

**THE XXXX FOUNDATION
ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)
INVESTMENT POLICY STATEMENT**

January 2018

BACKGROUND AND RATIONALE

In 2017 The XXXXX Foundation began exploring the concept of integrating Environmental, Social, and Governance (ESG) factors into the security selection process for a portion of the Endowment's assets. The Foundation recognizes that constituents of the Community have an interest in allocating charitable dollars in a fashion that is consistent with their ethics and values. Further, the Foundation and their consultant recognize the growing amount of research that suggests that incorporating ESG factors into the security selection process can help uncover unaccounted risk and return characteristics that can benefit the portfolio. For these reasons the Foundation elected to provide an additional investment option for potential donors that desire ESG characteristics in their portfolio.

It is important to note that the Foundation is not stating what values or opinions are appropriate but, rather, recognizing the desire of the Community for an ESG investment option and is providing this additional service.

Recent studies suggest that future donors are seeking ESG investment:

- The Foundation recognizes the massive inter-generational transfer of wealth from one generation to the following generation; estimated at \$59 trillion by 2061, worldwide.
- Studies show that millennials are twice as likely to invest in corporations that advance their desired social and environmental outcomes. They are equally likely to divest from companies due to "objectionable" corporate activity
- 67% of millennials view their investment decisions as a way to express their social, political and environmental values, and 73% believe that it is possible to achieve market-rate returns investing in companies based on their social or environmental impact
- Many Community Foundations are establishing stand-alone Socially Responsive pools as potential fund-raising opportunities for donors and agencies that have an interest.

The Investment Committee recognizes that these goals, while noble, should not detract from the long-term performance of the Foundation. If the Investment Committee believes that allocating to a particular manager or asset class would be adversely impacted through applying the social considerations listed above then they will not invest.

PURPOSE

The purpose of this Investment Policy Statement is to establish a clear understanding of the investment objectives, ESG and otherwise, and philosophy for the XXXX Foundation (hereinafter, "Foundation"). This policy will describe the standards utilized by the Investment Committee (hereinafter, "Committee") in monitoring investment performance, as well as, serve as a guideline for any investment manager retained.

While shorter-term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term distributions with preservation of the real, inflation-adjusted value of assets, is crucial to the long-term success of the Foundation.

SCOPE

This policy applies to the ESG Investment Pool, which the Committee and investment manager have responsibility for prudent management.

INVESTMENT OBJECTIVE

The primary investment objective of the Foundation is to achieve an annualized total return (net of fees and expenses), through appreciation and income, equal to or greater than the rate of inflation (as measured by the broad, domestic Consumer Price Index) plus any spending and administrative expenses thus, at a minimum maintaining the purchasing power of the Foundation. The assets are to be managed in a manner that will meet the primary investment objective, while at the same time attempting to limit volatility in year-to-year spending.

FIDUCIARY DUTY

In seeking to attain the investment objectives set forth, the Committee shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires fiduciaries to apply the standard of prudence “about each asset in the context of the portfolio of investments, as part of an overall investment strategy.” All investment actions and decisions must be based solely on the interest of the Foundation. Fiduciaries must provide full and fair disclosure to the Committee of all material facts regarding any potential conflicts of interests.

As summarized for the purposes of this Investment Policy Statement, UPMIFA states that the Committee is under a duty to the Foundation to manage the Foundation’s endowment as a prudent investor would, in light of the purposes, scope, objectives and other relevant circumstances. This standard requires the exercise of reasonable care, skill, and caution while being applied to investments not in isolation, but in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Foundation. In making and implementing investment decisions, the Committee has a duty to diversify the investments unless, under special circumstances, the purposes of the Foundation are better served without diversifying.

In addition, the Committee must conform to fundamental fiduciary duties of loyalty and impartiality. This requires the Committee to act with prudence in deciding whether and how to delegate authority, in the selection and supervision of agents, and incurring costs where reasonable and appropriate.

The Committee believes that the inclusion of ESG criteria into the decision making process does not violate their fiduciary obligations and oversight of the entire Endowment.

DESCRIPTION OF ROLES

Investment Committee

The Committee is responsible for adopting the provisions of this Investment Policy. This responsibility includes approving investment strategy; hiring and firing of investment managers, custodians, and investment consultants; monitoring performance of the Foundation on a regular basis (at least quarterly); and maintaining sufficient knowledge about the Foundation and its managers to be reasonably assured of their compliance with the Investment Policy Statement.

