Investment Policy

for

Public Welfare Foundation

September 2017

Introduction

This policy statement provides a framework for the management of the assets of the Public Welfare Foundation ("PWF"). Its purpose is to assist the Board of Directors in effectively supervising and monitoring the investments of the asset pool ("the Endowment"). The following investment objectives and directions are to be judged and understood in light of that overall sense of stewardship. In that regard, the basic investment standards shall be those of a prudent investor as articulated in applicable state laws. The guidelines are designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while at the same time setting forth reasonable risk control parameters to ensure prudence and care in the execution of the investment program.

This statement will establish appropriate risk and return objectives in light of the endowment's risk tolerance and investment time horizon. These objectives, as well as asset allocation guidelines, suitable investments, and responsibilities of the investment manager(s), are outlined below.

Objectives of the Endowment

The Board of Directors of the Public Welfare Foundation views the organization as a perpetual institution. The goal of the Board's investment and spending policies is to balance the needs of both present and future charitable institutions and programs PWF serves in a thoughtful and responsible manner. To balance these competing needs, the Board's long-term objective is to maximize current and future grant making without eroding the real value of the endowment. The policies are also intended to comply with applicable regulatory requirements including statutory payout requirements.

No investment will be made in the Fund that might reasonably be expected to place in jeopardy PWF's tax-exempt status or incur penalty taxes under the Internal Revenue Code generally, and in particular under provisions prohibiting Self-Dealing (Section 4941), Excess Business Holdings (Section 4943), or Jeopardizing Investments (Section 4944).

Performance Goals

The performance objectives of the Endowment shall be defined as follows:

- The primary investment objective of PWF is to provide a satisfactory return on investment for the support of PWF's operations. The specific investment objective of PWF is to attain an average annual real total return (net of investment management fees) of 5.5% on the Endowment as a whole over rolling 5 and 10 year periods. Real total return is the sum of capital appreciation (or loss) and current income (dividends and interest) less investment and management fees and investment expenses, adjusted for inflation.

- The relative objective of the Endowment is to seek competitive investment performance versus appropriate capital market measures, such as securities indices. This objective shall be measured primarily (but not exclusively) by comparing investment results, over a rolling annualized three- and five-year time period.

- The comparative performance objective of the Endowment is to achieve a total rate of return that is above the median performance of a universe of similarly managed investment pools as well as a subset of peer endowments and foundations.

The Endowment has a long-term, indefinite time horizon that runs concurrent with the endurance of the institution, in perpetuity. As such, the Endowment can assume a time horizon that extends well beyond a normal market cycle, and can assume an above-average level of risk as measured by the standard deviation of annual returns. It is expected, however, that both professional management and sufficient portfolio diversification will smooth volatility and help ensure a reasonable consistency of return.

The assets will be managed on a total return basis. While PWF recognizes the importance of preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. The risk-return profile of an individual investment strategy is analyzed relative to its impact on the total investment program. It is not considered a breach of fiduciary responsibility to pursue higher risk investment strategies if such strategies are reasonably determined to be in PWF's best interest when considered in light of expected return, risk, and correlation with other elements of PWF's investment program. Risk management of the investment program is focused on understanding both the investment and operational risks to which the total investment program is exposed. The objective is to minimize operational risks and require appropriate compensation (in the form of return) for investment risks which the Endowment is willing to accept.

The Foundation's policy of fiscal prudence does not preclude the consideration of moral, ethical and social criteria in determining companies in which to invest or which managers to hire. Consistent with the exercise of fiscal prudence and in order to more fully reflect an abiding commitment to its mission and its core values of racial equity and fundamental fairness to all, the Foundation seeks to achieve increased diversity within its investment program asset manager structure and through enhanced inclusive investment practices by its Outsourced Chief Investment Officer ("OCIO"). "Diverse asset managers" are defined as 51% or more ownership of firms by individuals who are African American or Latino. Accordingly, the OCIO will report annually to the Foundation's Finance Committee the number of diverse managers evaluated, recommended, and hired for all its funds and for the Foundation's own investment portfolio, as well as the number of diverse professionals employed by it. The Committee may choose to modify in the future its definition of diverse asset manager.

