Managing Hedge Fund Managers: Quantitative and Qualitative Performance Measures
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APPENDIX A

Sample Investment Policy Statement

Investment Policy Statement

The purpose of Funds is to support the mission by providing a reliable source of funds for current and future use. The Funds assets have an indefinite time horizon that runs concurrently with the existence of the family in perpetuity. As such, the investment portfolio assumes a time horizon that may extend beyond a normal market cycle and therefore may assume an appropriate level of risk as measured by the standard deviation and downside deviation of annual returns. It is expected that professional management and portfolio diversification will smooth volatility and assure a Minimum Acceptable Return (MAR). Investment of the Funds is the responsibility of the Investment Committee (Committee). The Committee recommends investment objectives and policies, recommends asset allocation, selects investment Managers, and monitors the Funds investment program. The Committee will be advised by the Family Office (FO), who will analyze investment policies and management strategies, make recommendations to the Committee, and supervise operations and investment activities. This Investment Policy should not change frequently. In particular, short-term changes in the financial markets should not require adjustments to this Investment Policy.

I. STATEMENT OF INVESTMENT OBJECTIVES

The Funds will seek to maximize long-term total returns consistent with prudent levels of risk. Investment returns are expected to preserve or enhance the real value of the Funds to provide a MAR that will support the family activities. Funds are expected to generate a MAR, net of fees, of XX percent over a rolling 3-year period. Funds MAR governs the rate at which funds are released to the family for their current spending. The MAR will be reviewed annually by the Investment Committee for recommendation and approval.

II. ASSET ALLOCATION AND REBALANCING

To achieve its investment objectives, the Fund will be allocated among a number of asset classes. These asset classes may include domestic equity, domestic fixed income, international developed equity, international emerging markets equity, and international fixed income, alternative investments (absolute return) and directional hedge funds, private equity, venture capital, real assets, and cash. The purpose of allocating the investment portfolio asset classes is to ensure the proper level of diversification within the Fund.

The Committee will review and recommend asset class allocation targets and minimum/maximum ranges no less frequently than annually. The Asset Allocation Policy Table attached to this document defines the present policy target asset allocation percentages of the families' portfolio. The Committee may appoint Investment Managers (Managers) or select pooled investments with an objective to be fully invested at all times. If at any time a Manager elects to be invested at less than 90 percent, the Committee shall be notified. Managers are expected to diversify holdings consistent with prudent levels of risk.

Asset allocations shall be made among various asset classes including the following, subject to the limitations stated in the Asset Allocation Policy Table.

A. Domestic Equity Portfolio

The domestic equity portfolio will be invested on the basis of total return, including dividend yield and capital appreciation.

The return, risk, and cost dynamics of each sub-class/style (i.e., large cap, small cap, growth, value, etc.) will be evaluated to determine whether active or passive management is appropriate under the circumstances existing at the time.

Within the guidelines and restrictions, Managers have discretion over the timing and selection of equity securities and are expected not to time the market.

B. International Equity Portfolio

The Funds international equity portfolio will be invested in stocks of international issuers on the basis of total return, including dividend yield and capital appreciation. No more than 10 percent of the international equity portfolio may be invested in emerging markets (i.e., countries in the Morgan Stanley Capital International Emerging Markets Free Index and other non-EAFE markets.) Currency hedging as a defensive strategy is permitted in global or international equity portfolios.

