Sierra Club Foundation
Investment Policy for Planned Gift Assets
Approved August 22, 2016

I. Statement of Purpose

The purpose of Sierra Club Foundation's Investment Guidelines for Planned Gift Assets is to provide a detailed description of the investment objectives, philosophy and strategy to be used by Kaspick & Company ("Kaspick" or the "Manager") in managing the Foundation's planned gift assets.

II. Planned Gift Investment Objective

The Foundation's primary planned gift investment objective is to maintain the maximum percentage of the original gift value in real dollars after the distribution of beneficiary payments. (The remainder value in real terms should equal at least 50% of the original gift.) This objective is achieved through a combination of appropriate trust payout rates and investment strategies, reasonable trust horizons, and market performance that approximates long-term historical averages. In terms of implementation, an asset allocation for each trust or portfolio will be selected that has the appropriate risk/return profile for the particular situation (e.g., the trust type, payout rate, expected horizon). At the same time, an appropriate market benchmark will be developed for evaluating the investment manager's success in managing each individual trust portfolio.

III. Planned Gift Investment Strategy

This section outlines the asset classes, portfolio objectives and asset allocations to be used by Kaspick & Company in the investment of planned gift assets.

1. Asset Classes

Attachment 1, Kaspick Goals and Objectives and Investment Strategy, was written by Kaspick to provide information regarding its investment philosophy and practices. This document also defines the specific asset classes in which planned gift investments may be made. These classes include:

- Domestic Small and Large Cap Stocks
- International Small and Large Cap Stocks
- Emerging Markets Stocks
- Domestic and International Real Estate Investment Trusts (REITs)
- High Grade Bonds
- Investment Grade Bonds
- High Yield Bonds
- International Bonds
- Short-Term Investments.

Kaspick generally seeks to diversify by investment style within the actively managed equity asset classes. As portfolios decrease in size, this diversification may be somewhat reduced in order to avoid small purchases. (It should be noted that although Precious Metals is also listed as an asset class on **Attachment 1**, Kaspick is not investing in this asset class at this time.)

2. Portfolio Allocations

Kaspick has also developed specific portfolio allocations with varying percent weightings to the asset classes listed above. All portfolios without restrictions are assigned to a portfolio allocation based on the total return requirements of the portfolio, the portfolio yield, and the tolerance for volatility. These allocations include the following:

- Aggressive Allocation
- Aggressive Growth Allocation
- Growth Allocation
- Growth Income Allocation

- Income/Growth Allocation
- Income Allocation
- High Income Allocation
- All Fixed Income Allocation

Beginning with the Aggressive Allocation, each portfolio allocation has an increasing exposure to fixed income instruments. Custom portfolio allocations may also be developed for portfolios with unique investment requirements.

3. Strategic Asset Allocations

As shown on **Attachment 2** to this report, a specific investment allocation and a projected return are associated with each of the portfolio allocations listed above. The total projected return figures are based on an inflation rate that may change over time. Real returns (total returns net of inflation) may vary, but should remain relatively constant over longer periods. Over shorter periods, there will be significant variation around the expected long-term returns. (Of course, while these projections are based on long-run historical data and current market yields, Kaspick can make no assurances or promises that these returns or yields will be achieved.) The Strategic Asset Allocation report is reissued by Kaspick annually and whenever there is a meaningful shift in current market yields or when changes are made to the portfolio allocations. (It should be noted that although the strategic allocation asset classes and weights may be changed by Kaspick, the particular allocation selected for an individual trust cannot be changed from one allocation to another without the Foundation's approval.)

The Manager will seek to add value to the portfolios by making tactical adjustments to the asset allocations and by timing the rebalancing of portfolios. In general, portfolios will be rebalanced when allocations have moved substantially from targets, when a manager or an asset class weighting is changed, or when portfolio cash needs to be replenished.

IV. Portfolio Allocations for Individual Planned Gifts

This section outlines the general factors to be considered when an individual planned gift is assigned to a portfolio allocation. In addition, the portfolio allocations associated with specific types of planned gifts are discussed in detail.

1. General Factors Considered in Assigning Portfolio Allocations

The assignment of an individual planned gift to a portfolio allocation depends upon the analysis of the following factors:

- The trust type.
- The payout requirement (in percent or in dollars).
- The market value of the portfolio.
- The expected trust horizon
- Whether fees or expenses are paid from the trust.
- Whether fees or expenses are charged to income or principal.
- Whether deficits exist and are being made up.
- The beneficiary's situation (e.g., age, finances).
- The likely impact of the allocation choice on the tax character of the beneficiary's payments.
- Any special instructions.

2. Portfolio Allocations for Standard Unitrust Investments (and Net Income Trusts with Capital Appreciation Defined as Income)

The selection of a portfolio allocation for a standard unitrust will be based on an analysis of the potential return of the asset mix, as well as its risk, specifically the risk of payment volatility. As shown in **Attachment 2**, the most aggressive allocation used that will be invested by policy will be the Growth Allocation; the most conservative will be the Income Allocation.

