Chapter 11: Investment Policy

Contents

Overview

11001 The Roman Catholic Diocese of Toledo in America (Diocese) recognizes and accepts its moral and ethical responsibility to steward its financial resources in a manner consistent with its vision, mission, values and core strategies. The Diocese understands this stewardship responsibility within the context of the social teachings of the Catholic Church and its commitment to advocate for systemic changes to improve the well-being of individuals and communities. To fulfill this responsibility, it is the policy of the Diocese to utilize its financial resources to emphasize human dignity and social justice and to comply in principle with the investment policies and principles as promulgated from time to time by the United States Conference of Catholic Bishops (USCCB).

11002 This chapter of the particular law of the Diocese establishes the Diocesan Investment Program (hereafter the investment program or policy) including its philosophy and objectives. This policy pertains primarily to the public juridic person of the Diocese and certain of its related ecclesiastical organizations. However, the parishes and schools located in the Diocese, along with their respective finance councils, should utilize the following principles as a reference source to provide assistance and guidance in the performance of their fiduciary duties relating to investments. Likewise, while the Priests' Retirement Plan and the Retirement Plan for the Lay Employees of The Diocese of Toledo in America Lay Retirement Plan, (hereafter the Lay Retirement Plan) are governed by separate boards of directors, the investment results of those two retirement programs for the priests and the laity are important to the overall financial condition of the Diocese. Accordingly, the boards of those retirement plans must follow the guidelines in this Policy, including the policies and principles set forth the USCCB..

11003 The investment programs utilize the following investment portfolios: Money Market, Fixed Income, Balanced, Long-Term, and Aggressive Pools. This policy will describe the standards used by the Investment Committee in monitoring investment performance, as well as, serve as a guideline for any investment manager retained by the Diocese, and the Boards of Trustees of the Priest Retirement Plan and the Lay Retirement Plan.

Purpose

11004 The Money Market, Fixed Income, Balanced, Long-Term, and Aggressive Pools exists to allow the various participating entities and trusts (the Diocese and certain Ecclesiastical Organizations) investment vehicle options to pool their respective assets and to have the opportunity to utilize more qualified money managers and investment professionals to assist in funding their respective endowments, trusts, and other funds purposes.

11005 The Money Market Pool seeks capital preservation. The pool is invested entirely in a money market fund. The strategy will provide interest income under prevailing market conditions and rates. The Money Market Pool is an appropriate strategy for investors whose main focus is capital preservation.

11006 The Fixed Income Pool seeks income with minimal capital appreciation. The strategy is invested in intermediate and long term fixed income. The strategy is appropriate for investors whose main focus is current income.

11007 The Balanced Pool seeks moderate capital appreciation; current income is a secondary focus. The strategy asset allocation is 55% in equities and 45% in fixed income. The Pool is designed for investors who seek moderate capital appreciation.

11008 The Long Term Pool seeks capital appreciation. The asset allocation is 70% invested in equities and 30% in fixed income. The strategy is appropriate for investors seeking capital appreciation. The Pool is designed for endowed funds and those with a long term time horizon. This category of investment pool is also relevant to the governing boards of the Priests' Retirement Plan and the Lay Retirement Plan. Those respective funds are invested to maintain sufficient pools of assets to provide retirement and incidental benefits to participating priests and other employee participants within the territory of the Diocese who complete a period of faithful service and otherwise become eligible. As previously mentioned, these respective portfolios are overseen by separate governing boards but their respective investment performance results are vital to the financial well-being of the entire Diocese and its employees.

11009 The Aggressive Growth Pool seeks capital appreciation. The asset allocation is 100% invested in equities. The strategy is appropriate for investors that can tolerate the volatility of investing only in the public equity market. The Pool is designed for long term endowed funds and those with a long term time horizon.

11010 The following policies and objectives, as well as tables addressing specific asset allocation and investment performance (see §§ 110027 to 110033) will be modified from time to time, shall serve the investment managers of the Diocese as the principal source for developing investment strategies. Investment managers will act as fiduciaries, under separately managed accounts with regard to the management of theassets.