C. Alternative Investments

Alternative Investments involve investing in non-traditional asset classes and in traditional asset classes structured in a non-traditional manner. Managers are expected to use their specific investments skills to generate long-term equity-like returns that are not highly correlated to traditional asset classes. Absolute Return (marketable) and Directional hedge fund investment strategies, such as, long versus short, tactical asset allocation, distressed securities, and arbitrage strategies, among others may be used to enhance investment returns and overall portfolio diversification. Investment commitments to alternative asset Managers will be made to attempt to achieve an average investment in subclasses of alternative investments at or below the individual target levels established for each subclass. The Funds non-marketable alternative investment portfolio will be invested in venture capital, leveraged buyouts, distressed debt, timber, energy, and other investments recommended by the committee in order to produce the combined or individual effects of reducing overall portfolio risk or to generate expected returns that exceed those available from domestic and international equities. Non-marketable alternative investments in aggregate will be valued at cost for purposes of determining whether they are within the permitted allocation target level. Investments in alternative assets will be made primarily in Funds, a limited partner relying upon the expertise of experienced general partners. The alternative investment portfolio will be invested across a broad spectrum of underlying investments up to the target level for each asset subclass that should realize expected returns over a period of ten years. Net commitments (total commitments minus distributions) to a single manager may not represent more than 15 percent of the asset allocation target for alternative investments.

Managers for alternative investments shall provide, in writing, the policies and procedures used in periodic portfolio valuation. These policies and procedures along with portfolio composition are to be reviewed with the

Family at least annually. At a minimum, the Manager will address the following:

- Nature of underlying investments, including factors such as complexity, liquidity, volatility and frequency of trading.
- Methodology and assumptions used in valuation.
- Role of advisory committee in valuations.
- Current membership and experience of advisory committee members.
- Checks and balances in place to ensure a fair evaluation process.
- Specific guidelines for marketable alternative investments are listed in Appendix I.

D. Fixed Income Portfolio

Fixed income Investments may be managed to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums, with the objective of meeting or exceeding the results of the fixed income market as represented by the annualized returns of specific indices over an annualized moving three- and five-year time period. The fixed income portfolio may include municipal bonds and U.S., non-U.S., or emerging market fixed income instruments.

E. Real Asset Portfolio

A portion of the portfolio will be invested by Managers who are expected to use their specific investment skills to generate returns that have lower correlations to the U.S. stock market. Real Estate and commodity investments may be made in a broad spectrum of investments including publicly traded Real Estate Investment Trusts (REITs), open- or closed-end funds, limited partnerships, Exchange-traded funds (ETF).

F. Asset Allocation Rebalancing

Marketable asset classes that exceed tolerance ranges will be rebalanced to target levels quarterly. Excess allocations intended for non-marketable asset categories will be carried, prior to their investment in non-marketable assets, in one or more other asset classes after consultation with the Investment Consultant and approval from the Chair of the Investment Committee.

The Russell 3000 will be used as a proxy for the domestic equities market. Domestic equity portfolios and strategies selected for the portfolio will be chosen with the goal of forming a domestic equity portfolio that is similar in capitalization relative to the Russell 3000 index.

Tolerance ranges for portfolio rebalancing will be established by multiplying target ranges times the expected volatility (standard deviation) updated annually by the FO for each portfolio target allocation, rounded up to the closest whole percentage point. (Example: An asset class with an expected volatility of 17 percent and a portfolio target allocation of 10 percent would result in 17 percent times 10 percent equals 1.7 percent rounded up to 2 percent. The asset class will be rebalanced quarterly when the tolerance exceeds plus or minus 2 percent; i.e., when the actual portfolio allocation to that asset class is over 12 percent or below 8 percent, the asset class is rebalanced to 10 percent.)

III. GUIDELINES FOR THE SELECTION OF FIXED-INCOME SECURITIES

A. Diversification

Except for the U.S. government, its Federal Agencies or instrumentalities, no more than 5 percent of the fixed-income portfolio at cost, or 10 percent at market value, shall be invested in any one guarantor, issuer, or pool of assets. In addition, Managers are expected to exercise prudence in diversifying the Fund's investment by sector and industry.

B. Investment Quality

U.S. FIXED INCOME—All fixed income obligations must be rated investment grade BBB/Baa or better by either Standard & Poor's or Moody's Investors Service, except that bonds not receiving a rating may be purchased under the following circumstances:

- The issue is guaranteed by the U.S. government, its Federal Agencies or instrumentalities.
- Other comparable debt of the issuer is rated investment grade by Standard & Poor's or Moody's Investors Service.