For standard unitrusts with expected horizons of eight years or less (based on either the term of the trust or the expected lives of the beneficiaries), the Foundation and Kaspick will review the individual portfolio to determine if the trust should be moved to a more conservative asset allocation.

3. Portfolio Allocations for Net Income Unitrust Investments

The investment allocations for net income unitrusts will be selected on a case-by-case basis based on input from both the Foundation and Kaspick, taking into account the age of the beneficiary, the payout percentage, the pattern of historical distributions and the expected remainder value. In general, the portfolios of older beneficiaries will be managed to generate income at or near the payout percentage. The portfolio allocations for younger income beneficiaries will be determined with an understanding that maximizing current income may result in an income stream that erodes in purchasing power and produces a lower total return. The following guideline will assist in decision-making.

Age	Recommended Portfolio Allocation
83 plus	High Income
78-82	Income
73-77	Income/Growth
68-72	Growth/Income
67 or less	Growth

In general, the asset allocation selected for individual trusts will be revisited when there is a meaningful shift in current yields. However, this will not necessarily result in portfolios being moved to a different allocation. This decision is particularly acute for net income trusts in periods of falling interest rates when the Trustee must decide whether to maintain the original asset allocation which will result in an underpayment of the unitrust amount or to shift the trust to an asset allocation that will provide a higher current income. A decision to move to an asset allocation that will generate more income (by adding more bonds to the portfolio) may not be in the best long-term interest of the income beneficiary or the remainderman.

In situations where the Foundation has decided to make up the accumulated deficit on a net income trusts with make-up provisions, it will need to provide Kaspick with the additional yield to add to the standard portfolio yield. It is important that the Foundation carefully considers the longer term effect on the trust of making up deficits. As part of this process, Kaspick will provide the Foundation with a list of portfolios with income deficits on an annual basis.

4. Portfolio Allocations for Flip Trust Investments

Due to a variety of considerations, flip trusts are the preferred trust type for gifts of illiquid assets. Flip trusts that are still net income trusts (i.e., before they flip) will be invested on a case-by-case basis. When a flip trust flips to a standard trust (beginning on January 1 of the new year after the flip trigger event), it will be invested according to the policies for standard trusts as described above**.**

5. Portfolio Allocations for Annuity Trust Investments

The selection of a portfolio allocation for an annuity trust will be based on an analysis of the potential return of the portfolio and the risk that the trust could run out of money before its termination. Annuity trusts with effective payout rates greater than 11% will be reviewed on a case-by-case basis. As shown in **Attachment 2**, the most aggressive allocation used will be the Growth Allocation; the most conservative will be the Income Allocation.

6. Portfolio Allocations for Sierra Club Foundation Pooled Income Fund I Investments

The Foundation's Pooled Income Fund I is primarily geared towards donors who are age 65 and older and its goal to maximize current income while preserving its capital value. Assets in this fund will be invested in the Income Allocation as shown on **Attachment 2.**

7. Portfolio Allocations for Sierra Club Foundation Pooled Income Fund II Investments

The Foundation's Pooled Income Fund II is primarily geared towards younger donors and its goal to provide a balance of current income with long-term capital growth. Assets in this fund will be invested in the Growth/Income Allocation. For both the Pooled Income Fund I and II, any expenses or fees charged to income will reduce the amount paid to the beneficiaries.

8. Portfolio Allocations for Other Sierra Club Foundation Pooled Income Funds

Kaspick will assist the Foundation in looking at alternative pooled income fund investment objectives as needed. The asset allocation for any additional pooled income funds will be provided to the Kaspick in writing at the time the pool is established.

9. Portfolio Allocations for Gift Annuity Pool Investments

The asset allocation for the Gift Annuity Pool will first meet the requirements of the California Department of Insurance. The total portfolio, including both the reserve and the non-reserve or surplus assets, will then be invested to achieve the Growth Allocation. The reserve assets will be maintained in a separate custody account.

10. Portfolio Allocations for Charitable Lead Annuity Trust and Lead Unitrust Investments

The asset allocation for lead trusts will be selected on a case-by-case basis.

11. Portfolio Allocations for Trusts With Excess Payout Requirements

For any portfolio with a yield requirement that is greater than that which can be generated by the All Fixed Income Allocation, the Manager will still use the asset allocation for the All Fixed Income Allocation unless otherwise directed by the Trustee in writing. The Manager will assist the Trustee in designing and evaluating alternative asset allocations if an even higher current yield is desired.

