REVISED February 24, 2016

THE ANNENBERG FOUNDATION

STATEMENT OF INVESTMENT OBJECTIVES AND GUIDELINES

INTRODUCTION

The purpose of this Statement of Investment Objectives and Guidelines is to provide a basis for discussion and decision making by the Annenberg Foundation Board of Trustees, Investment Committee, professional staff and external investment managers. This statement will be reviewed periodically by the Investment Committee, modified as conditions warrant. The Guidelines will be presented to the full Board for consideration and adoption no less often than every three years.

The Investment Committee is empowered by the Foundation’s Board to establish investment objectives and policies, select the appropriate types of assets and managers and to review and evaluate, on a regular basis, the performance of the investment funds. The Investment Committee is charged to manage the assets of the Foundation effectively and prudently for the benefit of the Foundation, guided by this policy statement. Specific guidelines for accounts managed by investment managers, where established, are appended to this document.

While the Foundation’s Board delegates the management of the Foundation’s assets to the Investment Committee, the Board retains the ultimate responsibility, and as such exercises ongoing oversight and monitoring of key investment information.

In order to ensure that all investment decisions are made without any suggestion that the Investment Committee or any of its members has a conflict of interest or any appearance of a conflict of interest, the Foundation has adopted a resolution which describes and prohibits this behavior.
I. FINANCIAL OBJECTIVES

A. The long-term overall financial objective is to preserve, without undertaking undue risk, the real (inflation-adjusted) purchasing power of the Foundation’s assets in perpetuity while providing a relatively predictable, stable and constant (in real terms) stream of earnings to fund the Foundation’s charitable programs.

II. INVESTMENT OBJECTIVES

A. The primary investment objective is to attain a total real return (net of investment management fees) of at least 5% over the long term (rolling five-year periods). Total real return is defined as the sum of capital appreciation (or depreciation) and current income (dividends and interest) adjusted for inflation as measured by the Consumer Price Index (the “CPI”). It is recognized that the return objective may be difficult to attain in every five-year period, but should be attainable over a series of five-year periods.

In addition to the absolute investment objective, the Foundation is expected to earn annualized returns in excess of the policy portfolio’s blended benchmark (defined herein) as selected by the Investment Committee, measured over rolling five-year periods.

III. SPENDING OBJECTIVES

A. The Foundation plans to make annual grant distributions in excess of the 5% minimum required distribution as mandated by current Internal Revenue Service guidelines.¹

IV. RESPONSIBILITIES OF BOARD, COMMITTEE AND STAFF

A. Board of Directors

Specific responsibilities of the Board of Directors related to the investment management of the Foundation include:

¹ The Foundation’s Directors approved a 6% (six percent) Spending Policy with the objective to make charitable commitments and distributions in excess of the Internal Revenue Service mandated 5% minimum distribution. This Policy is based on a three-year moving average value of the Long-Term Pool endowment. In order to meet liquidity requirements to support spending objectives, the Investment Committee has the authority to liquidate assets as shall be necessary.
1. Empowering the Investment Committee to manage the assets of the Foundation effectively and prudently for the benefit of the Foundation, guided by this policy statement;

2. Approving of members of the Investment Committee;

3. Approving this Statement of Investment Objectives and Guidelines;

4. Oversight of the Investment Committee governance and process;

5. Considering the impact of financial results on the Foundation’s grantmaking plans, and communicating those plans to the Investment Committee;

6. Reviewing of information presented by the Investment Committee

B. Investment Committee

Specific responsibilities of the Committee related to the oversight of the Foundation include:

1. Developing a sound and consistent investment policy addressing items such as financial and investment objectives, asset allocation policy, and general maintenance guidelines (e.g., diversification and quality guidelines);

2. Selecting appropriate investment vehicles, qualified investment managers, qualified custodians, and qualified policy consultants;

3. Managing the remainder of the donor stock portfolio, including making decisions on the disposition of that stock for Foundation distributions or for additional diversification and risk reduction;

4. Communicating clearly the major duties and responsibilities of those qualified agents accountable for achieving investment results and to whom specific responsibilities have been delegated;

5. Monitoring and evaluating results to ensure that policy guidelines are being adhered to and that policy objectives are being met;

6. Taking action under appropriate circumstances to discharge or engage an investment manager or advisor for failing to perform in terms of stated expectations;

