COLUMBIA BASIN
FOUNDATION

State of Investment Policy and Objectives for
Columbia Basin Foundation

1. SCOPE & PURPOSE

Introduction

The Board of Directors (the "Board") of the Columbia Basin Foundation (the "Foundation") has adopted this Statement of Investment Policy and Objectives (the "IPS") as a framework for managing and investing the funds of the Foundation, including any and all permanent and operating (collectively, the "Funds").

Structure

The Board of Directors of the Foundation has the ultimate responsibility for the preservation of the Foundation's assets and the returns thereof. The Board is responsible for the implementation and administration of this Investment Policy Statement. The Board in its sole discretion may (i) delegate its authority to manage and invest the Funds and its responsibilities pursuant to this Investment Policy Statement, and (ii) resolve to modify, renew or withdraw such delegations of authority from time to time. This will ensure:

A. There is an understanding by the Board of Directors, Investment Committee, Investment Managers, Advisors and Donors of the nature, purpose and goals of the Funds.

B. The Investment Managers are given guidelines, limitations and an understanding of what is expected of them.

C. The Board of Directors, Investment Committee and its Advisors will have a basis to evaluate the investment performance of the Investment Managers and Advisors.

The Investment Committee of the Board ("Committee") has been established by the Board and designated to oversee investment matters and shall advise the Board on issues related to the Investment Policy Statement, including identifying the need for updates and monitoring the Funds for compliance with the Investment Policy Statement. The President shall serve as an ex-officio voting member of the committee. The treasurer shall chair the committee. The desired committee size is 4-6 members including the President. Invitations to non-members may be made to individuals with investment expertise. They will be non-voting members of the committee.

2. GOVERNANCE & OVERSIGHT

The Board of Directors of the Columbia Basin Foundation expects the following parties to discharge their respective responsibilities in accordance with accepted fiduciary standards which requires that they: (a) act in the sole interest of the Foundation and its beneficiaries and donors.

Board of Directors

The Board of Directors shall approve all policies of the Foundation, consistent with state and federal laws, rules and regulations. The Board of Directors has the ultimate responsibility for the preservation of the Foundation's assets and return thereon. The Board of Directors may delegate certain actions that may be taken by the Investment Committee then ratified at the next board meeting.

Investment Committee

The Committee, among other duties, recommend financial policy for the Board's approval, interpret it to the administration, monitor results and oversee the Foundation and its spending policy and govern the expenditure of Foundation in accordance with this Investment Policy Statement and subject to the Board's approval. The Committee will review investments of the Funds on a regular basis, meeting semiannually with the investment managers (as defined below), and evaluate the performance on a five (5) and seven (7) year basis. The portfolio of the Funds will be monitored for consistency in application of this Investment Policy Statement for investment risk relative to asset concentration, exposure to extreme economic conditions and market volatility.

Investment Advisor

The Foundation may retain services of an independent investment Advisor (the "Advisor") for the purpose of:

a. Review of the Investment Policy Statement and recommended revisions at least annually with final wording approved by the Board.

b. Provide the Committee an investment review that includes investment manager and aggregate fund performance reports, asset allocation, and a compliance report against the Investment Policy Statement quarterly.

c. Provide the Committee recommendations regarding asset allocation design and adjustments on an ongoing basis or as needed.

d. Provide the Committee aggregate performance updates as needed.

e. Perform due diligence on investment managers responsible for managing the investments of the Funds and recommend changes as needed.

f. Provide the Committee with reasonable assistance implementing recommendations.

Investment Manager(s)

The Board may appoint one (1) or more investment managers (the "Investment Managers") to manage and invest the Funds in accordance with the general and specific guidelines set by the Board. In selecting Investment Managers, the Board shall consider a proposed Investment Manager's competence, experience, past performance, and proposed compensation. The Investment Manager(s) will be reviewed on an ongoing basis and evaluated based upon the following criteria:

a. Performance – Performance versus the policy benchmark and a relevant peer universe net of fees over a full-market cycle.

b. Investment Strategy – Adherence to the guidelines and objectives defined within their investment management agreement and/or defined investment mandate.

c. Service – The ability to communicate and work effectively to achieve the objectives within their investment management agreement and/or defined investment mandate.

Discretionary Authority The Investment Managers are expected to exercise complete investment discretion as it pertains to their specific mandate. Such discretion includes decisions to buy, hold, or sell securities in amounts and proportions reflective of each manager's current investment strategy.

Communications. The Investment Manager is responsible to communicate any major changes to their investment outlook, investment strategy, asset allocation, portfolio structure, and other substantive matters affecting the assets under their management including any significant changes in the ownership, organizational structure, financial condition, or senior personnel staffing of the investment management organizations.