Investment Program Strategy

To achieve its investment objectives, the Endowment shall be allocated among a number of asset classes. The purpose of allocating among asset classes is to ensure the proper level of diversification in the investment program. Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the asset allocation policy, and that periodic review and revisions will occur.

The following target asset class table defines the Endowment's long term asset allocation, the minimum and maximum allocation limits of each asset class.

Public Welfare Foundation

Long Term Asset Allocation

	Minimum	Target	Maximum	Benchmark
Equity Strategies	**30%**	**55%**	**70%**	**MSCI All Country World Index**
Global Equity	30%	38%	60%	MSCI All Country World Index
Private Capital	0%	17%	25%	MSCI All Country World Index +3%
Distressed Debt	0%	0%	10%	Merrill Lynch High Yield Index + 4%
Fixed Income (Deflation Hedging)	**10%**	**20%**	**60%**	**Bloomberg Barclays US Aggregate Bond Index**
Cash & Equivalents/US Treasuries*	3%	3%	50%	3 Month T-Bills
Core Bonds	5%	12%	25%	Bloomberg Barclays US Aggregate Bond Index
Global Bonds	0%	0%	15%	World Govt Bond Index
Credit	0%	5%	10%	Credit Suisse High Yield Index
Diversifying Strategies	**0%**	**10%**	**15%**	**HFRI FOF Conservative Index**
Diversifying Strategies	0%	10%	15%	HFRI FOF Conservative Index
Real Assets (Inflation Hedging)	**5%**	**15%**	**30%**	**Weighted Avg of Real Assets**
TIPS	0%	0%	10%	Bloomberg Barclays TIPS
Commodities	0%	0%	10%	Dow Jones-AIG Commodities
Natural Resources	0%	6%	10%	S&P Global Natural Resources + 3%
Real Estate	0%	2%	15%	NCREIF ODCE
Private Real Estate	0%	7%	15%	NCREIF ODCE

*3% Minimum is the minimum target to cash.

Public Welfare PWF

Target and Traditional Portfolio Benchmarks

	Target	Benchmark
Equity Strategies	**55%**	**MSCI All Country**
Fixed Income (Deflation Hedging)	**20%**	**Barclays US Aggregate**
Diversifying Strategies	**10%**	**HFRI FOF Conservative Index**
Real Assets (Inflation Hedging)	**15%**	**Weighted Avg of Real Assets**
	100%	

Target Portfolio	**55% MSCI All Country, 30% Barclays Aggregate, 15% Weighted Avg of Real Assets**
Traditional Portfolio	**70% MSCI All Country, 30% Barclays Aggregate**

The investment returns achieved by the investment manager(s) will be compared to the investment returns achieved by a composite benchmark. The composite benchmark will consist of the weighted returns of the target asset mix representative index.

The target allocation for illiquid investments is 35 percent of the total portfolio and shall not exceed 37 percent. Illiquid investments include private capital, distressed debt, private credit, natural resources and private real estate partnerships.

The general policy shall be to diversify investments among equity, fixed income, and real assets strategies so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category. The asset allocation policy will be implemented through the use of qualified external professional investment managers. The external investment managers are expected to have full discretion and authority for determining investment strategy, security selection and timing subject to Policy guidelines and any other guidelines specific to their portfolio. In general there will be no more than 12 percent invested in any one manager (with a goal of 10 percent or less) within a single strategy with the exception of passive index funds.

Rebalancing Policy

The purpose of rebalancing is to ensure that asset allocation complies with the targeted policy ranges thereby managing portfolio risk and performance. The Endowment will be rebalanced as necessary, making use of spending payments to the extent possible and considering the transaction costs involved in the rebalancing. 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 or risk to the portfolio.