7. Undertaking such work and studies as may be necessary to keep the Board and all Committee members adequately informed as to the status of Foundation assets
C. Staff

The Director, Investments has day-to-day responsibility for ensuring that the Foundation’s investment policies are followed. Specific responsibilities include:

1. Presenting pertinent Foundation issues and concerns to the Board and Investment Committee;

2. Accounting for and verifying portfolio positions and activity;

3. Communicating investment policies and procedures to Foundation staff as needed;

4. Communicating with Committee members on a regular basis;

5. Communicating with investment managers on a regular basis; and

6. Directing the Foundation’s consultant(s) on an as needed basis.

D. Investment Consultant

The Foundation may engage the use of an investment consultant to provide useful, timely, and prudent policy-level advice regarding the management of the total fund and/or its components.
V. PORTFOLIO COMPOSITION

The asset allocation of the Foundation should reflect a proper balance of the Foundation’s investment objective, risk tolerance, and need for liquidity. The Investment Committee understands, based on historical returns, that a high allocation to equities is required to support the Foundation’s spending while preserving the purchasing power of the assets. The Committee also understands that a high commitment to equities may result in higher short-term volatility and may result in periods of diminished purchasing power. The Investment Committee aims to mitigate some of the volatility inherent in equities by diversifying and allocating funds to asset classes whose returns are less correlated over time. The target asset allocations and ranges for the policy portfolio are detailed in Appendix I of this statement.

- To achieve its investment objective, the assets shall be allocated among fixed income, equity and alternative assets.

- The primary objective of the fixed income portfolio is to provide exposure to intermediate and long duration investment-grade bonds. Additionally, fixed income should provide a hedge against the effects of a prolonged economic contraction; contribute to overall return and to reduce the overall volatility of the total Foundation’s returns. Bonds held to hedge against prolonged economic contraction should be longer-term, non-callable or call-protected, and high quality (minimum AA). Bonds held to contribute to the overall return of the portfolio must be rated BBB or higher.

- The purpose of the equity fund is to provide appreciation of both principal and current income sufficient to support any future spending requirements, while at the same time potentially increasing the purchasing power of the Foundation’s assets. It is recognized that pursuit of this objective could entail the assumption of significant price variability. The equity fund is expected to be invested in both U.S. and non-U.S. public equities and potentially alternative assets. The targets and ranges for specific sub-equity allocations as a percentage of total fund assets are detailed in the policy portfolio.

- The primary purpose of alternative assets, defined as hedge funds and private investments, are to (1) provide risk reduction through investment in assets with lower correlations with the equity markets, such as absolute return and hedge fund strategies or real estate, and (2) to provide the potential for higher returns through investment in private equity (e.g., venture capital and buyouts). These assets should be viewed as an equity substitute.

- The Foundation’s investments should be diversified both by asset class (e.g., equities, alternative assets, bonds) and within asset classes (e.g., within equities by economic sector, industry, quality and size and style). The purpose of diversification is to provide reasonable assurance that no single security, class of securities or specific investment style will have a disproportionate impact on the Foundation’s aggregate results.
VI. BENCHMARKING AND REVIEW

For purposes of performance measurement, the returns will be measured against a custom benchmark composed (where possible) of indexes that serve as reasonable proxies for the asset classes contained in the policy portfolio. The performance of individual managers within the asset classes may be measured against more specific style or sector indexes as appropriate. The Foundation assets are expected to outperform the blended benchmark over rolling five-year periods.

The overall equity portfolio is expected to outperform, net of fees, a blended benchmark that includes the Russell 3000 and the MSCI All Country World Index ex USA indexes, representing U.S and non-U.S. equities respectively weighted to reflect the target allocation in the policy portfolio over rolling five-year periods.

Individual equity manager performance will be measured against an appropriate equity index and manager peer group.

The fixed income fund is expected to provide a return that exceeds the Barclays Capital Intermediate Aggregate Index over rolling five year periods. The Investment Committee will review performance regularly but not less than quarterly.

Portfolios will be monitored on a continuing basis for consistency in each manager’s investment philosophy, return relative to objectives and investment risk by the Foundation’s independent investment advisors.

Please see additional detail about the benchmarks in Appendix II.

VII. PERMISSIBLE INVESTMENTS

For separately managed accounts of the Fund, individual manager guidelines that govern permissible securities and dictate other expectations apply. Where investments are made in commingled or mutual funds, the permissible investments are governed by the appropriate fund prospectus.

VIII. GUIDELINES FOR EQUITY AND ALTERNATIVE ASSET INVESTMENTS

Decisions as to individual security selection, security size and quality, number of industries or holdings, current income levels, turnover and the use of options or financial futures are left to broad manager discretion, subject to the usual standards of fiduciary prudence.
IX. GUIDELINES FOR FIXED INCOME INVESTMENTS

In addition to bonds, the fixed income portfolio may include investments in money market instruments, but may not include equities and convertible bonds that are essentially equity securities. Minimum quality for bonds held is BBB and average quality of the portfolio should be AA+.

X. REBALANCING POLICY

In order to reap the benefits of diversification and maintain a relatively constant risk exposure, the portfolio will be rebalanced on a regular basis. To the extent possible, rebalancing should be accomplished on an ongoing basis through normal cash flows.

At least annually, the Foundation portfolio will be rebalanced to the target policy allocation in this statement and the results reported to the Investment Committee. Asset classes in violation of the asset allocation ranges should be recorded in the Investment Committee minutes.

XI. GUIDELINES FOR TRANSACTIONS

As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best realized price. Notwithstanding the above, commissions may be designated by the Foundation for payment of services rendered to the Foundation in connection with the management of the Foundation’s portfolio.

XII. REPORTING

Managers will supply the Foundation and its investment advisors with monthly reports on market valuations, performance and indications of compliance with investment guidelines. Performance will be reviewed by the Investment Committee on a quarterly basis, but results will be evaluated over rolling five-year periods.
The target allocations as of the date of this document are as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation %</th>
<th>Allowable Range %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve Cash and Fixed Income*</td>
<td>15.00%</td>
<td>10-30%</td>
</tr>
<tr>
<td>Strategic Fixed Income</td>
<td>2.00%</td>
<td>0-10%</td>
</tr>
<tr>
<td>Benchmark-Oriented U.S. Equity</td>
<td>13.75%</td>
<td>5-15%</td>
</tr>
<tr>
<td>Benchmark-Oriented Non-U.S. Equity</td>
<td>13.75%</td>
<td>10-20%</td>
</tr>
<tr>
<td>Select Equity</td>
<td>12.50%</td>
<td>5-15%</td>
</tr>
<tr>
<td>Hedged Equity</td>
<td>10.00%</td>
<td>5-15%</td>
</tr>
<tr>
<td>Diversified Strategies</td>
<td>20.00%</td>
<td>10-30%</td>
</tr>
<tr>
<td>Private Investments</td>
<td>13.00%</td>
<td>5-15%</td>
</tr>
</tbody>
</table>

* The long-term policy allocation to cash should be zero, but this does not preclude the Foundation from maintaining a cash reserve for operational spending especially during the six year period of larger than normal distributions or for pending subsequent investment.
# APPENDIX II
## ASSET CLASS BENCHMARKS

<table>
<thead>
<tr>
<th>Category</th>
<th>Benchmark Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Portfolio</td>
<td>Blended benchmark of appropriate indexes weighted to the target policy portfolio</td>
</tr>
<tr>
<td>Reserve Fixed Income</td>
<td>Barclays Capital Intermediate Aggregate Index</td>
</tr>
<tr>
<td>Strategic Fixed Income</td>
<td>HFRI Strategic Fixed Income Blend&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td>Benchmark-Oriented U. S. Equities</td>
<td>Russell 3000 Index</td>
</tr>
<tr>
<td>Benchmark-Oriented Non-U.S. Equities</td>
<td>MSCI All Country ex-U.S. Index</td>
</tr>
<tr>
<td>Select Equity</td>
<td>MSCI All Country World Index</td>
</tr>
<tr>
<td>Hedged Equity</td>
<td>HFRI Total Hedged Equity</td>
</tr>
<tr>
<td>Diversified Strategies</td>
<td>HFRI Fund of Funds: Diversified</td>
</tr>
<tr>
<td>Private Investments</td>
<td>Appropriate benchmark to be determined when performance data is meaningful</td>
</tr>
</tbody>
</table>

<sup>2</sup> The HFRI Strategic Fixed Income Blend is composed of 35% RV: Multi-Strategy, 20% RV: Fixed Income Corporate, 15% RV: Fixed Income-Asset Backed, 15% RV: Fixed Income-Convertible Arbitrage and 15% Event Driven.