Investment Consultant

The investment consultant is responsible for assisting the Committee in all aspects of overseeing the ESG Pool. The consultant is the primary source of investment education and investment manager information. On an ongoing basis the consultant will:

- a. Provide proactive recommendations
- b. Supply the Committee with reports (e.g., asset allocation studies, investment research and education) or information as reasonably requested
- c. Monitor the activities of each investment manager or investment fund
- d. Provide the Committee with quarterly performance reports
- e. Review this Investment Policy Statement with the Committee

STRATEGY

The Committee understands the long-term nature of the Foundation and believes that investing in assets with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities, including real assets (real estate and natural resources). Real assets are anticipated to provide the added benefit of inflation protection.

Fixed income and absolute return strategies will be used in an effort to lower short-term volatility and provide stability, especially during periods of deflation and negative equity markets. Cash is not a strategic asset of the Foundation, but is a residual to the investment process and used to meet short-term liquidity needs.

ASSET ALLOCATION

Asset allocation will likely be the key determinant of the ESG Pool returns over the long-term. Therefore, diversification of investments across multiple markets that are not similarly affected by economic, political, or social developments is highly desirable. A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories shall be based on the impact to the total Foundation, rather than judging asset categories on a stand-alone basis.

The target asset allocation should provide an expected total return equal to or greater than the primary objective of the Foundation, while avoiding undue risk concentrations in any single asset class or category, thus reducing risk at the overall portfolio level. To achieve these goals the asset allocation for the ESG Pool will be set with the following target percentages and within the following ranges:

<u>ASSET CATEGORY</u>	<u>TARGET</u>	<u>ACCEPTABLE RANGE</u>
GLOBAL EQUITY	55%	40-70%
U.S. Equities	30%	20-50%
International Equities	25%	10-35%
GLOBAL FIXED	30%	20-40%
REAL ASSETS	10%	0-15%
DIVERSIFYING STRATEGIES	5%	0-15%

ESG LIMITATIONS AND AREAS OF EMPHASIS

ESG investing has grown to more than simply excluding certain stocks or industries. Investors will often not only exclude certain stocks or industries engaged in activities they disapprove of but also reward companies aligned with their interests and mission. It is not anticipated that ESG 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. The ESG Pool should be viewed as a holistic approach into responsive investing with a diversified allocation in region, market cap, economic inputs as well as ESG considerations. While there are no absolute cut and clear delineations within many ESG mandates, below are general descriptions of the broad areas of emphasis for clients to consider.

ENVIRONMENTAL ISSUES

Environmental Screening is associated with the practice of considering environmental and energy matters as a metric of corporate performance. The term “green investing” would be most closely associated with this factor.

Investment Managers shall make best efforts to avoid investing in companies that are involved in:

- Major controversies relating to air, water or land pollution or a history of environmental fines and/or civil suits.
- A pattern of violating federal or state environmental regulations.
- Production of chemicals known to be particularly damaging to the environment and/or human health: (aerosols, plastics, pesticides, etc).
- A history of unsustainable environmental practices that exploit the world’s natural resources.
- Companies significantly involved in the development and commercialization of genetically modified organisms.

Investment Managers shall make efforts to emphasize investment in companies that are involved in:

- Publicly recognizing that global climate change is a real issue and that steps need to be taken to reduce its impact.
- Significantly reducing all waste streams through recycling or closed-loop technologies.
- Developing innovative ways to reduce the emission of toxic or chemical wastes.
- Demonstrating a long-term commitment to the reduction of negative environmental impact through the development of waste reduction and phase out goals.
- Manufacturing of organic products.
- Disclosing the amount of greenhouse gas emissions by the corporation.
- Reducing the impact of nuclear weapons globally
- Emphasizing alternative fuel sources and de-emphasizing usage of traditional fuel sources (coal and oil)
- Nuclear power as a viable power source to replace coal and/or oil.
- The cleaning of traditional fuel sources.

- Research and marketing of alternative energy sources such as wind, solar and hydrogen is important.

CORPORATE GOVERNANCE ISSUES

Positive corporate governance considers the short and long-term impact of Board decisions on the shareholders of the firm. Items that fall under monitoring within Corporate Governance include:

- Employee/director remuneration
- Appointment of Directors
- Auditor appointment and independence
- Changes to capital structures that may affect shareholder value
- Voting rights among shareholders
- Significant issues that concern social or environmental matters

Investment Managers shall make efforts to emphasize investment in companies that are involved in:

- Corporations engaging in community charitable contributions in a meaningful manner.
- Corporations providing full transparency of political contributions
- Corporations with independent and non-affiliated Board members
- Corporate Boards maintaining an open and positive relationship with shareholders
- Corporations with prudent executive compensation structures

SOCIAL ISSUES

Social screening is associated with the practice of considering relationships with stakeholders such as employees, customers, communities and governments as a metric of corporate performance. Examples include:

- Employee diversity
- Employee benefits
- Discrimination lawsuits
- Union relations.
- Significant worker involvement and participation in management decision-making.
- Good employee benefits that include programs to help employees balance work and family concerns.
- Representation of women and minorities at all levels of the company.
- Compensation based on performance.
- Employee stock ownership program.
- Job training for employees at all levels.