The OCIO will execute rebalancing transactions. These rebalancing shifts may be tactical in nature and must fall within the specified asset allocation ranges as defined by this statement. The OCIO may not execute rebalancing that would result in a new investment in an illiquid investment program or an allocation outside of the guidelines in this policy statement without the prior approval of the Finance Committee. The rebalancing process will be consistent with the executed advisory agreement between PWF and the OCIO.

Investment Policies, Guidelines and Restrictions

The investment policies, guidelines and restrictions presented in this policy statement serve as a framework to help PWF and its investment manager(s) achieve the investment objectives at an acceptable level of risk. The Endowment will be diversified both by asset class and within asset classes. Within each asset class, securities are expected to be diversified among economic sector, industry, quality, and size. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the performance of the total Endowment. As a result, the risk level associated with the portfolio investment is expected to be reduced.

Equity Securities

The purpose of equity investments, both domestic and international, in the Endowment is to provide the primary source of return in the form of capital appreciation and income, with the recognition that this asset class carries with it the assumption of greater market volatility and increased risk of loss. This component includes domestic and international common stocks, American Depository Receipts (ADRs), preferred stocks, and convertible stocks traded on the world's stock exchanges or over-the-counter markets.

Public equity securities shall generally be restricted to readily marketable securities of corporations that are traded on established stock exchanges, including NASDAQ and similar networks. Equity holdings must generally represent companies meeting a minimum market capitalization requirement of $50 million with reasonable market liquidity. Decisions as to individual security selection, number of industries and holdings, current income levels and turnover are left to broad manager discretion, subject to the standards of fiduciary prudence. However, no single major industry shall represent more than 20% of the Endowment's total market value, and no single security shall represent more than 5% of the Endowment's total market.

The Domestic and International Equity Investment Manager(s) are prohibited from borrowing money or pledging assets, or trading uncovered options, commodities or currencies without advance approval. The Manager(s) is also restricted from investing in private placements and restricted stock unless otherwise permitted by the Finance Committee. It is expected that no assets will be invested in securities whose issuers are or are reasonably expected to become insolvent, or who otherwise have filed a petition under any state or federal bankruptcy or similar statute.

Private Capital Partnerships - Investments may also include domestic and international venture capital and private equity investments, held in the form of professionally managed pooled limited partnership investments. Such investments must be made through funds offered by professional investment managers.

Distressed Debt - Investments may also include domestic and international distressed debt investments (both liquid trading opportunities as well as illiquid control strategies), typically held in the form of professionally managed pooled limited partnership investments.

Within the above guidelines and restrictions, the Manager(s) has complete discretion over the timing and selection of equity securities.

Fixed Income Securities

The purpose of fixed income investments, both domestic and international, is to provide diversification and a predictable and dependable source of current income as well as a deflation hedge. Fixed income instruments should reduce the overall volatility of the Endowment's assets. It is expected that fixed income investments will not be totally dedicated to the long term bond market, but will be flexibly allocated among maturities of different lengths according to interest rate prospects. This component includes both the domestic fixed income market and the markets of the world's other economies. It includes but is not limited to U.S. Treasury and government agency bonds, foreign government and supranational debt, public and private corporate debt, mortgages and asset-backed securities, and non-investment grade debt. Fixed income also includes money market instruments, including, but not limited to, commercial paper, certificates of deposit, time deposits, bankers' acceptances, repurchase agreements, and U.S. Treasury and agency obligations.

Investments in fixed income securities should be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums. These investments will be subject to the following limitations:

> Investments of a single issuer, with the exception of the U.S. Government and its agencies (including GNMA, FNMA and FHLMC), may not exceed 5% of the total market value of the Endowment;
>
> No more than 25% of the traditional fixed income portfolio may be rated below-investment grade.

