

Investment Policy Statement

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I. DEFINITIONS

PURPOSE

The Investment Policy Statement was adopted by the Board of Directors of The Foundation For The Carolinas (the "Board") to direct the prudent investment of its investment portfolio (the "Portfolio") in a manner consistent with the investment objectives stated herein. The Board has delegated financial oversight of the Portfolio to the Investment Committee (the "Committee").

This Investment Policy Statement shall be used by the Committee in its duty to oversee (in managing, monitoring and reporting on the investment portfolio) the investment portfolio and by the Portfolio's Master Trustee, Investment Managers and Investment Consultant

It is expected that this document will be reviewed annually by the Committee. Any revisions will be recommended to the Board.

SCOPE

This Policy applies to all assets that are included in the Foundation's investment portfolio for which the Committee has been given discretionary investment authority.

GENERAL STANDARDS

In seeking to attain the investment objectives set forth in the policy, the members of the Committee must act in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances and in a manner reasonably believed to be in the best interest of the Foundation. Members of the Committee must provide full and fair disclosure to the Committee of all material facts regarding any potential conflicts of interests.

DEFINITION OF DUTIES

Board of Directors

The Board has the final responsibility for overseeing the investment of the Portfolio. The Board must ensure that appropriate policies governing the management of the Portfolio are in place and that these policies are being effectively implemented. To implement these responsibilities, the Board sets and approves the Investment Policy Statement and delegates responsibility to the Investment Committee for implementation and ongoing monitoring. At least annually the Board will receive a performance report and review of the Investment Policy Statement from the Committee.

Investment Committee

The Committee is responsible for implementing the Investment Policy. This responsibility includes recommending to the Board of Directors investment strategy, hiring and firing of investment managers, monitoring performance of the investment portfolio on a regular basis (at least quarterly), maintaining sufficient knowledge about the portfolio and its managers so as to be reasonably assured of their compliance with the Investment Policy Statement.

In addition, the Board has authorized the Investment Committee to pre-approve Alliance Managers and submit their approval to the Board of Directors.

Senior Vice President for Finance & Administration

The Senior Vice President for Finance & Administration has daily responsibility for administration of the Portfolio and will consult with the Committee and Board on all matters relating to the investment of the Foundation's portfolio. The Senior Vice President for Finance & Administration will serve as primary contact for the Foundation's investment managers, investment consultant and master trustee.

II. OBJECTIVES

The Performance Objective is to grow the market value of assets net of inflation, spending, and expenses, over a full market cycle (generally defined as a five year period) without undue exposure to risk. In quantitative terms, the objective is to earn a total return of CPI plus 6.0%. It is also expected that the portfolio will outperform a weighted benchmark index over a full market cycle. The weighted benchmark index will be based on the asset allocation of the total portfolio.

STRATEGY

Because the Portfolio is expected to endure into perpetuity, and because inflation is a key component in its Performance Objective, the long-term risk of not investing in growth securities outweighs the short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities. Fixed income securities will be used to lower the short-term volatility of the portfolio and to provide income stability, especially during periods of weak or negative equity markets. Cash is not a strategic asset of the portfolio, but is a residual to the investment process and used to meet short-term liquidity needs. Other asset classes are included to provide diversification (e.g. international equities) and incremental return (e.g. small cap equities).

ASSET ALLOCATION

Disciplined management of the asset mix among classes of investments is both a necessary and desirable responsibility. In the allocation of assets, diversification of investments among asset classes that are not similarly affected by economic, political, or social developments is expected. Consequently, the general policy shall be to diversify investments so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class or investment category. The diversification does not necessarily depend upon the number of industries or companies in a portfolio or their particular location, but rather upon the broad nature of such investments and the factors that influence them. To ensure broad diversification in the long-term investment portfolios among the major categories of investments, asset allocation, as a percent of the total market value of the total long-term portfolio, will be set with the following target percentage and within the following ranges (on the next page):

Asset Class	Long-Term Weights	Min	Max
US Equities	37.5%	30.0%	45.0%
Large Cap Equities		16.0%	24.0%
Small Cap Equities		12.25%	22.75%
International Equities	22.5%	18.0%	27.0%
Developed International		10.0%	15.0%
International Small Cap		0.0%	6.5%
Emerging Market Equities		0.0%	6.5%
Fixed Income (Including Core Fixed Income, High Yield Fixed Income, & Inflation Hedged Bonds)	20.0%	16.0%	24.0%
Absolute Return Hedge Fund-of-Funds	10.0%	8.0%	12.0%
Real Assets	10.0%	8.0%	12.0%
Timber		0.0%	5.0%
Real Estate		0.0%	5.0%
Energy		0.0%	5.0%
Cash	0.0%	0.0%	10.0%

REBALANCING

The Senior Vice President for Finance & Administration, with advice from the investment consultant, will monitor the asset allocation structure of the investment pool and will attempt to stay within the ranges allowed for each asset class.

The Foundation will rebalance to target through the purchase or sale of investments in each asset class that does not meet the target on January 1st of each year.

If an asset class exceeds the permissible range at anytime before January 1st, the Foundation shall immediately rebalance to target, all asset classes, through the purchase or sale of investments in each asset class that does not meet target.

SPENDING POLICY

The distribution rate is based upon a total return approach, which utilizes both income and capital appreciation to be withdrawn for spending. The maximum allowable spending amount for the Foundation shall be 5% of the previous three year average of the Portfolio's market value. The formula shall be applied to the three years ending each fiscal year.

III. IMPLEMENTATION

TIME HORIZON

The Committee seeks to achieve or outperform the targeted expected returns, as defined by the asset allocation decision, over a full market cycle. The Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, investment managers may produce significant over or under performance relative to the broad markets. For this reason, long-term investment returns will be measured over a 5-year moving period. The Committee reserves the right to evaluate and make any necessary changes regarding investment managers over a shorter-term using the criteria established under "Manager Evaluation" below.

MANAGER EVALUATION

Each investment manager will be reviewed by the Committee on an ongoing basis and evaluated upon the following criteria:

- b) Avoidance of regulatory actions against the firm, its principals or employees;
- c) Adherence to the guidelines and objectives of this Investment Policy Statement;
- d) Avoidance of significant deviation from the style and capitalization characteristics defined as "normal" for the manager.
- e) Ability to exceed the return of the appropriate benchmark index and, for equity managers, produce positive alpha (risk-adjusted return) within the volatility limits set in the following "Summary of Quantitative Performance Objectives" table; and
- f) Ability to meet or exceed the median performance of a peer group of managers with similar styles of investing.

SUMMARY OF COMPOSITE PERFORMANCE OBJECTIVES

All investment returns shall be measured net of fees. The performance objectives for the Total Foundation will be reviewed on an ongoing basis and evaluated upon the following criteria.

COMPOSITE PERFORMANCE OBJECTIVES

The primary performance objective of the Foundation is to achieve a total return, net of fees, in excess of spending and inflation.

Total Return greater than Consumer Price Index + 6%

The secondary objective is to achieve a total return in excess of the Policy Index comprised of each broad asset class benchmark weighted by its target allocation.

The Foundation's current Policy Index is:

<u>Weight</u>	<u>Index</u>	<u>Asset Category</u>
47.5%	Russell 3000	U.S. Equity
22.5%	MSCI ACW ex-US	International Equity
30.0%	Lehman Brothers Aggregate	Fixed Income

Alternative Investments are evenly divided between U.S. Equity and Fixed Income

MANAGER PERFORMANCE OBJECTIVES

The following table summarizes the quantitative performance objects stated above. Betas will be calculated versus an appropriate index.

ASSET CLASS	INDEX	RISK MEASURE	PEER UNIVERSE
LARGE CAP EQUITY	S&P 500 Index	-	-
SMALL CAP EQUITY	Russell Style	1.2x Beta	Top 40%
INTERNAT'L EQUITY	MSCI EAFE	1.2x Beta	Top 40%
INTERNAT'L EMERGING MARKETS	MSCI EMF	1.2x Beta	Top 40%
INTERNAT'L SMALL CAP	MSCI EAFE Small Cap	1.2x Beta	Top 40%
CORE FIXED INCOME	Lehman Brothers Aggregate	+/-20% duration	Top 40%
HIGH YIELD	Merrill Lynch High Yield	-	Top 40%
HEDGE FUND OF FUNDS	8% Annualized ROR	-	-
REITS	Wilshire REIT Index	1.2x Beta	Top 40%

Managers failing to meet these criteria over a full market cycle will undergo extensive qualitative and quantitative analysis. This analysis will focus on the manager's personnel, philosophy, portfolio characteristics, and peer group performance to determine whether

the manager is capable of implementing their defined portion of the overall portfolio structure.