Investment Managers shall make efforts to emphasize investment in companies that are involved in:

- Lending institutions emphasizing local community investing into areas in need of improvement.
- Lending institutions emphasizing lower income areas that have been underserved by traditional lending sources
- Corporations seeking to identify and rectify any human rights issues within their supply chain.
- Corporations enforcing and seeking to expand human rights issues within their company as well as supply chain.

- Corporations encouraging a positive working atmosphere and provide channels of communication between employees and management.
- Corporations actively enforcing and seeking to expand diversity in the workplace.

Investment Managers shall make best efforts to avoid investing in companies that:

- Have been convicted of major product liability or product safety violations
- Have been fined for significant price fixing, antitrust violations
- Exhibit a pattern of consumer fraud or unfair marketing
- Practice discriminatory hiring practices.
- Practice discrimination against existing employees on the basis of race, age or sexual orientation.
- Fail to comply with minimum wage laws.
- Conduct business in any way that fosters continued human rights issues around the globe (Specifically Sudan).
- Actively participate in predatory lending practices.

NEGATIVE SCREENING

For a variety of reasons clients will often choose to exclude specific products or activities in all aspects of their portfolio.

Investment Managers shall make best efforts to avoid investing in companies that are involved in:

- Receive meaningful revenue from the manufacture of alcohol products.
- Receive meaningful revenue from the manufacture of tobacco products.
- Receive revenue from gaming activities such as casinos, hotels with casinos and the manufacture of gaming devices.
- Engaged in the production of weaponry (bombs, jets, guns, land mines, etc)
- Receive revenue from the production or distribution of pornography
- Engage in the production and/or distribution of genetically modified foods
- Engage in any animal testing beyond what is required testing by the Food and Drug Administration. Companies engaged in ANY animal testing.

DESCRIPTIONS OF PERMISSIBLE INVESTMENTS

Assets may be invested in commingled or mutual funds and it is understood that the terms and conditions in the prospectus or similar governing documents of such funds prevail over these guidelines. However, commingled or mutual funds should be selected that generally conform to the expectations provided in the investment guidelines. The following security classifications are permissible for investment:

Domestic Equity Securities: Publicly traded common and preferred stocks, convertible preferred stocks and convertible debentures. Equity securities may be chosen from the NYSE, Regional Exchanges and the National over the Counter Market. All assets must have readily ascertainable market values and be fully liquid.

International Equities: Investment in non domestic publicly traded common stocks or mutual funds. These funds provide diversification to the portfolio.

Debt Instruments: United States Government, Agency obligations and Corporate obligations must have a BBB or better agency rating by one of the major rating agencies.

Maturity structure will be left to the discretion of the Investment Manager who will manage to a short and intermediate duration not to exceed three years.

Cash and Equivalents: Cash reserves may consist of individual fixed income securities such as commercial paper, U.S. Treasury Bills, and other similar instruments with less than one year maturity and/or money markets funds. Cash reserves should be free from risk and instantly liquid.

REBALANCING

The Committee and Consultant will monitor the asset allocation structure of the Foundation and attempt to stay within the ranges allowed for each asset category. If the portfolio moves outside of the ranges the Committee, with advice from the investment consultant, will develop a plan of action to rebalance. In many cases the additions of new money or withdrawals for spending will be used to rebalance in a cost effective manner.

EVALUATION & PERFORMANCE MEASUREMENT

TOTAL FUND BENCHMARKS

The Committee seeks to outperform its benchmarks over full market cycles and does not expect that all investment objectives will be attained in each year. Furthermore, the Committee recognizes that over various time periods, the Foundation may produce significant deviations relative to the benchmarks. For this reason, investment returns will be evaluated over a full market cycle (for measurement purposes: 5 years).

The current Broad Policy Benchmark is:

Weight	Index	Asset Categories
30%	Russell 3000	U.S. Equity
25%	MSCI ACWI ex-US	International Equity / Real Assets
30%	Barclays Capital Aggregate Bond	Global Fixed Income / Absolute Return
5%	NAREIT Index	Real Estate
5%	S&P Natural Resources	Natural Resources
5%	Hedge Fund Research Conservative	Diversifying Strategies