Scope

11011 This policy applies to assets for which the Investment Committee has oversight responsibility. These assets include investments in the five following Investment pools (the Investment pools):

a. Money Market

b. Fixed Income

c. Balanced

d. Long-Term

e. Aggressive

11012 The Diocesan Investment Program includes seven (6) separate Investment Trusts: the Diocese of Toledo Master Trust Agreement and the Diocese of Toledo Master Trust Agreement for Irrevocable Trust Assets (collectively, Master Trusts); the Diocese of Toledo Priest's Retirement Plan; the Lay Retirement Plan; the Diocese of Toledo Deposit and Loan Trust; and The Diocese of Toledo Catholic Investment Trust. In addition, the Diocesan Finance Officer and the Investment Committee will also manage and monitor cash and other investments held by certain trusts and/or other related entities that collectively represent the Money Market Money Management component of the overall investment portfolio of the Diocese.

11013 The purpose of the Master Trusts are and continue to be to allow the various participating Grantors (the Diocese and certain ecclesiastical organizations) an investment vehicle to pool their respective assets into the Master Trusts in order to have the opportunity to utilize more qualified money managers and investment professionals to assist in funding their respective endowments, trusts, and other funds purposes.

11014 The purpose of the Priest's Retirement Plan is to maintain sufficient pools of assets to provide retirement and incidental benefits to participating priests within the territory of the Diocese who complete a period of faithful service and otherwise become eligible.

11015 The purpose of the Lay Retirement Plan is to maintain sufficient pools of assets to provide retirement and incidental benefits to participating employees within the territory of the Diocese who complete a period of faithful service and otherwise become eligible.

11016 The purpose of the Diocese of Toledo Deposit and Loan Trust is to provide a secure means for the Diocese, its parishes and other ecclesiastical entities to support one another by depositing surplus funds in the Trust, which funds can be loaned to Parishes and other ecclesiastical entities for the repair, renovation, and construction of facilities, the purchase of real estate and in limited circumstances the provision of funds for operations. The Trust also manages and invests Parish and other ecclesiastical entities deposits and provides for an Emergency Assistance Fund.

11017 The purpose of The Diocese of Toledo Catholic Investment Trust is to receive gifts, bequests, devises, legacies and donations from third parties, including gifts in trust and restricted gifts, as well as funds from the Diocese, parishes, and certain other Participating Entities (as defined in the related trust document), and upon acceptance to administer and expend such contributions for those purposes as intended.

Fiduciary Duty

11018 In seeking to attain the investment objectives set forth in the policy, the Investment Committee, investment consultant, and investment managers shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). All investment actions and decisions must be based solely on the interest of the trust or plan for which the funds are being invested. Fiduciaries must provide full and fair disclosure to the Finance Council/Investment Committee of all material facts regarding any potential conflicts of interests. In addition, the Investment Committee must conform to the fundamental fiduciary duties of loyalty and impartiality.

Definition of Duties

Diocesan Finance Council

11019 The responsibilities of the Diocesan Finance Council (Finance Council) are:

a. Oversight of all investment-related activities of the Finance Officer and Investment Committee.
b. Establishment of investment policy that is to guide the investment of the Diocese's investment assets;
c. Retention or dismissal of outside professionals such as investment managers, consultants, custodian banks;
d. Periodic review of asset allocation and investment performance of the various Investment pools and the investment managers utilized therein. Such review will encompass the Priests' Retirement Plan and the Lay Retirement Plan on a quarterly basis.

Investment Committee

11020 The responsibilities of the Investment Committee are to advise the Diocesan Finance Officer and the Finance Council as follows:

a. Establishing overall financial objectives, setting and monitoring investment policy with annual reviews;

b. Setting parameters for asset allocation;

c. Establishing a process and criteria for the selection and termination of Investment Managers and custodians;

d. Selecting a qualified Investment Consultant and making a recommendation to the Finance Council;

e. Selecting qualified Investment Managers and making a recommendation to the Finance Council;

f. Selecting a qualified Custodian and making a recommendation to the Finance Council;

g. Monitoring investment results quarterly to assure that objectives are being met and that policy and guidelines are being followed;

h. Communication on a structured and ongoing basis with those persons responsible for investment results;

i. Periodically monitor the investment holdings for compliance with socially responsible investment guidelines so that the holdings would never cause embarrassment or conflict with the moral interests of the Diocese. As such, the Investment Committee makes recommendations regarding revisions to the socially responsible investment guidelines being used by the investment managers;

j. Selecting a qualified proxy voting firm, if necessary.

Diocesan Finance Officer

11021 The responsibilities of the Diocesan Finance Officer with respect to the various investment portfolios are:

a. Oversight of day-to-day activities of the various plans for which funds are invested;

b. Implementation of changes recommended by the Investment Committee and approved by the Finance Council.

Investment Consultant

11022 The investment consultant is responsible for assisting the Investment Committee and Finance Officer in all aspects of managing and overseeing the investment portfolio. The consultant is the primary source of investment research/education and investment manager information. On an ongoing basis, the consultant will:

a. Provide proactive recommendations for the Diocese of Toledo including but not limited to the investment policy, asset allocation, investment managers, investment education, etc.;

b. Meet with the Investment Committee quarterly, or more frequently as needed;

c. Supply the Investment Committee with reports (e.g., asset allocation studies, investment research and education) or information as reasonably requested;

d. Perform investment manager searches as needed and recommend specific managers to execute the overall investment strategy for the Diocesan investment program;

e. Monitor the activities of each investment manager/fund and compare performance versus appropriate benchmarks;

f. Provide the Investment Committee with quarterly performance reports; and

g. Review the investment policy and the asset allocation with the Investment Committee at least annually.

h. Maintain complete objectivity and be free of all conflicts of interest in all matters concerning the portfolio and their management and related fees.

i. Perform their responsibilities for a fee that is reasonable and fair on an absolute basis and in comparison to their peers.

j. Conduct an annual fee analysis of the Investment Managers and present such analysis to the Finance Officer and the Investment Committee.

Trustee and/or Custodian

11023 The Trustee and/or the Custodian will be responsible for:

a. Safekeeping of securities entrusted to it, including the collection of dividends and income on those assets and other functions of a custodian such as trade settlement and security reorganization processing;

b. Reception and disbursement of cash transactions as directed by the Finance Officer and/or Controller of the Diocesan Corporation/the Diocese of Toledo and the notification of cash transactions to the appropriate Investment Managers;

c. Issuance and maintenance of accurate monthly statements of holdings and transactions;

d. Forwarding of proxies for all Investment Managers to the Diocese designated proxy voting firm.

e. Such other duties as set forth in the Money Market, Fixed Income, Balanced, Long-term, and Aggressive investment pools as well as the Priest Retirement Plan and Lay Retirement Plan.

<u>Objectives</u>

11024 The primary objective of the investment program is to earn the highest return commensurate with the Diocese's and its participating related ecclesiastical organizations' tolerance for risk. Equally important, the investment program should ensure that investment assets are managed in accordance with the objectives, policies and guidelines set forth by the Investment Committee. The assets are to be managed in a manner that will meet the primary investment objective, while at the same time attempting to limit volatility in the portfolio's market value, thereby limiting volatility in year-to-year spending.

Investment Objectives

11025 The primary investment objectives of the investment program are to invest assets in a manner that fulfills the following:

a. The primary objective of the Aggressive Growth Pool is to seek capital appreciation. The asset allocation is 100% invested in equities. The equity allocation is broadly diversified, offering domestic and international market exposure, investing in equities in developed and emerging markets. The equity exposure also includes an allocation to real estate investment trusts. The strategy is appropriate for investors that can tolerate the volatility of investing only in the public equity market. The pool is designed for long term endowed funds and those with a long term time horizon.

b. The primary objective of the Long-Term Pool investment portfolio is to ensure that sufficient assets are available to fund ongoing maintenance needs of the Diocesan Cemeteries and to fund the present and future benefit obligations of the Priests' Retirement Plan and the Lay Retirement Plan programs by investing the respective assets of these benefit programs in a well-diversified manner designed to optimize long-term returns while controlling risk. The investment strategy and long-term asset allocation for these benefit programs should take into consideration the pension liabilities to ensure the timely payment of all present and future benefit obligations. Therefore, the desired minimum rate of return is to achieve an absolute rate of return based on the long-term rate determined by the actuarial consultant to each of the individual retirement plans.

c. The primary objective of the Balanced Pool investment portfolio is preservation of capital; that is, to increase the purchasing power of the Diocese and the participating entities within the investment portfolio while reducing, to the greatest extent possible, the possibility of loss. The investment strategy and long-term asset allocation for the Balanced Pool investment portfolio should take into consideration the specific spending requirements and the present and future needs of the Diocese and the respective participating Ecclesiastical Organizations. Therefore, the desired minimum rate of return is equal to the Consumer Price Index (CPI) plus three percent (3%) on an annualized basis.

d. The primary objective of the Fixed Income Pool investment portfolio is preservation of capital; that is, to increase the purchasing power of the Diocese and the participating Ecclesiastical Organizations within this investment portfolio while reducing, to the greatest extent possible, the possibility of loss. The investment strategy and long-term asset allocation for the Fixed Income Pool should take into consideration the specific spending requirements and the present and future needs of the Diocese and its respective participating Ecclesiastical Organizations. Therefore, the desired minimum rate of return is equal to the Consumer Price Index (CPI) plus one percent (1%) on an annualized basis. The primary objective of this investment portfolio, then, is to earn an appropriate rate of return, but reduce exposure and risk of losses to a minimal level.

e. The primary objective of the Money Management Pool is preservation of capital; that is, to increase the purchasing power of the Diocese and the participating Ecclesiastical Organizations within this investment portfolio while reducing, to the greatest extent possible, the possibility of loss. The desire for this investment pool is a minimum variance in returns.

11026 A secondary objective of the investment program is to have a sufficient degree of flexibility in order to meet the unanticipated demands and changing market environment.

Strategy and Division of Assets for Investment Purposes

11027 The primary investment strategy and division of assets of the investment program are as follows:

a. The Aggressive Pool represents funds held for long-term investment. The purpose of the Aggressive Pool is to accumulate sufficient assets to build capital for future use with the corresponding obligation to support current and future needs. The equity allocation is broadly diversified, offering domestic and international market exposure, investing in equities in developed and emerging markets. The equity exposure also includes an allocation to real estate investment trusts. The strategy is appropriate for investors that can tolerate the volatility of investing only in the public equity market.

b. The Long-Term Pool represents funds held for long-term investment. The purpose of the Long-Term Pool is to accumulate sufficient assets to build capital for future use with the corresponding obligation to support current and future needs. The purpose of this investment portfolio leads to a philosophy that investing in assets with higher return expectations outweighs their short-term volatility risk. As a result, the majority of the Long-Term Pool's assets will be invested in equity or equity-like securities, including real assets (real estate, natural resources, and infrastructure). Real assets also provide the added benefit of inflation protection. Fixed income and diversifying strategies will be used to lower short-term volatility and provide stability, especially during periods of deflation and negative equity markets.

The governing boards and the Investment Committee of the Lay Retirement Plan and the Priest Retirement Plan programs will have direct responsibility for those investment portfolios. Nevertheless, such portfolios will be considered long-term growth pools.

c. The Balanced Pool represents funds that seek to provide a balance between current income and capital appreciation with a shorter time horizon than the Long-Term Pool. As a result, the assets will include equity and fixed income/cash investments.

d. The Fixed Income Pool and the Money Market Pool represent funds that will be utilized in a short period of time, usually within a three-year period. Because the desire for minimum variance in returns is of primary importance, this investment portfolio will include safe investment alternatives which include mutual funds (those which maximize current income with preservation of capital and maintenance of liquidity), U.S. Treasury Issues, U.S. Agency Issues, Insured Certificates of Deposit, Insured Money Markets and A2P2 or better rated Commercial Paper.

<u>Moral and Social Responsibility</u>

11028 The Diocese recognizes and accepts its moral and ethical responsibility to steward its financial resources in a manner consistent with its vision, mission, values and core strategies. In order to fulfill this responsibility, it is the policy of the Diocese to utilize its financial resources to emphasize human dignity and social justice and to comply in principle with the investment policies and principles as promulgated from time to time by the United States Conference of Catholic Bishops (USCCB). Furthermore, the Diocese of Toledo does not believe that, over time, the commitment to socially responsible investing according to the USCCB guidelines and the Diocese's own particular law will present a significant trade-off of risk or return as compared to the market.

11029 The investment managers must comply with the investment guidelines as set forth by the USCCB (see "Socially Responsible Investment Guidelines").

11030 Upon reasonable request, the Investment Manager(s) will work with the Investment Consultant and the Finance Council to compile and update the annual list of excluded securities.

<u>Asset Allocation / Investment Structure</u>

11031 Asset allocation will likely be the key determinant of each investment portfolio's returns over the long-term. Therefore, diversification of investments across multiple markets that are not similarly affected by economic, political, or social developments is highly desirable. A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories shall be based on the impact to the total portfolio, rather than judging asset categories on a stand-alone basis.

11032 The target asset allocation should provide an expected total return equal to or greater than the primary investment objective of each investment portfolio, while avoiding undue risk concentrations in any single asset class or category, thus reducing risk at the overall portfolio level.

11033 Investments will generally fall into one of three (3) asset categories. Each category serves a specific role within a portfolio. An allocation to all three (3) categories can provide diversification to major market risk factors and provides a simple framework to review the exposures within the portfolio. The categories are as follows:

a. Global Equity: Intended to be the primary source of long-term growth for the portfolio, as equities historically have produced high real rates of return. While having higher expected returns, they also have higher volatilities.

b. Global Fixed Income/Credit: Intended to offset the volatility of equities, particularly during market downturns, as well as provide deflation protection. These investments are comprised primarily of fixed income (debt) securities, and can be further categorized as interest rate sensitive and credit sensitive. This includes both public and private debt.

c. Real Estate: Intended to insulate the portfolio from inflation shocks and to provide a source of non-correlating returns with other categories. This includes public investments in real estate.

11034 Cash is not considered a strategic asset in the portfolio, but is a residual to the investment process and used to meet liquidity and spending needs.

11035 To achieve these goals, the asset allocation will be set with target percentages and within identified ranges as identified by the Investment Committee from time to time.

Rebalancing

11036 On a monthly basis, the investment consultant will monitor the asset allocation structure of the various portfolios and strive to stay within the ranges allowed for each asset category. Based on current market valuations and economic fundamentals, the investment consultant will provide recommendations to the Investment Committee to overweight/underweight an asset category versus its targeted allocation, but still within the ranges set forth by the Investment Committee.

11037 If the portfolio moves outside of the ranges, the investment consultant will develop a plan of action to be approved by the Investment Committee to rebalance. In many cases, the additions of new money or withdrawals for spending will be used to rebalance in a cost effective manner.

11038 Under certain prevailing market conditions, the Investment Committee may allow the asset allocation to be outside the established ranges.

Active and Passive Management

11039 The asset allocation will be implemented using both active and passive investment managers. Highly efficient areas of the capital markets will be managed using index funds and other structured strategies (e.g., smart beta, enhanced index, portable alpha).

Performance and Risk Measurement

Time Horizon

11040 The Investment Committee seeks to achieve the investment objectives over a full market cycle, but does not expect that all investment objectives will be attained in each year. Furthermore, the Investment Committee recognizes that over various time periods, specific portfolios may over or under perform relative to the broad markets. For this reason, long- term investment returns will be evaluated over a full market cycle (for measurement purposes: generally 5 years, though certain investments may be more appropriately evaluated over shorter or longer time periods).

Primary Benchmark

11041 The primary objective of the investment program is to achieve a total return in excess of the Target Weighted Benchmark, comprised of each asset category benchmark weighted by its target allocation. Additionally, the Lay Retirement Plan and Priests' Retirement Plan total returns are expected to equal or exceed the actuary target return over a five-year period.

Risk Parameters

11042 The volatility (beta) of the investment program is expected to be no greater than 1.20 versus the Target Weighted Benchmark.

Manager Evaluation

Qualitative Measures

11043 Each active investment manager will be reviewed by the Investment Committee on an ongoing basis and evaluated upon the criteria listed below.

a. Maintaining a stable organization;

b. Retaining key personnel;

c. Avoiding regulatory actions against the firm, its principals, or employees;

d. Adhering to the guidelines and objectives of this Investment Policy Statement;

e. Avoiding significant deviations from the manager's stated investment philosophy; and

f. Adhering to the SRI Guidelines as stated earlier in this policy.

