

Policy: Investment

Date Approved: 8/9/13

I. PURPOSE

This Investment Policy Statement (“IPS”), developed by the Finance/Investment Committee (“Committee”) of the Morgan Family Foundation (“MFF” and “Foundation”), pertains to all investment assets under MFF control and replaces all previous investment policy documents.

The purpose of this IPS is to establish a clear understanding by the MFF Board of Directors, MFF Finance/Investment Committee, manager(s), consultant(s), and custodian(s) of the Foundation’s investment philosophy, goals and objectives, and management procedures.

II. INVESTMENT OBJECTIVES AND PHILOSOPHY

To preserve the purchasing power, the long-term annualized total return objective for the Foundation is inflation plus charitable disbursements and operating expenses. The time horizon of the MFF investment assets is long term (i.e. ten years). The Fund will target and maintain an equity orientation, and with that, may experience volatility in total Fund balances and returns in pursuit of this goal.

III. SPENDING POLICY

The annual spending target shall be 5% of assets plus non-qualified administrative expenses. The 5% distribution is normally to be comprised of grants, direct charitable activities, and qualified administrative expenses.

From time to time exceptions to this spending policy may be warranted because of special circumstances, including but not limited to: program related investments, grant set-asides, recoveries of qualifying distributions (grant rescissions), financial market conditions, significant changes in MFF asset value, etc.

IV. ASSET ALLOCATION

In general, the Foundation will pursue an investment strategy to diversify assets over a broad range of potential asset classes and investment vehicles.

The Foundation’s assets will be invested in three segments: equity, alternative investments, and fixed income and cash equivalents. The allocation among these asset classes will be scrutinized regularly by the Finance/Investment Committee and the Foundation’s investment consultant.

- A. The purpose of the equity component is to provide growth in principal and income. It is recognized that the equity component will have higher expected returns and volatility than other segments, over time.

- B. The purpose of the alternative allocation is to provide diversification and capital protection. Historically, alternative investments have low correlations to traditional equity and fixed income markets and help diversify and protect the portfolio.
- C. The primary purposes of the fixed income and cash component are to provide a deflation hedge, to reduce the volatility of the Foundation’s investment portfolio, and to produce current income.
- D. Following are the current asset allocation strategic targets and ranges for the portfolio:

	Target	Range
Equity	65.0%	50% - 72.5%
<i>Domestic Equity</i>	<i>47.5%</i>	<i>40% - 52.5%</i>
Large Cap	30.0%	20% – 32.5%
Small/Mid Cap	17.5%	10% – 20%
<i>International Equity</i>	<i>17.5%</i>	<i>12.5% – 20%</i>
Developed	12.5%	7.5% – 15%
Emerging	5.0%	0% – 7.5%
Alternatives	15.0%	0% - 20%
Fixed Income	15.0%	12.5% - 30%
Cash / ST Fixed	5.0%	2.5% - 7.5%

The tolerance ranges provide asset allocation guidance and flexibility. The Committee, with the advice of the investment consultant, is responsible for creating and adjusting the Foundation’s asset allocation and making necessary reallocations as warranted. The asset allocation of total assets will be reviewed quarterly.

V. INVESTMENT GUIDELINES

It is the responsibility of the investment consultant to conduct due diligence on all investment managers (equity, fixed income, and alternative investments) that are either considered for, or are actual investments of, the Foundation. The due diligence process will consider the Investment Guidelines outlined herein, as well as qualitative and quantitative guidelines outlined in the Evaluation and Review section herein. The due diligence process will include the investment consultant educating the Foundation on the risks and rewards of each investment manager.

Professional investment managers, through separately managed portfolios, commingled funds or mutual funds, will manage all assets. The guidelines below are applicable to all managers that manage money for the Foundation on a separate account basis. Mutual funds or commingled funds retained by the Foundation will not be expected to adhere specifically to these guidelines

(they must adhere to the fund's prospectus stated guidelines); however, the guidelines will be used as a reference when evaluating and monitoring the ongoing suitability of the investments for the Foundation.