Illiquid alternative investment managers' internal rate of return (IRR) from inception will be compared to the following benchmarks:

ASSET CLASS	INDEX
REAL ESTATE - PRIVATE	NCREIF
TIMBER	NCREIF Timber
ENERGY	As appropriate

IV. GUIDELINES AND RESTRICTIONS

GENERAL

In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such list is likely to be too inflexible to be suitable of the market environment in which investment decisions must be made. Therefore, it is the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner in which investment risk is managed, which determines whether an appropriate standard of reasonableness, care and prudence has been met for the Foundation's investments.

The requirements stated below apply to investments in non-mutual and non-pooled funds, where the investment manager is able to construct a separate, discretionary account on behalf of the Foundation. Although the Committee cannot dictate policy to pooled/mutual fund investment managers, the Committee's intent is to select and retain only pooled/mutual funds with policies that are similar to this policy statement. All managers (pooled/mutual and separate), however, are expected to achieve the performance objectives. Each investment manager shall:

- a. Have full investment discretion with regard to security selection consistent with this Investment Policy Statement and is expected to maintain a fully invested portfolio (5% or less in cash);
- b. Immediately notify the Investment Committee in writing of any material changes in the investment outlook, strategy, portfolio structure, ownership or senior personnel;
- c. Make no purchase that would cause a position in the portfolio to exceed 5% of the outstanding voting shares of the company or invest with the intent of controlling management;
- d. Except for the management of alternative investments, not invest in non-marketable securities, sell securities short, buy securities on margin, borrow money or pledge assets, nor buy or sell uncovered options, commodities or currencies;
- e. With the exception of international managers and managers of alternative investments, not invest in non-dollar denominated securities; and
- f. In the case of international managers, maintain appropriate diversification with respect to currency and country exposure.

Equity Guidelines

Each equity investment manager shall:

- a. Assure that no position of any one company exceeds 8% of the manager's total portfolio as measured at market;
- b. Vote proxies and share tenders in a manner that is in the best interest of the Foundation and consistent with this Investment Policy Statement;
- c. Maintain a minimum of 20 positions in the portfolio to provide adequate diversification; and
- d. Domestic equity managers may invest no more than 20% of the portfolio in ADR securities.

Core Fixed Income Guidelines

Each fixed income investment manager shall:

- a. Maintain an overall weighted average credit rating of "Aa" or better by Moody's or "AA" or better by Standard & Poor's;
- b. Hold no more than 15% of the portfolio in investments rated below investment grade (below Baa/BBB). Split rated securities will be governed by the lower rating;
- c. Maintain a duration within +/-20% of the effective duration of the benchmark index;
- d. Assure that no position of any one issuer shall exceed 8% of the manager's total portfolio as measured at market value except for securities issued by the U. S. government or its agencies.

High Yield Manager Guidelines

Each high yield investment manager shall:

- a. Maintain an overall weighted average credit rating of B or better by Moody's and Standard & Poor's;
- b. Hold no more than 10% of the portfolio in investments rated below B. Split rated securities will be governed by the lower rating; and
- c. Assure that no position of any one issuer shall exceed 5% of the manager's total portfolio as measured at market value except for securities issued by the U. S. government or its agencies.

Cash Equivalent Guidelines (for separately managed accounts only)

Each separately managed cash equivalent account manager shall:

- a. Maintain a maximum weighted average maturity of less than one year.

- b. Invest no more than 5% of the manager's portfolio in the commercial paper of any one issuer. All commercial paper must have a minimum rating of A1/P1 by Standard & Poors' and Moody's, respectively
- c. Invest no more than \$100,000 in Bank Certificates of Deposit of any single issuer, unless the investments are fully collateralized by U.S. Treasury or agency securities. Any Certificates of Deposit purchased must have with the highest credit quality rating from a nationally recognized rating.
- d. Assure that no position of any one issuer shall exceed 8% of the manager's total portfolio as measured at market value except for securities issued by the U. S. government or its agencies.

ALTERNATIVE INVESTMENTS

Alternative Investments, including but not limited to, venture capital, private equity, real estate, timberland, energy, and hedged funds, may be included with the Committee's approval. If approved, any investment manager will be bound by the same "Manager Performance Objectives" stated above as well as all other relevant portions of this document.

Hedge Funds

Investments in hedge funds may be used to diversify the Foundation's total portfolio and to enhance total return. It is understood that hedge funds have limited liquidity (typically annual redemption) and are private partnerships with high variability of returns.