11044 The Investment Committee expects the managers to outperform the benchmarks over a full market cycle, but does not expect that all investment objectives will be attained in each year. Furthermore, the Investment Committee recognizes that over various time periods, the managers may produce significant over or under performance relative to their benchmarks. For this reason, long-term investment returns will be evaluated over a full market cycle (for measurement purposes: generally, 5 years, though certain investments may be more appropriately evaluated over shorter or longer time periods).

11045 Although there are no strict guidelines that will be utilized in selecting managers, the Investment Committee will consider the criteria above, as well as, the length of time the firm has been in existence, its track record, assets under management, and the amount of assets the Plan already has invested with the firm.

Liquid Active Managers

11046 The following table summarizes the quantitative performance objectives for the liquid active managers. 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 strategy of the overall portfolio structure. These managers are expected to outperform their primary benchmark, and the equity (and REIT) managers are expected to maintain a beta (vs. the primary benchmark) of less than 1.20.

Asset Category	Primary Benchmark	Peer Universe
Global Equity		
U.S. Large Cap	S&P 500	Top 50%
U.S. Mid Cap	Russell Midcap	Top 50%
U.S. Small Cap	Russell 2000	Top 50%
U.S. All Cap	Russell 3000	Top 50%
International Developed	MSCI EAFE	Top 50%
International Small Cap	MSCI EAFE Small Cap	Top 50%
Emerging Markets	MSCI Emerging Markets	Top 50%
Global Fixed Income		
Investment Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond	Top 50%

TIPS	Bloomberg Barclays U.S. TIPS	Top 50%
Real Assets		
REITs	FTSE NAREIT/S&P Developed BMI Property Index	Top 50%

Public Liquid Passive Managers

11047 Passive (or index) managers are expected to approximate the total return of its respective benchmark. The beta for passive equity managers should approximate 1.00.

Guidelines and Restrictions

General

11048 In a 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, 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, will determine whether an appropriate standard of reasonableness, care, and prudence has been met for the Plan's investments.

11049 The requirements stated below apply to investments in non-pooled/mutual funds, where the investment manager is able to construct a separate, discretionary account on behalf of the investment program. Although the Investment 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 similar to this investment policy. All managers (pooled/mutual and separate), however, are expected to achieve the performance objectives. Each equity and fixed income investment manager shall:

a. Have full investment discretion with regard to security selection consistent with this investment policy;

b. Immediately notify the Finance Officer and investment consultant in writing of any material changes in the investment philosophy, strategy, portfolio structure, ownership, or senior personnel; and

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.

Public Equity Manager Guidelines (Including REITs)

11050 Each active equity investment manager shall:

a. Assure that no position of any one company exceeds 8% of the manager's total portfolio as measured by market value;

b. Vote proxies and share tenders in a manner that is in the best interest of the investment portfolio and consistent with the investment objectives contained herein;

c. Maintain a minimum of 25 positions in the portfolio to provide adequate diversification; and

d. U.S. equity managers should have no more than 20% of the total portfolio in foreign stocks or American Depository Receipts (ADRs).

Public Core Fixed Income Manager Guidelines

11051 Each investment grade fixed income investment manager shall:

a. Maintain an overall weighted average credit rating of A or better by Moody's and Standard & Poor's;

b. Hold no more than 10% of the portfolio in below investment grade (Baa/BBB) securities. Split rated securities will be governed by the lower rating;

c. Assure that any one issuer does not exceed 5% of the manager's portfolio, as measured at market value, except for securities issued by the U. S. government or its agencies.

d. At The Catholic Plan Fixed Income Composite level, maintain a duration within +/- 20% of the effective duration of the appropriate benchmark.

Derivative Security Guidelines

11052 For definition purposes, derivative securities include, but are not limited to, structured notes, lower class tranches of collateralized mortgage obligations (CMOs), collateralized loan obligations (CLOs), principal only (PO) or interest only (IO) strips, inverse floating rate securities, futures contracts, forward contracts, swaps, options, short sales, and margin trading. Before allowing managers to utilize derivative instruments, the Committee shall consider certain criteria including, but not limited to, the following:

a. Manager's proven expertise;

b. Value added by utilizing derivatives;

c. Liquidity of instruments;

d. Amount of leverage;

e. Management of counterparty risk; and

f. Manager's internal risk controls and procedures.