Securities downgraded in credit quality rating subsequent to purchase, resulting in the violation of the policy guidelines, may be held at the Manager's discretion. This is subject to immediate notification to the FO of such a change in rating.

NON-U.S. FIXED INCOME—For funds invested with a Manager in a separately held account, the non-U.S. assets held by such Manager must be investment grade fixed income securities (or securities deemed of comparable quality by the Manager) of issuers located outside the United States. All fixed income obligations must be rated investment grade BBB/Baa or better. The average quality rating of the non-U.S. fixed income portfolio must be A or better.

GLOBAL FIXED INCOME—The Global fixed income asset class will be comprised of investment grade fixed income securities and may be comprised of domestic or global issues. All bonds must be rated BBB or better.

MUNICIPAL FIXED INCOME—Strategies for this asset category will be comprised of U.S. fixed income instruments of state and local authorities with the legal capacity to float municipal securities. All municipal bonds held will be investment grade or have an indenture mechanism to guarantee principal such as backed by another higher rated entity, escrowed to maturity, or insured.

C. Duration

In general, the average duration of managed fixed income assets (excluding global high yield fixed income) will be maintained within the range of the average duration of the designated bond index plus or minus one and one-half years.

IV. GUIDELINES FOR SELECTION OF EQUITY INVESTMENTS

Diversification for Each Manager (Long Only)

No more than 5 percent at cost, or 10 percent at market value, shall be invested in any single issuer. In addition, Managers are expected to exercise prudence in diversifying the Fund's investments by sector and industry with weightings no more than two times the Manager's comparable benchmark.

V. STANDARDS OF PERFORMANCE

A. Performance Relative to Risk

The stated goal for the total portfolio is to generate a Minimum Acceptable Return of XX percent over rolling 3-year periods.

Broad portfolio diversification is expected to provide an aggregate risk (volatility) for the total portfolio that is lower than that of a market index weighted to match the asset mix of the portfolio.

The disciplined approach to investment is intended to be consistent over time and among asset classes. Incremental changes to asset class allocation will be proposed or new classes added when such actions are anticipated to improve returns and/or reduce risk.

B. Peer Group

Performance of the Managers in the portfolio will also be compared to a peer universe with similar investment styles. It is expected that the total portfolio will perform above the median performance in the comparable fund universe provided by the FO.

Managers are expected to equal or exceed the return of the agreed benchmark and generally perform in the top 40th percentile (40 percent) or better of their respective peer group over a market cycle (3–5 years), as measured by a broad performance database that evaluates Managers as to style, risk, and return.

C. Indices

1. Performance of the Fund (net of fees) and its component asset classes will be measured against benchmark returns of comparable portfolios as follows:

   Total Fund Aggregated weighted return equal to the actual asset class composite market value as a percentage of total portfolio market value multiplied times the selected benchmarks for the asset class composites.

   U.S. Equity

   Large Cap: Russell 1000 Index

   Mid Cap: Russell Mid Cap Index

   Small Cap: Russell 2000 Index

   International Equity

   Non-U.S. Developed: MSCI EAFE Index

   Emerging Markets: MSCI Emerging Market Index

   Absolute Return Composite 91 Days T-Bill + 450 Basis Points

   Non-Marketable Composite Total Non-Marketable actual return

   Real Assets

   CPI-Urban Index

   NAREIT Index

   Goldman Sachs Commodity Index

   Fixed Income Composite

   Global Fixed Income: Citigroup Global Bond Index

   Municipal Bonds: Lehman Intermediate Muni Bond Index

2. **MARKETABLE ALTERNATIVE INVESTMENTS**—Performance will be compared to 91-day U.S. T-Bills plus 450 basis points. Period to

period performance for marketable alternative assets will also be compared to the HFRI Hedge Fund or Fund-of-Funds Index benchmark to assess relative asset class movement and volatility.

3. **NON-MARKETABLE ALTERNATIVE INVESTMENTS**—The primary objective is to obtain equivalent or higher U.S. equity returns over multi-year periods, with reduced volatility and lower risk (standard deviation) for the equity portfolio. Actual non-marketable alternative investment returns will be used as the benchmark. Non-marketable alternative investment performance will also be compared to the Russell 3000 plus 300 basis points per annum to assess relative asset class movement and volatility.
4. **REAL ESTATE**—Investments will be compared to the NAREIT index.
5. **U.S. FIXED INCOME**—Fixed income performance will be compared to the total return of the Lehman Aggregate Bond Index.
6. **INTERNATIONAL FIXED INCOME**—Performance will be compared to the total return of the Citigroup WGBI Non-U.S. Unhedged Index.
7. **TREASURY INFLATION PROTECTED SECURITIES (TIPS)**—Performance will be compared to the Merrill Lynch U.S. Treasury Inflation Index.
8. **GLOBAL FIXED INCOME**

   A. **GLOBAL FIXED INCOME**—Performance will be compared to the Citigroup Global Bond Index.

   B. **INTERNATIONAL EMERGING MARKETS DEBT**—Performance will be compared to the J.P. Morgan Emerging Markets Bond Index.

   The benchmark will be a weighed average of A + B. based on the overall allocation in the Global High Yield Category.

9. **CASH INVESTMENTS**—Performance will be compared to the Lipper Institutional Money Market Funds Index.

D. Trading and Execution Guidelines

Manager(s) shall have the discretion to execute securities transactions with brokerage firms of their choosing, based upon the quality of execution rendered, the value of research information provided, the financial health and integrity of the brokerage firm, and the overall efficiency in transacting securities trades. In the case of separate accounts, the Committee retains the right to direct brokerage commissions subject to best execution. When the Manager(s) directs commissions on behalf of the Fund, the direction will be contingent upon the institution being competitive in both price and execution for the specific transaction. FO will be consulted and utilized for new or transferred portfolios when cost-efficient.

E. Investment Monitoring

At least annually, the Committee will conduct performance evaluations at the total Fund, asset class, and individual Manager Levels. At the total Fund level, the Committee will analyze results relative to the MAR, the real rate of return and the benchmark indices for the total Fund. Further, investment results will be reviewed relative to the effects of policy decisions and the impact of deviations from policy allocations that may require portfolio rebalancing.

On the asset class and individual Manager levels, results will be evaluated relative to benchmarks (net of fees) assigned to Managers and selected pooled investments. These benchmarks are a vital element in the evaluation of individual and aggregate Manager Performance within each asset class.

G. Selection of Investment Consulting Services

The Committee may utilize the services of FO for specific due diligence, screening/evaluation of Managers, performance monitoring, asset allocation, and other services that the Committee may deem necessary that may exceed the scope of this IPS.

H. Custodial Services/Risk

All assets held by any custodian on behalf of the Family shall be registered in "street names" or "nominee names." The Family will provide FO with the appropriate authority to receive on-line and electronic transmissions of portfolio holdings and monitoring in order to provide all needed reporting.

Custodians may only lend securities within the terms and conditions of specific written agreements executed by an authorized member of the Family.

VI. SELECTION OF MANAGERS

The Committee may select and appoint Managers or commit investments to limited partnerships for a specific investment style or strategy provided that the overall objectives of the Fund are satisfied.

Managers (traditional asset classes) are expected to have a sound business infrastructure, have a minimum of $50 million in assets under firm management, an investment record of 3 years,* and strong relative performance against style-based benchmarks, and must provide a quarterly statement of assets and quarterly investment performance evaluation statements.

Alternative investment managers must have demonstrated experience of 3 years and 6 months documented performance, $25 million in assets under firm management, and provide monthly or quarterly statements from a non-affiliated administrative entity and annual audited statements from a recognizable accounting firm. Leverage in single strategy funds will be limited to no more than 3:1. Fund of Hedge fund managers will not be allowable.

VII. RESPONSIBILITIES OF MANAGERS

A. Adherence to Statement of Investment Objectives and Policy Guidelines

1. All Managers are expected to observe the specific limitations, guidelines, and philosophies stated herein or in any amendments hereto, or other written instructions from the Family. Where commingled funds are utilized in the Fund (including, but not limited to partnerships, commingled trusts, and mutual funds), the Committee recognizes the Manager's duty to manage the investments in the commingled vehicle consistent with the commingled funds prospectus or other operative document.
2. The Manager's acceptance of the responsibility of managing a portion of the Fund will constitute a ratification of this statement, affirming its belief that it is realistically capable of achieving the Fund's investment objectives within the guidelines and limitations stated herein.

B. Communication and Reporting

The FO shall communicate on a regular basis with the Committee on all significant matters pertaining to this Investment Policy and the management of the portfolio.

FO must provide quarterly valuation reports and quarterly and annual investments performance reports.

Committee and the FO will meet at least quarterly to review this Investment Policy and the continued feasibility of achieving the stated investment objectives and goals.

* Historic performance may include the Manager's experience at a former investment firm.

Specific areas of review shall include:

1. Asset allocation and portfolio performance.
2. Evaluation of each fund/Manager's results.
3. Fund/Manager's adherence to the investment policy guidelines.
4. Material changes in the Manager's organization, ownership, investment philosophy, and/or personnel.

C. Discretionary Authority

Each Manager will be responsible for making all investment decisions including proxy voting for all assets placed under its management and will be held accountable for achieving the investment objectives stated herein. Such "discretion" includes decisions to buy, hold, and sell securities (including cash and equivalents) in amounts and proportions that are reflective of the Manager's current investment strategy and are compatible with the Fund's investment guidelines.

Marketable Alternative Portfolio Investment Guidelines The purpose of portfolio guidelines is to clearly define performance objectives, state the investment approach, and to control risk. Portfolio guidelines should be subject to ongoing review. A change in the allocation to the strategy or the Investment Committee's risk tolerance can be among the reasons for a guideline review.

Performance Objective:

The strategic objective of the Marketable Alternative ("Hedge Fund" or "HF") portfolio is to earn an annualized return that exceeds the annualized rate of return of the three-month U.S. Treasury bill by 5.0 percent. The HF portfolio should also provide diversification benefits to the overall portfolio by offering returns that have low correlation to the performance of other asset classes.

Portfolio Guidelines:

1. Permissible investments include funds that invest primarily in a combination of:
   a. *Long/Short strategies* (including U.S., dedicated Non-U.S., short bias, and global equities).
   b. *Relative Value strategies* (including equity market neutral, convertible bond arbitrage, and fixed income).
   c. *Event Driven strategies* (including distressed securities, special situations, capital structure arbitrage, relative value credit, and risk arbitrage strategies.
   d. *Directional strategies* (including global asset allocation, CTA and global macro).

2. Target rebalance range and maximum allocation for the strategies are:

	Target Range	Max
Long/Short Equity	20–40%	50%
Event Driven	20–40%	50%
Relative Value	20–40%	50%
Directional	5–20%	25%

3. Direct single-strategy, multi-strategy and fund-of-funds investments are permitted. Leverage will be limited to no more than 3:1.
4. No investment with any single manager can represent more than 15 percent of the HF portfolio.
5. No investment with any single fund may exceed 20 percent of that fund's total assets under management.
6. Total HF portfolio forecast downside risk shall be maintained at a level of no more than 7.5 percent of total invested HF capital based on realized and pro forma risk measured quarterly.
7. No more than 15 percent of the total HF portfolio risk budget may be derived from any single manager.
8. Currency hedging as a defensive strategy is permitted in global and international portfolios.
9. Derivative securities may be used within asset portfolios provided that investments in such instruments do not cause the portfolio to be exposed to an asset class not expressly approved in this policy. Derivatives may not be used in non-alternative asset portfolios to add additional risk or leverage, but may be used to control risk or establish exposures to asset classes.
10. Except for Relaxed Short Constraint (130/30 or similar funds), Absolute Return Strategies, and other hedge fund strategy investments, the Managers will not employ short selling without prior written approval by the Family.