As a fiduciary, each investment manager is expected to diversify the portfolio to minimize the risk of large losses unless under the circumstances, it is clearly prudent not to diversify. The manager is expected to invest the Funds with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with such aims.

Changes to the Investment Policy Statement

This Investment Policy Statement shall be in force until modified in writing by the Board. The Board will review this Investment Policy Statement at least annually to ensure continued appropriateness but may revise this Investment Policy Statement at any time the Board deems appropriate.

3. OBJECTIVES AND CONSTRAINTS

Primary Financial and Investment Objectives

The Foundation's long-term goal is to preserve asset size in real terms (after inflation) and by doing so, provide the same level of support in real dollars to future generations that current beneficiaries enjoy, without undue exposure to risk. A secondary long-term goal is to modestly grow asset size of the investment portfolio by realizing a real rate of return after administrative and management expenses, inflation and implementation of the spending policy. The Foundation's investment philosophy is based on a total return concept, which includes the sum of dividend income, interest income and capital appreciation after all transaction cost, whether it is realized or unrealized and whether it consists of gains or losses. The Board expects the management and investment recommendations of the Committee and any Investment Manager or Investment Advisor employ diversification for risk reduction, ensuring that no single holding or industry have disproportionate effect of the overall portfolio of the Funds. In recognition that the Funds serve as the financial cornerstone of the Foundation, and to ensure alignment between capital requirements and investment time horizon, the Committee will be responsible for reviewing and determining the appropriate allocation of the aggregated funds between the various accounts. This will be reported to the Board not less than annually.

a. Permanent Funds
b. Non-Permanent/Operating Funds

Performance Objectives

The Board seeks to outperform the policy benchmarks over a full-market cycle, generally (five to seven) years. The Foundation’s investments of the different investment pools outlined above shall be managed so as to provide a target total return net of investment management and administrative fees of an amount equal to the Foundation’s current spending target, plus the rate of inflation as measured by the Consumer Price Index over a full-market cycle. It does not expect that the investment objectives will be attained in each year and recognizes that over various time periods investment managers may produce significant over and under performance relative to broad markets. For this reason, long-term investment returns will be measured over a (5) year rolling period.

Time Horizon

The anticipated life of the Foundation's endowments is perpetuity. This encourages a long-term commitment by the Investment Committee to their Investment Policy.

Liquidity

The Board expresses within this document its need to ensure that the Funds will be invested to provide liquidity for operations, projects, and capital needs as required. Bearing in mind there exists some uncertainty surrounding ongoing cash flow requirements for operations, projects, and capital expenditures, an asset allocation incorporating this concept is most appropriate.

The liquidity profile of the aggregate funds should be in line with both short-term and long-term cash flow demands. The purpose of this liquidity policy is to detail how liquidity risk will be monitored by measuring aggregate liquidity profile. Investments will be segregated into three categories:

a. Highly Liquid (Daily). Investments are readily convertible to cash within a period of 1 to less than 5 business days in an orderly market.
b. Liquid (Monthly/Quarterly). Investments that could be converted into cash within a period of 90 days or less in an orderly market.
c. Illiquid. Investments that would take a period of greater than 365 days to convert to cash.

Acceptable levels of marketability/liquidity are frequently expressed as a function of quality, market capitalization, and location of trading of a given security. It is the Board's expectation that 90% or more of the aggregate fund will be invested in highly liquid investments while the maximum for both liquid and illiquid investments is 10% of the aggregate fund.

Risk Tolerance & Diversification

The Committee and the Board recognizes that risk and volatility are present to some degree with all types of investments. However, high levels of risk are to be avoided at the total fund level. It is recognized that a small component of the aggregate portfolio will be stable over time. The portfolio should be diversified by asset class, style of manager, and sector and industry limits.

Asset Class Purpose & Constraints

The Funds determined to be in excess of immediate operating needs of the Foundation shall be invested in the investment categories set forth below. Asset classes or broad segments of the Investment Portfolio, serve varying purposes as described below:

a. Global Equity The purpose for the global equity investment allocation is to provide a total return that will simultaneously provide for long-term growth in principal.
b. Fixed Income The purpose for the fixed income investment allocation is to preserve capital, reduce the overall volatility, provide liquidity and to produce current income. High yield fixed income investments will be allowed and can occupy no more than 20% of the fixed income portion of the portfolio.
c. Non-Traditional The purpose for the non-traditional (*hedge funds, private equity and/or credit etc.*) investment allocation is to broaden the risk return opportunities within the portfolio and provide diversification benefits to traditional equity and fixed income investments.
d. Cash The purpose of the cash allocation is to provide liquidity for short-term obligations.

Equity Guidelines

a. Prudent diversification of common stock is required at all times.
b. There are no restrictions on realizing net: investment gains/losses.