E. Investment Procedures for New Portfolios and Trust Terminations

The Manager will generally average a new portfolio to its target portfolio allocation over a period of six months. The Manager will take into account the existing allocation of the gift and move some asset classes and managers to target sooner than others. The purpose of this policy is to prevent the new trust from being exposed to a major market correction immediately after its funding. New contributions to existing portfolios will be invested immediately if they represent less than 30% of the portfolio's market value; otherwise, they will be averaged-in. A specific averaging-in plan will be developed for each portfolio depending on the portfolio objective, the gifted assets, the assets being transferred, the trust's income needs and other factors. Kaspick may vary this strategy due to trust size, market conditions, or other special circumstances. Upon **termination of a trust**, assets will be sold as soon as practicable and transferred based on the Foundation's instructions.

F. Investment Procedures for Asset Types Used to Fund Planned Gifts

Although cash may be used to fund planned gifts, other types of assets such as equities, restricted or non-marketable securities and bonds/fixed income may also be used. The following sections outlines the specific procedures that will be followed when these non-cash assets are used to fund planned gifts.

1. Equities

Equities will be sold in their entirety as soon as possible, barring any market trading limitations. If requested by the Foundation, the securities can be sold over a longer period. It should be noted that if the gifted securities are all sold on the first day available, the entire portfolio will be uninvested until the trades settle. It is also acknowledged that Kaspick cannot guarantee that the donor's gift value will be captured in the sale.

2. Restricted or Non-Marketable Assets

The Foundation will provide written instructions to Kaspick whenever a restricted asset is to be held in the portfolio rather than sold. To the extent possible, Kaspick will attempt to "wrap" the desired asset allocation around the restricted asset using best judgment as to the asset class(es) for which the restricted asset substitutes.

Promissory notes resulting from the sale of real estate held in the trust will be held by the Manager until maturity or until the notes are called. The Manager will use a value of par or 100 for promissory notes unless otherwise directed. The Manager will notify the Trustee of any late payments but will not perform the duties of a collection agent.

3. Bonds/Fixed Income

Portfolios holding taxable or tax-exempt bonds will generally require action by Kaspick only when the underlying bonds mature or are called, or if the income being generated is insufficient to meet the required payout. In reacting to these situations, Kaspick will attempt to maintain the following portfolio characteristics:

- Laddered maturities that do not extend significantly beyond the expected maturity date of the portfolio.
- A sufficient cash flow or enough principal cash to meet payout requirements.
- A credit quality of investment grade bonds for new purchases.

Because of trust size or market limitations, Kaspick may use a tax-exempt bond mutual fund. Tax-exempt mutual funds will occasionally distribute small amounts of capital gain income. The Foundation should instruct Kaspick if only state-specific bonds or mutual funds should be purchased. Due to high transaction costs, gifted fixed income securities may be held as substitutes for mutual funds in the bond categories if they approximate the desired maturity and risk criteria.

G. Other Items

1. Fees

Fees for asset management and trust administration services will be charged to the trusts unless the language in the trust documents specifies otherwise. Kaspick recommends that trust documents should provide the Foundation with full discretion in allocating fees and that fees should generally be charged to principal.

2. Deficits in Net Income Trusts with Make-Up Provisions

Deficits in net income trusts with make-up provisions that result from deficiencies in income generated by the asset(s) funding the trust will not be made up, except to the extent that surplus income is earned from the standard asset allocation objective selected under the guidelines above, or upon specific written instructions by the Foundation.

3. Cash Flow Deficiencies

For portfolios in which portfolio yield is not sufficient to meet cash flow needs, Kaspick will use its best efforts to ensure that sufficient cash will be available from either unreinvested capital distributions or principal cash. In general, however, Kaspick will manage the portfolios to minimize the amount of cash held because of its low long-term expected return relative to other asset classes.

4. Retirement Trusts

Portfolios in which Kaspick is instructed to minimize income (e.g., "retirement trusts") will be invested on a case-by-case basis. At the Trustee’s request, if appropriate, the Manager may design a portfolio that includes zero-coupon bonds to minimize current distributable income.

5. Portfolio Position Limits

The Manager will be subject to the following limitations on portfolios, unless the Trustee has approved an exception in writing: 1) no one security (except for diversified mutual funds and U.S. Treasury obligations) will consist of more than 7% of any portfolio, and 2) no one high yield bond mutual fund will consist of more than 10% of any portfolio.

6. **Trusts not managed by Kaspick & Company**

Individual trusts that are identified on reports as “not managed by Kaspick & Company” are the sole investment responsibility of the Trustee, even if the Manager provides gift administration services for these trusts. The Manager will provide no oversight of these portfolios and will not be responsible for their investment outcomes.

7. **Prudent Investor Act**

Trustee acknowledges that the portfolio assets invested by the Manager are subject to the California Prudent Investor Act (the "Act"), and confirms that these investment guidelines comply with the investment provisions of the Act and applicable state laws. The Manager will implement exceptions to these guidelines only upon receipt of an Investment Directive from the Trustee.

Acknowledged and Accepted by:

By: ____________________________ ____________________

Name: Date

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Title: