays Capital Aggregate Bond Index

**77/23 Global Stock Global Taxable Bond Mix**

- 77% S&P Global Broad Market Index
- 23% Barclays Capital Global Aggregate Index

The Wilshire 5000 Total Market Index represents all U.S. equity securities that have readily available prices.

The Barclays Capital Aggregate Bond Index represents the performance of the U.S. investment grade fixed-rate bond market, including both government and corporate bonds.

The S&P Global Broad Market Index (BMI) is a top-down, float capitalization-weighted index which measures the performance of the entire universe of institutionally investable equity securities.

The Barclays Capital Global Aggregate Bond Index provides a broad-based measure of the global investment-grade fixed income market, including government, credit and collateralized securities.

The Fund, which contains both domestic and global investments that are not intended to match the domestic and global weightings of these stock/bond mixes, may achieve returns that are greater or less than these mixes, depending upon the relative performance of the domestic and global investments performance of small versus large cap stocks among other factors.

**Growth Allocation Reference Point:**
This reference point, produced by Morningstar as "Moderate Allocation", invests in both stocks and bonds and maintains a relatively higher position in stocks. These funds typically have 50%-70% of assets in equities and the remainder in fixed income and cash.

The Committee agrees that this is a reference point. The performance of the Fund may be greater or less, depending upon how aggressive the asset allocation strategy is relative to that of the managers included in the reference point.

**Balanced Allocation Portfolio**

Considering the Balanced Allocation Portfolio's investment objective, time horizon, risk tolerances, performance expectations, and asset class preferences, an appropriate portfolio allocation was selected as follows:

| Asset Category | Lower Bound | Target Allocation | Upper Bound |
|---|---|---|---|
| | | | |
| **I. Safety Assets** | 1.40% | 2.00% | 2.60% |
| **Total Safety Assets** | | **2.00%** | |
| | | | |
| **II. Income Assets** | | | |
| Domestic Bonds | | | |
| Short-term Maturities (1-5 years) | 9.80% | 14.00% | 18.20% |
| Intermediate-Term Securities (5-10 years) | 7.00% | 10.00% | 13.00% |
| Long-Term Maturities (10+ years) | 3.50% | 5.00% | 6.50% |
| Inflation Protected Bonds | 4.90% | 7.00% | 9.10% |
| International Bonds | 3.85% | 5.50% | 7.15% |
| **Total Income Assets** | | **41.50%** | |
| | | | |
| **III. Growth Assets** | | | |
| Large Cap U.S. Stocks - Value | 13.30% | 19.00% | 24.70% |
| Large Cap U.S. Stocks - Growth | 4.90% | 7.00% | 9.10% |
| International Stocks - Value | 4.20% | 6.00% | 7.80% |
| International Stocks - Growth | 2.80% | 4.00% | 5.20% |
| Growth Real Estate | 4.55% | 6.50% | 8.45% |
| **Total Growth Assets** | | **42.50%** | |
| | | | |
| **IV. Aggressive Assets** | | | |
| Small-Cap U.S. Stocks - Value | 3.50% | 5.00% | 6.50% |
| Small-Cap U.S. Stocks - Growth | 2.10% | 3.00% | 3.90% |
| International Small Cap | 0.00% | 0.00% | 0.00% |
| Energy/Natural Resources | 2.10% | 3.00% | 3.90% |
| Commodities | 2.10% | 3.00% | 3.90% |
| **Total Aggressive Assets** | | **14.00%** | |
| | | | |
| **Total Portfolio** | | **100.00%** | |

**Balanced Allocation Portfolio Benchmarks**

**51.5/48.5 Domestic Stock Domestic Taxable Bond Mix**

- 51.5% Wilshire 5000 Total Market Index
- 48.5% Barclays Capital Aggregate Bond Index

**51.5/48.5 Global Stock Global Taxable Bond Mix**

- 51.5% S&P Global Broad Market Index
- 48.5% Barclays Capital Global Aggregate Index

The Wilshire 5000 Total Market Index represents all U.S. equity securities that have readily available prices.

The Barclays Capital Aggregate Bond Index represents the performance of the U.S. investment grade fixed-rate bond market, including both government and corporate bonds.

The S&P Global Broad Market Index (BMI) is a top-down, float capitalization-weighted index which measures the performance of the entire universe of institutionally investable equity securities.

The Barclays Capital Global Aggregate Bond Index provides a broad-based measure of the global investment-grade fixed income market, including government, credit and collateralized securities.

The Fund, which contains both domestic and global investments that are not intended to match the domestic and global weightings of these stock/bond mixes, may achieve returns that are greater or less than these mixes, depending upon the relative performance of the domestic and global investments performance of small versus large cap stocks among other factors.

**Conservative Reference Point:**
This reference point, produced by Morningstar, invests in both stocks and bonds and maintains a relatively smaller position in stocks. These funds typically have 20%-50% of assets in equities and 50%-80% of assets in fixed income and cash.

The Committee agrees that this is a reference point. The performance of the Fund may be greater or less, depending upon how aggressive the asset allocation strategy is relative to that of the managers included in the reference point.

**Short Term Portfolio**

Considering the Portfolio's investment objective, time horizon, risk tolerances, performance expectations, and asset class preferences, an appropriate portfolio allocation was selected as follows:

| Asset Category | Lower Bound | Target Allocation | Upper Bound |
|---|---|---|---|
| | | | |
| **I. Safety Assets** | 9.10% | 13.00% | 16.90% |
| **Total Safety Assets** | | **13.00%** | |
| | | | |
| **II. Income Assets** | | | |
| Domestic Bonds | | | |
| Short-term Maturities (1-5 years) | 15.40% | 22.00% | 28.60% |
| Intermediate-Term Securities (5-10 years) | 6.30% | 9.00% | 11.70% |
| Long-Term Maturities (10+ years) | 2.80% | 4.00% | 5.20% |
| Inflation Protected Bonds | 3.50% | 5.00% | 6.50% |
| International Bonds | 3.50% | 5.00% | 6.50% |
| **Total Income Assets** | | **45.00%** | |
| | | | |
| **III. Growth Assets** | | | |
| Large Cap U.S. Stocks - Value | 9.80% | 14.00% | 18.20% |
| Large Cap U.S. Stocks - Growth | 3.50% | 5.00% | 6.50% |
| International Stocks - Value | 3.50% | 5.00% | 6.50% |
| International Stocks - Growth | 2.10% | 3.00% | 3.90% |
| Growth Real Estate | 1.40% | 2.00% | 2.60% |
| **Total Growth Assets** | | **29.00%** | |
| | | | |
| **IV. Aggressive Assets** | | | |
| Small-Cap U.S. Stocks - Value | 3.50% | 5.00% | 6.50% |
| Small-Cap U.S. Stocks - Growth | 2.10% | 3.00% | 3.90% |
| International Small Cap | 0.00% | 0.00% | 0.00% |
| Energy/Natural Resources | 1.75% | 2.50% | 3.25% |
| Commodities | 1.75% | 2.50% | 3.25% |
| **Total Aggressive Assets** | | **13.00%** | |
| | | | |
| **Total Portfolio** | | **100.00%** | |

**Short Term Portfolio Benchmarks**

**37/63 Domestic Stock Domestic Taxable Bond Mix**

- 27% Wilshire 5000 Total Market Index
- 63% Barclays Capital Aggregate Bond Index

**37/63 Global Stock Global Taxable Bond Mix**

- 27% S&P Global Broad Market Index
- 63% Barclays Capital Global Aggregate Index

The Wilshire 5000 Total Market Index represents all U.S. equity securities that have readily available prices.

The Barclays Capital Aggregate Bond Index represents the performance of the U.S. investment grade fixed-rate bond market, including both government and corporate bonds.

The S&P Global Broad Market Index (BMI) is a top-down, float capitalization-weighted index which measures the performance of the entire universe of institutionally investable equity securities.

The Barclays Capital Global Aggregate Bond Index provides a broad-based measure of the global investment-grade fixed income market, including government, credit and collateralized securities.

The Fund, which contains both domestic and global investments that are not intended to match the domestic and global weightings of these stock/bond mixes, may achieve returns that are greater or less than these mixes, depending upon the relative performance of the domestic and global investments performance of small versus large cap stocks among other factors.

**Conservative Reference Point:**
This reference point, produced by Morningstar, invests in both stocks and bonds and maintains a relatively smaller position in stocks. These funds typically have 20%-50% of assets in equities and 50%-80% of assets in fixed income and cash.

The Committee agrees that this is a reference point. The performance of the Fund may be greater or less, depending upon how aggressive the asset allocation strategy is relative to that of the managers included in the reference point.

**Benchmarks for Managers**

To measure the success of the managers used to implement the allocation, each manager will be measured against its specific peer group, using a category average of mutual funds with the same asset class focus. Fund families whose performance has, in aggregate, tended to be superior when compared to relative performance of other fund families will be deemed acceptable and thus generally used.

**Other Considerations**

Although short term underperformance will be tolerated and closely monitored by the Consultant, managers are normally expected to perform at or above their peer group averages over time. Both qualitative and quantitative measures have been developed to determine when a manager termination is appropriate.

# Appendix C: Mason Advisors - Due Diligence Policy

For an asset allocation strategy to be effective, each asset class must be represented by using a manager (or managers) that will best represent the class objective. Otherwise, the results will most likely be different than anticipated. This is particularly true during times of adversity or crisis.

A qualifying manager must be a registered investment advisor under the Investment Advisors act of 1940. The Consultant will decide which managers to use based upon their particular contribution to the Fund.

A rigorous research process, composed of both quantitative and qualitative review, is used to identify managers for strategy implementation.

**Quantitative Analysis**
The quantitative analysis narrows a large universe of qualifying managers into a small group of candidates. Managers who pass this phase of the research process have characteristics which give them a better likelihood of stronger future performance based on criteria outlined below. The goal is not to chase returns, but to select the funds with the best likelihood of success going forward. A *returns based style analysis* and a *holdings based analysis* are performed where helpful in establishing an accurate asset class fit.

**Qualitative Analysis**
The qualitative analysis involves an in-depth review of the management company and its history. A review of historical portfolios will be used to ascertain the true style and risk posture of the manager over time. Personal interviews and on-site office visits are made, when appropriate. Existing and potential new managers are continuously monitored/ researched in an attempt to identify the best managers for strategy implementation.

The research process involves first an evaluation of fund families to identify superior families, followed by an analysis comparing the individual managers of the approved fund families in each asset class.

**Fund Family Analysis**
Each of the approved fund families will be reevaluated on a periodic basis. The analysis will include ranking a broad range of fund families as well as major ETF providers based on returns relative to peer universes. This performance ranking will focus on both open and terminated funds to get a full understanding of the success of the fund family as a whole over time, not just of the fund family’s current offerings. We will compare performance ranking of each fund within each fund family amongst each particular fund's peer universe. These rankings will be averaged across each fund family's overall individual fund lineup. Only share classes which do not assess 12b-1 fees and only specific management mandates (not broad based fund-of-funds or target date funds) will be included. Fund share classes with 12b-1 fees will be eliminated to

ensure comparisons of most competitively priced funds from each fund family being evaluated. Top fund families will then be compared based on factors such as their competitive cost structure, appropriate level of analytical talent, corporate culture, focus on long-term fundamentals, percentage of terminated/merged funds, and other intangibles.

Only when deemed necessary to obtain appropriate exposure to a desired asset class will we then look outside our list of identified superior fund families. For example where funds within superior fund families do not provide the appropriate exposure targeted it may be necessary to utilize the best available fund from another fund family.

**Individual Manager Analysis**
Individual funds are selected from the approved fund families mainly on the basis of the style of manager(s) which is most appropriate in terms of constructing the target model portfolio. The manager(s) selected within each asset class should provide the appropriate level of diversification and style purity with the best likelihood of providing optimal performance after the hire date. While analysis will vary by asset class, the goal is to utilize funds from the particular superior fund families which provide strengths most relevant to the asset class being evaluated. Managers will be regularly evaluated for style drift and competitive cost structure.

**Benchmarks and Reference Points**
Several evaluation benchmarks are required to measure both the success of the allocation strategy as well as the managers used to implement the allocation. To measure the success of the allocation strategy, the Committee will use both domestic and global stock/bond mixes, as well as a Growth Allocation Reference Point. These benchmarks are described above.

**Domestic and Global Stock/Bond Mixes:**
The domestic and global stock/bond mixes are comprised of the same ratio of equity to fixed income as that of the Fund’s long term targets. These mixes are derived from the indices described below. Monthly rebalancing is assumed. The performance of the equity/fixed income mixes is presented net of the average annual ETF and index fund expense ratio, prorated monthly.

**Investment Restrictions**

When selecting mutual funds and exchange-traded funds (ETFs), the Consultant will use due diligence criteria prescribed in this Investment Policy Statement (mutual funds and ETFs will be referred to as “managers” unless specifically referenced).

## Definitions

**Returns Based Style Analysis (RBSA):** RBSA is a quantitative approach to determining a manager's investment style and evaluating its consistency. The effective asset mix can be determined by comparing actual portfolio returns to the returns of indices (given a sufficient length of portfolio history and a robust mathematical technique).

**Holdings Based Style Analysis:** Holdings-based style analysis is a "bottom-up" approach in which the characteristics of a portfolio over a period of time are derived from the characteristics of the securities it contains at various points in time over the period. The choice of characteristics depends on the purpose of the analysis. For example, if the purpose is to describe a portfolio in terms of a set of quantitative style characteristics such as size and value/growth orientation, the prescribed characteristics of each security need to be calculated and then aggregated to the portfolio level.