Fixed Income Guidelines/Restrictions

a. The duration should be maintained at a level from 20% above to 20% below the duration of the Bloomberg Barclays Aggregate Bond Index.
b. Individual securities should emphasize quality US Treasuries, Federal Agencies and Corporate issues with a minimum rating of investment grade are required. If a security is downgraded below the minimum rating, the Investment Manager must promptly sell that investment. (Investment grade is defined by Standard & Poor's as AAA, AA, A, BAA or any slight variation)
c. All issues must be publicly traded.
d. For high yield or emerging market fixed income investments, an investment in mutual funds must be used.
e. Except for issues of the US Government or its agencies, commitments to a single issuer must not exceed 5% of the fixed income investments at the time of purchase.

Cash or Equivalents

a. US Treasury and Agency securities.
b. Corporate bonds and notes rated "A" or better by Moody's and Standard & Poor's.
c. Commercial Paper rated P-1/A-1 by Moody's and Standard & Poor's or better.
d. Certificates of Deposit and Bankers Acceptances from institutions rated "A" or better and insured by the FDIC.
e. Repurchase Agreements collateralized by US Treasury securities. If securities have a maturity of 5 years or greater, the collateralized amount must be at least 102%.
f. Money market mutual funds, the principal investments of which are instruments described in 1, 3, 4, and 5 above with maturities of short duration.
g. Money market accounts at commercial banks.

Prohibited Investment for the Funds

The following types of investments are prohibited:

a. Options
b. Short Selling
c. Purchase on Margin
d. Commodities
e. Unregistered or Restricted Stock
f. Futures
g. Private Placements
h. Directly owned Real Estate

4. ASSET ALLOCATION & PERFORMANCE GUIDELINES

The Committee shall determine the asset allocation dependent on conditions at the time and reflecting contingencies foreseen by the Committee. The Committee may seek advice from the Investment Managers or Advisors concerning asset allocation of the funds or from any other source they consider appropriate with providing its recommendations to the Board. The Committee and Board shall review at least annually the Foundation's ability to diversify investment of the Funds and the prudence of diversification. In general, it is expected that the Committee will create an asset mix related to the funds within the following ranges:

a. Permanent Funds

		Allowable Range	
Asset Class	**Target Allocation**	**Minimum**	**Maximum**
Domestic Equity	49%	40%	75%
International Equity	21%	15%	27%
Fixed Income	20%	15%	30%
Non-Traditional	5%	0%	10%
Cash Equivalents	5%	0%	5%

b. Non-Permanent/Operating Funds

		Allowable Range	
Asset Class	**Target Allocation**	**Minimum**	**Maximum**
Domestic Equity	14%	10%	17%
International Equity	6%	3%	8%
Fixed Income	77%	70%	85%
Non-Traditional	0%	0%	5%
Cash Equivalents	3%	0%	10%

Asset Class Benchmarks

Asset Class	Benchmark
Domestic Equity	Russell 3000 Index
International Equity	MSCI ACWI ex. US Index
Domestic Fixed Income	Bloomberg Barclays Aggregate Index
Cash & Equivalents	FTSE 90 – Day Treasury Bill Index

Policy Benchmark

Performance of the aggregate investment portfolio will be measured over a full-business cycle, generally (five to seven years) against a policy benchmark based upon the strategic asset allocation.

a. Permanent Funds

49%	Russell 3000 Index
21%	MSCI ACWI ex. US Index
20%	Bloomberg Barclays Aggregate Index
5%	FTSE 3M T-Bill

a. Non-Permanent/Operating Funds

14%	Russell 3000 Index
6%	MSCI ACWI ex. US Index
77%	Bloomberg Barclays Aggregate Index
3%	FTSE 3M T-Bill

5. SPENDING POLICY & DISTRIBUTION GUIDANCE

The spending rate for distributions or payment to beneficiary is 3.5% or as otherwise approved by the Board of Directors by the recommendation of the Committee. Distributions are based on the average market value of all endowment assets over the last 12 fiscal quarters preceding such distributions. The fiscal year is currently the calendar year. Any decisions to change the spending policy will be considered at the November meeting of the Board of Directors.

The Non-Permanent/Operating Funds are typically invested pending disbursement for a period not to exceed three years. Spending is determined on an as needed basis by the Foundation for operations. Therefore, investments must be carefully monitored for performance and risk.

Investment Managers or Advisors will be given adequate notice of cash needs and an estimate of liquidity requirements from their funds. They will be expected to manage their funds to provide for anticipated withdrawals, if required, without impairing the investment.

6. SOCIAL RESPONSIBLE INVESTMENT POOL (SRI) GUIDELINES

A pool consisting of socially responsible investments may be established consisting of socially responsible investments agreed upon between the Foundation's Board of Directors and the investment managers.

The assets in the socially responsible pool shall not amount to more than approximately 10% of the total assets of the Foundation at any given time.