Cash and Equivalents - The Investment Manager may invest in the highest quality commercial paper, repurchase agreements, Treasury Bills, certificates of deposit, and money market funds to provide income, liquidity for expense payments, and preservation of the Fund's principal value. Commercial paper assets must be rated at least A1 or P-1 (by Moody's or S&P). No more than 5% of the Endowment's total market value may be invested in the obligations of a single issuer, with the exception of the U.S. Government and its agencies.

Uninvested cash reserves shall be kept to a minimum; short term, cash equivalent securities are usually not considered an appropriate long term investment vehicle. However, such vehicles are appropriate as depository for income distributions from longer term investments, or as needed for temporary placement of funds directed for future investment to the longer term capital markets. Also, such investments are the standard for contributions to the current fund or for current operating cash.

Within the above guidelines and restrictions, the Manager(s) has complete discretion over the timing and selection of fixed income and cash equivalent securities.

Diversifying Strategies

Diversifying Strategies - Investments may include hedge funds and other investments with the flexibility to employ sophisticated investment strategies that aim to provide attractive risk-adjusted returns through lower correlation to traditional equity and fixed income investments. Investments can be both domestic and international market oriented.

Real Assets

U.S. Treasury inflation-indexed securities ("TIPS") and non-U.S. dollar denominated inflation-indexed securities – Inflation-indexed securities are fixed income securities that are structured to provide protection against inflation. The value of an inflation-indexed bond's principal or the interest paid on the bond is adjusted to track changes in an inflation-linked index.

Commodities - Investments may also include a broad range of commodity oriented strategies. These strategies will include but may not be limited to futures, options on futures and forward contracts on exchange traded agricultural goods, metals, minerals, energy products and foreign currencies. The use of swap transactions will be permitted to access this market strategy. Investments may be held in the form of professionally managed pooled funds, segregated and limited liability or corporate investments.

Natural Resources – Investments may also include oil, gas, and timber investments, held in the form of professionally managed pooled limited partnership investments. Such investments must be made through funds offered by professional investment managers.

Real Estate - Investments may also include equity real estate, held in the form of professionally managed, income producing commercial and residential property. Such investments must be made through funds offered by professional investment managers.

Derivatives and Derivative Securities - Certain of the Endowment's managers may be permitted under the terms of their specific investment guidelines to use derivative instruments. Derivatives are contracts or securities whose market value is related to the value of another security, index, or financial instrument. Investments in derivatives include (but are not limited to) futures, forwards, options, options on futures, warrants, and interest-only and principal-only strips. No derivative positions can be established that create portfolio characteristics outside of portfolio guidelines. Examples of appropriate applications of derivative strategies include hedging market, interest rate, or currency risk, maintaining exposure to a desired asset class while making asset allocation changes, gaining exposure to an asset class when it is more cost-effective than the cash markets, and adjusting duration within a fixed income portfolio. Derivatives positions should be fully collateralized. Investment managers must ascertain and carefully monitor the creditworthiness of any third parties involved in derivative transactions.

Each manager using derivatives shall (1) exhibit expertise and experience in utilizing such products; (2) demonstrate that such usage is strategically integral to their security selection, risk management, or investment processes; and (3) demonstrate acceptable internal controls regarding these investments. The OCIO will perform a comprehensive due diligence review at least annually.

Restrictions

The Finance Committee is authorized to waive or modify any of the restrictions in these guidelines in circumstances that it determines to be appropriate. Any such waiver or modification will be made only after a thorough review of the manager and the investment strategy involved and shall be reported to the full Board.

Spending Policy

The purpose of the Spending Policy is to set forth the Board's policy regarding the appropriate level of spending on grants. The target spending rate and spending practices outlined in this statement will be used to generate spending guidelines for each fiscal year. The spending guidelines will be used by the Board and staff to evaluate alternative grant making opportunities in light of the finite resources available. The spending guideline is not an absolute commitment by the PWF Board of Directors that no less or no more than the amounts set forth in the spending guideline will be committed and/or distributed. The Board reserves the right to approve any grant it determines has merit, and may choose to adjust the spending guidelines for grant making opportunities of extraordinary merit.

