THE CLEVELAND FOUNDATION

Investment Policy Statement

1. Guiding Principles

The Cleveland Foundation's mission is to enhance the quality of life for all residents of Greater Cleveland, now and for generations to come, by working together with our donors to build community endowment, address needs through grantmaking, and provide leadership on key community issues.

The investment funds of The Cleveland Foundation (TCF or the Foundation), and the funds held by the Bank Trustees and administered pursuant to the various Multiple and Combined Fund Trusteeship Resolutions, are the community's endowment and a vital source of grants to the Greater Cleveland community and operating support for the Foundation. TCF seeks to both preserve invested capital and achieve long-term real growth of the assets entrusted to the Foundation's stewardship to enable the Foundation to respond to needs and opportunities within the community. For these reasons, the pursuit of superior management of the assets is one of the Foundation's guiding principles.

2. Investment Objectives

The long term investment objective is to achieve a positive real return on investments over the majority of rolling five and ten year periods. A real return is any return in excess of spending (generally 5%), inflation and fees.

Achieving better than benchmark returns in any given period is <u>not</u> the primary investment objective. Although this may be a valuable tool to evaluate managers, the investment objective is to preserve capital and earn a long-term real return.

Principal distributions, in excess of the spending policy, can be made pursuant to the various trust documents and at the discretion of the Board but are generally not advisable when cumulative real returns over recent five and ten year periods are below the long-term objective.

Mission-Related Investments within the investment pools may be made at the discretion of the Investment Committee. Mission-related investments are investments that further TCF's mission and are of investment grade quality based on a review by the independent consultant.

3. Investment Responsibilities

The Board of Directors. The Board of Director's role is to approve the investment policy and the investment committee charter and membership. Responsibility for implementing the policies and monitoring performance is delegated to the Investment Committee.

The Investment Committee. The Investment Committee is responsible for working with the Foundation staff, the independent consultant and the trust banks to achieve the long-term return objectives. This includes establishing and monitoring asset allocation guidelines and quality standards, and overall compliance with the objectives specified in this document and the Investment Committee Charter.

Trust Banks. Under the Foundation's Declaration of Trust, investment responsibility for investments at Key Bank and PNC is specifically assigned to the trust banks. Subject to (1) broad investment policies as outlined in this document, (2) generally accepted standards of fiduciary prudence and, (3) consultation with the Investment Committee, this responsibility includes, but is not limited to, investment policy and strategy with regard to asset mix, diversification, market volatility, and management style. In addition, the trust banks are responsible for specific investment decisions with regard to security selection, timing and yield, and the use of outside investment managers. Under the Agreement between the Trustees Committee and The Cleveland Foundation (effective December 1, 2002), the Bank Trustees and Board of Directors agree to collaborate in a manner that allows each party to fulfill their respective fiduciary duties and to achieve the best possible investment results.

TCF Staff. TCF staff, including the CEO, CFO, and Manager of Investments and Finance, is responsible for the oversight of the Key Bank and PNC portfolios and for the management of the TCF pool and other investments of the Foundation and to assure that the investment approach is aligned with this investment policy. Their specific responsibilities include:

- all day-to-day activities to monitor, invest, and control the assets and the implementation of any changes approved by the Investment Committee;

- periodic reporting to the Investment Committee, Board, donors, and the public;

- maintaining adequate documentation of due diligence and on-going monitoring of all investments to meet annual audit requirements.

Investment Consultant. The investment consultant is responsible for assisting the Investment Committee and Foundation staff in all aspects of managing and overseeing the investment portfolio. The consultant is the primary source of investment education and investment manager information. On an ongoing basis the consultant is responsible for:

- a periodic review of the investment policy and objectives (with staff);

- the measurement and evaluation of the Fund and investment manager performance;

- the ongoing monitoring of investment managers currently employed in the TCF pool; recommendations on new managers and terminations of managers;

- reporting on developments that have had, or may have, a material impact on Fund performance;

- advising the Investment Committee and TCF staff with respect to asset allocation, asset classes, and managers, including the TCF pool and the Key Bank and PNC portfolios.

The extent to which the Investment Committee delegates to Foundation staff and the investment consultant's role vary as to different parts of the investment portfolio (defined as Trust Banks (Key and PNC), the TCF pool, the remaining investments).

Fiduciary Duty. Each member of the Investment Committee, the trust banks, TCF staff and independent consultant shall discharge his or her investment duties in good faith, in a manner reasonably believed to be in the best interests of TCF and its constituents, and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. A person who has special skills or expertise has a duty to use those skills or that expertise in managing and investing funds.

Members of the Investment Committee, the trust banks, TCF staff, and independent consultant must provide full and fair disclosure to the Investment Committee of all material facts regarding any potential conflicts of interest.

4. Investment Guidelines

Investment Strategy. The Investment Committee understands the long-term nature of the endowment and believes that investing in assets with higher return expectations outweighs short-term volatility and liquidity risk. As a result, the majority of assets will be invested in equity or equity like securities. Fixed income and absolute return strategies will be used to lower short-term volatility and real assets will be used to protect against inflation.

Diversification of assets will be employed to avoid undue risk concentration and enhance total return over time. The portfolio will be well diversified by asset and sub-asset class, investment style, investment manager, and security, which will diversify its sources of return as well as reduce overall portfolio volatility.

"Best in class" investment managers are employed for each asset class. Returns, net of fees, will be evaluated against relevant benchmarks for each asset class.

Asset Allocation. Asset allocation is expected to be the key determinant of the investment return over the long term. Therefore, diversification of investments across multiple markets that are not similarly affected by economic, political or social developments is desired. A diversified portfolio, with uncorrelated returns from various assets, should reduce the volatility of returns overtime. In determining the appropriate asset allocation, the inclusion or exclusion of asset classes shall be based on their impact on the total fund, rather than judging categories on a stand-alone basis.

Asset allocation and expected return/risk studies are conducted to provide reasonable assurances that TCF's investment objectives can be achieved within the parameters of appropriate risk. These studies are prepared annually or when material changes in the markets or in the portfolio take place.

The long-term target asset allocation is expected to provide a total return equal to or greater than TCF's objective while avoiding concentrations in any single asset class and thus reducing risk at the overall portfolio level. The Investment Committee has adopted the following asset allocation strategy for Key Bank, PNC and the TCF pool:

Asset Allocations

	Min	Target	Max
Equities			
Large Cap	10	20	30
Small/mid Cap	5	10	15
Int'l	10	20	30
Fixed Income	10	15	20
Alternatives			
Hedged equity	5	10	20
Absolute return	5	10	20
Real assets	0	5	10
Private Equity	0	5	10
Cash	0	5	10
Total		100	

The CFO is responsible for monitoring the asset allocation of the remaining investment managers and smaller trust banks, and will report to the Investment Committee annually on these portfolios. A separate asset allocation strategy, with lower or no allocations to alternatives, is used for these smaller pools.

Liquidity. Each of the trust banks, TCF staff for the TCF pool, and the remaining investment advisors are expected to keep cash as needed to fund the spending and commitments out of each portfolio. Foundation staff will assist in monitoring and forecasting cash flow requirements to the extent possible.

Rebalancing. This asset allocation will be applied separately to each of the Key Bank, PNC, and TCF pools. Routine rebalancing of the portfolio is important to maintain the diversification of the portfolio given changing market conditions. If an asset class moves outside of the range and is expected to remain outside for more than two quarters, the CFO is expected to work with the applicable trust banks, independent consultant or other investment manager to rebalance the portfolio as soon as practicable or to explain to the Investment Committee the rationale for remaining outside the range, which may include liquidity considerations, manager availability, transaction costs, expectations of other portfolio transactions, and general market and/or economic conditions. Rebalancings should be made in the most cost effective and efficient manner.

Restrictions.

<u>Position Limits</u> – Individual alternative investments (hedge funds, private equity funds, etc.) and highly concentrated equity or debt managers should be limited to 3-10% of Key Bank, PNC, and the TCF pool, depending on asset class. If an investment exceeds the limit it must

be reduced below the limit as soon as practicable, giving effect to liquidity considerations, manager availability, transaction costs, and expectations of other portfolio moves.

Lock-ups and Commitments – The trust banks and TCF staff should monitor the individual and aggregate amount of current and projected lock-ups and commitments and report to the Investment Committee semi-annually. In general, investments and unfunded commitments should not exceed the maximum allowable for the applicable asset class unless discussed with or approved by the Investment Committee.

5. Control Procedures

The CFO is responsible for implementing appropriate internal control procedures surrounding the investment portfolio. Key items include the following:

- Overall performance will be reported to the Investment Committee at each quarterly meeting.

- Investment Committee meets with Key Bank and PNC at least twice per year to review performance, strategy, and asset allocation. The Investment Committee reviews performance of TCF pool at each meeting.

  The investment consultant will perform due diligence on all new investment managers under consideration for the TCF pool or the Key and PNC portfolios and review that due diligence with the CFO and the Investment Committee. The investment consultant and the trust banks will perform ongoing due diligence on all investment managers in the TCF pool and the Key and PNC portfolios, respectively. Ongoing due diligence will be per the investment consultants and trust bank policies but will generally include reviewing monthly performance, conference calls or in person meetings to review changes in performance, personnel, investment thesis, etc. TCF staff will also meet with investment managers (by teleconference or in person) on a select basis as part of the overall monitoring of the portfolio.

- Staff will meet with other trust banks and donor-advised investment managers at least annually to review performance and asset allocation. Staff will meet at least semi-annually with trust banks and donor-advised investment managers with over $5 million in assets under management.

- CFO has authority to invest new cash and investable cash and rebalance the portfolio within existing manager structure as long as all changes are done in consultation with outside investment consultant.

- Staff will obtain and review quarterly statements by all managers and an annual audited financial statement for all alternative investments.

- Assets for all managers are custodied at Key whenever possible. Alternative managers must custody assets at larger, well-known banks and use recognized auditors and legal counsel.