- Clear, written guidelines will be established with each separate-account manager that specify asset category, style, performance measurement, benchmarks, and risk tolerance (prospectus will suffice for mutual funds).
- Managers will be selected for their demonstrated specialty in managing equity, fixed income, or alternative investments. Within the agreed guidelines, each manager will have full discretion.

A. Equity Guidelines

- Unless otherwise instructed, an equity manager may, in its discretion, hold investment reserves of either cash equivalents or bonds, but with the understanding that the performance of these funds will be measured against a relevant equity benchmark. If the allocation to cash, cash equivalents, or bonds exceeds 15% of the total market value of the account, the investment manager must notify the Foundation and the investment consultant.
- In general, domestic and international equities must be diversified across a wide range of industries and market sectors; however, if appropriate, the investment consultant and Foundation may elect to invest in a mutual fund or exchange traded fund with a single sector, country, or industry focus within a reasonable percentage of overall Foundation assets.
- No single equity investment may exceed 10% of the market value of an investment manager's equity portfolio.

B. Fixed Income Guidelines

- The weighted average duration of the bond portfolio shall not exceed 130% of the Barclay's Capital Aggregate Bond Index.
- Up to 10% of the Foundation may be invested in below investment grade securities. The overall fixed income portfolio, including all fixed income and cash, must have a weighted overall rating of "A" or higher.
- The maximum percentage in any given sector (e.g. corporate municipal) will normally be 50% except for U.S. Government and U.S. Government Agency securities, which may comprise up to 100% of the fixed income portfolio.

- Permissible securities include any publicly issued fixed income securities, with up to 10% of the Foundation's total invested assets in non-dollar fixed income securities (international fixed income) as approved by the Committee and recommended by the investment consultant.
- The investment manager shall not invest in private placements, fixed income or interest rate futures without prior written approval of the Finance/Investment Committee.

C. Cash & Cash Equivalents Guidelines

All cash investments should be made with concern for quality. Under no circumstance should cash remain un-invested. Diversification must be maintained and, with the exception of the securities guaranteed by the U.S. government, the securities of a single issuer should not exceed 10% of the market value of the portfolio. Such investments should be prudently diversified and would include:

- Any instrument issued by, guaranteed by, or insured by the U.S. Government or agencies of the U.S. government;
- Commercial paper issued by corporations which are rated both "P-1" and "A-1" by Moody's and Standard & Poor's, respectively;
- Certificates of deposit, bankers acceptances, or other such irrevocable primary obligations issued by banks approved by the Committee on the recommendation of the managers; and
- Commingled, short-term cash reserve funds managed generally in accordance with the principles set forth above.

D. Alternative Investments Guidelines

Alternative investments include categories such as hedge funds, private equity, real estate, commodities, and tactical asset allocation strategies. Such investments may invest in commodities and derivatives as part of the investment strategy.

The objective of alternative investments is to promote diversification, reduce portfolio volatility, and help maintain long-term capital growth. The Foundation may not invest in illiquid investment strategies that exceed 10% of the entire MFF portfolio.

E. Prohibited Investments

Unless part of an alternative investment mandate, investments in individual security commodities transactions, puts, calls, straddles, or other option strategies (including naked options), margin, and art, coins, or other collectibles are prohibited.

F. Gifted Securities Policy

From time to time, the Foundation may receive bequests and other gifts in the form of actual investment securities or other assets. It shall generally be the policy that such gifts shall be sold in a timely fashion upon receipt and that the proceeds be invested into the Foundation alongside other assets in the asset allocation manner specified on page 3 of this document. Gifts in the form of prohibited investments may be accepted with the understanding that such assets will be liquidated in an orderly and prudent manner.

VI. EVALUATION AND REVIEW

The objective of the evaluation and review process is to monitor the performance of the investment portfolio with regard to investment objectives and compliance with investment policy. The Finance/Investment Committee will review a quarterly, written evaluation of investment managers' performance (to be provided by the investment consultant no later than 45 days after quarter end) using relevant indices as benchmarks and relevant peer groups of investment managers for all investment managers. Specifically, the investment benchmarks are listed in Addendum A attached hereto. Particular attention should be paid to the following:

- Whether the MFF portfolio is achieving its stated objectives;
- Whether managers are meeting the objectives set forth in this IPS as a primary consideration, relative to other managers of similar pools of capital and recognized market indices;
- Whether the managers are adhering to the risk/return guidelines, style consistency, and stated philosophy compared to established benchmarks and peers;
- The volatility of investment manager and total Foundation returns compared to established benchmarks and peers;
- Asset allocation strategy in the light of evolving markets, strategies and MFF portfolio requirements;
- Whether the overall policies and objectives continue to be appropriate, reasonable and achievable; and
- Reasonableness of portfolio fees and expenses.

Decisions with regard to manager selection and retention will be based on a combination of quantitative and qualitative factors. The quantitative factors will include demonstrated

investment results (net of fee return, standard deviation, Sharpe ratio, up/down capture, batting average, etc.) over long-term periods (such as rolling three, five and ten years). Qualitative factors will include personnel, ownership, investment style, client service, ethical conduct, and similar matters. Additionally, the continuing risk characteristics of each investment will be evaluated, as will the compliance of the respective fund managers with their stated guidelines and objectives.

The overall investment objective of the portfolio is to exceed the appropriate benchmarks net of fees, as well as applicable peer groups, based on the target asset allocation. These objectives will be reviewed over rolling 3, 5 and 10-year time periods (to the extent that the information is available).

VII. DELEGATION OF RESPONSIBILITIES

A. MFF Board of Directors

The Board of Directors is responsible for the following:

- Ultimate fiduciary responsibility for the Foundation's investment portfolio
- Determining and approving the Investment Policy Statement
- Delegating responsibility to the Finance/Investment Committee for implementation and ongoing monitoring

B. MFF Finance/Investment Committee

The Committee is responsible for the following:

- Developing the Investment Policy Statement
- Reviewing the Investment Policy Statement at least annually or more frequently as needed
- Appointing and terminating investment management firms, investment consulting firm(s), and custodians
- Updating the MFF Board quarterly on the status and performance of the overall investment portfolio
- Informing the consultant of any circumstances that arise that may affect the way MFF assets are managed

C. Management

The Executive Director and Financial Manager are responsible for the following:

- Ensuring investment decisions made by the Committee are implemented in a timely and efficient fashion
- Scheduling quarterly meetings of the Committee

D. Investment Consultant(s)

The investment consultant is responsible for providing information and analysis to assist management and the Committee. The investment consultant is also responsible for the following:

- Recommending asset and sub-asset allocation, investment strategy, and investment managers
- Reviewing asset allocation to determine if the current levels are consistent with the asset allocation policy stated in this document and if the current strategy meets the cash flow needs of the MFF and is maximizing the long-term total return of the assets
- Providing a quarterly performance evaluation report and assessment of the assets
- Monitoring performance of the total portfolio to determine if the collective investment strategy is outperforming the appropriate benchmarks over rolling multiple periods (three-and five-year time periods)
- Tracking separately managed accounts to ensure that each manager is adhering to policy guidelines
- Conducting quarterly due diligence of investment managers
- Monitoring the performance of each investment manager retained by MFF
- Assessing the reasonableness of portfolio and investment manager fees
- Reviewing and assessing the appropriateness of this Investment Policy Statement
- Recommending changes to the IPS as needed
- Evaluating service providers (custodians, trustees, etc.) with respect to fees and services
- Monitoring overlapping manager holdings to limit individual securities from making up more than 10% of Foundation assets
- Organizing committee meetings in event of extreme market volatility
- Submitting trade orders to the custodian after actions are approved by the MFF Finance/Investment Committee

E. Investment Managers

Unlike the MFF Finance/Investment Committee, which manages the investment process, managers are responsible for making the investment decisions. The specific responsibilities of fund managers include:

- Managing assets under their supervision consistent with the goals, objectives, and restrictions set forth in this IPS and/or the manager's investment management agreement or fund prospectus
- Exercising full discretion with respect to buying, managing, and selling assets held in the portfolio
- Voting all proxies and related actions in a manner consistent with the long-term interest and objectives of the MFF as described in this IPS. Managers shall keep detailed records of the voting of proxies and related actions. The MFF is exploring how to be a positive agent on behalf of its values through shareholder activity and may employ some additional parameters in this area in the future
- Maintaining appropriate registrations at the federal and state level
- Communicating with the Finance/Investment Committee and investment consultant regarding significant matters pertaining to the investment of the assets under their respective supervision. This includes, but is not limited to:
 - a. Substantive changes in investment strategy, asset mix, portfolio structure, and market value of the portfolio
 - b. Significant changes in the ownership, organizational structure, financial condition, and professional staffing of the fund manager firm. If a change in ownership control occurs, the fund managers understand that the existing contract cannot be assigned without the written consent of the MFF (only applies to separately managed accounts)
- Coordinating with the investment consultant to ensure that the MFF is sent quarterly reports of transaction activity, portfolio holdings, performance reviews, and other information formally specified by the MFF

F. Custodian(s)

The custodian is responsible for the safekeeping of the Portfolio's assets. The specific responsibilities of the custodian include:

- Maintaining separate accounts by legal registration
- Valuing the holdings
- Collecting all income and dividends owed to the Portfolio
- Settling all transactions (buy-sell orders) initiated by the fund managers;
- Providing monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall portfolio since the previous report.
- Voting proxies when the investment manager is unable to vote

VIII. Fiduciary Duty

The MFF Board of Directors and Finance/Investment Committee shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires adherence to the following seven duties: Duty of Obedience, Duty of Loyalty, Duty of Care, Duty to Manage Costs, Duty to Verify, Duty to Diversify, and Duty to Review Asset Suitability. Fiduciaries must provide full and fair disclosure to the Finance/Investment Committee of all material facts regarding any potential conflicts of interest.

Addendum A

Performance Comparison Benchmarks

Actively managed investments are expected to outperform specific broad market indices and will be evaluated over rolling three- and five-year periods. The following are the benchmarks for each asset class stated in Section IV:

Domestic Large-Cap

- S&P 500 Index
- Russell 1000 Value Index
- Russell 1000 Growth Index
- Peer Group

Domestic Mid-Cap

- Russel Midcap Index
- Russell Midcap Growth Index
- Russell Midcap Value Index
- Peer Group

Domestic Small-Cap

- Russell 2000 Index
- Russell 2000 Growth Index
- Russell 2000 Value Index
- Peer Group

Total Domestic Equity

- Russell 3000 Index

International Equity

- MSCI EAFE Index
- MSCI EAFE Small Cap
- MSCI Emerging Markets Index

Total International Equity

- MSCI EAFE Index

Total Equity

- 71%% Russell 3000 Index / 29% MSCI EAFE Index

Fixed Income

- Barclay's Capital US Aggregate Bond Index
- Barclay's Capital 1-5 Year Government / Credit Index
- Merrill Lynch High Yield B-rated Index
- Barclays Capital Global Aggregate Bond Index

Total Fixed Income

- Barclays Capital US Aggregate Bond Index

Alternatives

- HFRI Fund-of-Funds Index

- CPI + 5%
- Dow Jones UBS Commodity
- FTSE NAREIT Developed
- Cambridge Private Equity

Total Alternatives

- Blended index (based on a weighted average of the benchmarks utilized to measure performance results for the alternative investment managers)

MFF Portfolio

- 47.5% Russell 3000 / 17.5% MSCI ACWI ex USA / 15% Alternatives Benchmark / 5% Barclays 1-5 Yr. Govt/Credit / 15% Barclays U.S. Aggregate

Actively managed investments will also be measured against an appropriate universe of similar investment strategies (i.e. Morningstar Universe).

MFF Portfolio

While the Foundation targets long-term return growth of the assets in real terms after spending and inflation, the MFF portfolio will be benchmarked against the weighted average return of the Foundation's asset allocation targets using the applicable benchmarks as are outlined in the previous section of this policy.

The MFF portfolio risk and return will also be benchmarked against a universe of similar sized institutions over rolling three and five year periods.