PENINSULA EDUCATION FOUNDATION

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STATEMENT OF ENDOWMENT INVESTMENT POLICY

BASIC PREMISE

The Peninsula Education Foundation and the Endowment Sub-Committee believes that a balanced approach to portfolio management is required to reduce volatility and prudently maximize total return for the long term (at least a 5- 10 year horizon). Total return is defined to be the result of capital gains, realized and unrealized, plus income derived from dividends and interest. It is recognized that economic and security market conditions are not constant, but ever changing and, as a result, continuous portfolio adjustments will be required in order to maintain asset productivity.

The Peninsula Education Foundation and the Endowment Sub-Committee will annually review and select up to two investment managers who will be charged with making investment decisions based on the parameters described below in the investment objectives and by the fee structure required by the investment manager(s). The PEF may, at its discretion, utilize the resources of an outside Advisor to assist in the selection and supervision of the managers.

It is expected that the Investment Manager(s) will manage the portfolio to seek to achieve the investment objective (stated below) at all times. The Committee does not desire a high risk, high-volatility approach which produces large gains as well as large losses. Rather, we seek a more consistent approach limited to equity investments, US Treasury and Agency Securities, other investment grade fixed income and money market instruments.

INVESTMENT OBJECTIVE:

Growth and Income

The primary objective is to seek to earn a total rate of return modestly greater than that provided by a Portfolio equally divided between U.S. stocks and bonds. Selection of growth and income investment objective implies a desire to keep portfolio risk below that of common stocks but to pursue a return greater than that provided by bonds. It is expected that dividend and interest income will comprise a significant part of the total return earned by the Portfolio.

Cash equivalent securities are viewed as a viable alternative to equity or fixed income securities as a strategy for reducing portfolio volatility and as an alternative to a more permanent commitment to equity or fixed income securities, depending upon the Investment Manager's view of the markets.

FIXED INCOME GUIDELINES

1. Bonds shall constitute from 20% to 60% of the value of the portfolio, depending on the anticipated use of funds for operating purposes.

2. U.S. Treasury or Agency as well as a balanced mix of investment grade fixed income instruments, shall be approved for investment.

~~3.~~ The fixed income maturity structure shall be determined based on a variety of factors, including anticipated cash needs of the Foundation.

4. Cash equivalent securities, i.e. money market funds, are viewed as a viable alternative to equity or fixed income securities as a strategy for reducing portfolio volatility and as an alternative to a more permanent commitment to equity or fixed income securities, depending on the Investment Managers' and Advisors' views of the markets. Cash equivalents may include US Treasury Bills, commercial paper rated at least A1/P1 and money market mutual funds with a AAA rating from S & P.

EQUITY GUIDELINES

The following guidelines are to be utilized in the selection of equity investments**.** These guidelines are subject to review from time to time and the Investment Manager and Advisors should feel free to recommend appropriate changes to the Committee for their further consideration.

1. The commitment to common and/or preferred stocks for the overall assets of the portfolio is set at 40% to 80%.

2. Any single investment manager or mutual fund must be limited, at purchase, to 5% of total equity assets under management, the Stock investment in any one corporation.

3. The aggregate investment in any one company, by any one investment manager or mutual fund shall not exceed 1% of the total equity outstanding of that company.

4. Overall emphasis should be placed on stocks that are quality issues, and the Investment Manager should aim to manage risk by seeking to reducing volatility.

RESTRICTIONS

In addition to the Fixed Income and Equity Guidelines, the PEF has set forth the following restraints.

- no direct investment in gold or other commodities
- no direct investment in real estate partnerships
- no short sales, trading on margin
- no options including puts or calls

COMMUNICATION AND REPORTING

There is to be an open line of communication between the PEF and the Investment Managers.

The Investment Manager(s) are expected to provide monthly reports detailing all asset information and performance reports no less than quarterly. Investment results for equity performance will be compared with appropriate benchmarks such as the S & P 500, the Russell 1000 and the Vanguard Balanced Index. Benchmarks are intended as reference points and not as an assurance or guarantee of performance of any investment or of a specific portfolio. Bond investments are designed for safety with some income and will not have formal benchmarks. In addition, the Investment Manager or Managers , or if the manager(s) works through an Advisor, the Advisor will meet with the Endowment Sub-Committee in person at least annually and more often, as appropriate.

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