The Foundation will, in most events, invest in offshore trusts or corporations that mirror the onshore private partnerships to minimize adverse tax and other consequences to the Foundation.

The Committee shall consider certain criteria including, but not limited to, the following in its evaluation of a fund:

- i. Tenure and track record of management as a team;
- ii. Expertise in targeted areas of investment;
- iii. Diversification relative to other investments;
- iv. Use of leverage;
- v. Liquidity of investments;
- vi. General Partner investment, fees and potential conflicts of interest.

Private Real Estate, Timber, & Energy

Investments in private real estate and timber partnerships may be used to diversify the Foundation's total portfolio. It is understood that these funds are long-term, illiquid, private partnerships with high variability of returns. The Committee shall consider certain criteria including, but not limited to, the following in its evaluation of a fund:

- i. Tenure and track record of management as a team;
- ii. Expertise is targeted areas of investment;

- iii. Diversification relative to other real estate investments;

Under no circumstances will these funds comprise more than 12% of the Foundation's portfolio. The Foundation will only invest in limited partnership shares and its investment will not comprise more than 10% of any individual partnership's assets.

DERIVATIVE SECURITIES

Except as noted below, or as used as a strategy within a hedge fund or enhanced index fund, investment managers shall not utilize derivative securities.

For definition purposes, derivative securities include, but are not limited to, Structured Notes, lower class tranches of collateralized mortgage obligations (CMO's), principal only (PO) or interest only (IO) strips, inverse floating rate securities, short sales, and margin trading.

Futures contracts and options may be utilized by investment managers in order to gain exposure to the underlying security but must do so without employing leverage.

The Investment Committee shall consider certain criteria including, but not limited to, the following in its evaluation of a derivative strategy:

- i. Manager's proven expertise in such category.
- ii. Value added by engaging in derivatives.
- iii. Liquidity of instruments.
- iv. Actively traded by major exchanges (or for over-the-counter positions, executed with major dealers).
- v. Manager's internal procedures to evaluate derivatives, such as scenario and volatility analysis and duration constraints.

V. MONITORING AND REPORTING

MASTER TRUSTEE / CUSTODIAN

The master trustee / custodian is an integral part of managing and overseeing the Foundation's portfolio. Open communications with the Foundation, its investment managers and consultant will ensure accurate and timely reporting, and may provide early detection of any unexpected compliance or reporting problems.

The master trustee / custodian shall:

- a. Provide monthly transaction reports no later than the fifteenth business day following month end, and monthly asset reports no later than the tenth business day following month end.
- b. Provide the Foundation, its investment managers and consultant special reports as reasonably requested; and
- c. Communicate immediately any concerns regarding portfolio transactions or valuation, or material changes in trustee personnel or procedures.

INVESTMENT MANAGERS

Open communication between the investment managers, the Foundation and its consultant are critical to the success of the Foundation. The following shall be provided by the manager to the Foundation.

1. A written review of key investment decisions, investment performance and portfolio structure.
2. An organizational update, including a report on any material changes in organizational structure, investment personnel and process.
3. A review of the managers understanding of investment guidelines and expectations and any suggestions to improve the policy or guidelines.

In addition, the following is required of each investment manager:

1. Quarterly performance reviews;
2. Notification to the Foundation and its consultant of any exceptions to this investment policy statement with a recommended plan of action to correct the violation;

3. Other reports or information as may be reasonably be requested by the Foundation, its consultant or custodian.

CONSULTANT

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

1. Provide the Foundation's staff with a quarterly summary of investment performance within 25 days following the end of the quarter;
2. Provide the Committee with quarterly performance reports within 45 days following the end of the quarter;
3. Meet with the Committee at least quarterly, more frequently as needed;
4. Monitor the activities of each investment manager or investment fund;
5. Provide the Committee with an annual review of this Investment Policy Statement, including an assessment of the Foundation's current asset allocation, spending policy and investment objectives; and
6. Supply the Committee with other reports or information as reasonably requested.

VI. ACKNOWLEDGEMENT

We recognize the importance of adhering to the mission and strategy detailed in this document and agrees to work to fulfill the objectives stated herein, within the guidelines and restrictions, to the best of our ability. We acknowledge that open communications are essential to fulfilling this mission and if at any time we wish to discuss improvements to this document they are welcome and should be referred through the Foundation or its consultant.

<Foundation>

(date)

<Investment Manager>

(date)