The spending policy will be comprised of three components: a spending rate, a base to which the rate will be applied and a spending range, or the degree of change, in dollars, from year to year.

The Board believes that the spending rate should be set periodically to address the current grant making needs in light of prevailing economic conditions and Endowment performance. The Board will analyze all relevant factors in deciding the spending rate to ensure the sound financial health of the Endowment while providing a reasonable level of funding to programs that PWF supports. To further ensure that the financial health of the Endowment is maintained and to provide a stabilizing effect during periods of extreme volatility, the spending policy also imposes limits on the amount by which expenditures can increase or decrease on a year-to-year basis. These limits are intended to ensure that spending levels do not grow too rapidly in rising markets or drop too dramatically during declining markets. This limit or cap is set and can only be changed at the discretion of the Board.

1) **Spending Rate -** The Board determines this rate periodically. In its decision, the Board will analyze a range of relevant factors to ensure the balance between the Endowment's financial sustainability and PWF's program work is met. The Board has initially set this rate at 5.5%, but as stated, will re-evaluate the rate as needed

2) **Market Value Base** – To achieve returns to maintain and grow the endowment, PWF's investment policy invests a significant portion of the endowment in equities. Equity markets are inherently volatile which could lead to erratic spending patterns. To dampen the effect of such volatility on PWF spending, the PWF applies the annual spending rate against the average of the

previous 36 monthly market values.

3) **Limits on Year-to-Year Spending Changes –** To further ensure actual spending levels do not increase or decrease excessively in volatile market conditions, the Board has elected to impose a limit on how much spending can increase or decrease from one year to the next. This limit is set at the discretion of the Board and may change due to changes in economic conditions and the endowment's fiscal health. The range is initially set at +/-10%.

The spending policy and its components will be monitored, and if necessary, adjusted, to ensure PWF's compliance with federal tax law regarding payout requirements.

The spending policy and its components may be adjusted at the discretion of the Board.

Cash Management Policy

Purpose

The intent of the Cash Management Policy is to ensure liquidity and availability of cash to meet the Foundation's operations and grant funding needs. This policy will be effective until modified by the Foundation's Finance Committee as conditions warrant.

General Guidelines

All activity and balances of the Foundation's cash accounts and cash equivalents (i.e. CDs, etc) will be monitored and maintained by staff, principally by the Chief Financial and Administrative Officer. Staff is charged with determining the Foundation's cash needs and to ensure that adequate funds are available to meet these needs.

Foundation cash accounts may invest in investment vehicles, inclusive of pooled and individual structures/securities, that are issued by the U.S. Government or issued by institutions that have an investment credit rating of not less than AA, as rated by a nationally recognized rating agency such as Moody's or Standard and Poor's.

Generally, an average of six months of cash or cash equivalents is expected to be maintained in the PWF's cash accounts. Staff may recommend and seek the Finance Committee's approval to maintain cash at lower or higher levels, depending on current market conditions.

The investment management of pooled cash vehicles and the selection of individual securities within these vehicles will be the responsibility of external registered investment managers.

Changes to this policy will require the approval of the Finance Committee.

Roles and Responsibilities

Board of Directors

A committee of the Board of Directors, designated as the Finance Committee, has been established to focus on implementing and monitoring the Endowment’s compliance with this policy statement.

Outsourced Chief Investment Officer (OCIO)

The committee may utilize an advisor as an investment consultant to advise and assist the committee in the discharge of its duties and responsibilities. The Foundation has elected to engage an independent outsourced chief investment officer (OCIO) to assist the Committee with its portfolio management and oversight responsibilities. The OCIO currently has full discretion and will execute decisions on behalf of the Committee with respect to all matters of portfolio management including investment strategy, manager selection and asset allocation within the guidelines as stated in this Investment Policy Statement.