

**I. Introduction**

This Investment Policy outlines the general responsibilities and guidelines for the management of the investment assets of The MetroWest Health Foundation (“Foundation”).

The Foundation is an independent health philanthropy, organized as a Massachusetts nonprofit corporation and which qualifies as a tax-exempt, public charity under sections 501(c)(3) of the Internal Revenue Code. The Foundation’s Board of Trustees (“Board”) is entrusted with the responsibility for the prudent management and stewardship of the Foundation’s funds that support a wide range of philanthropic and charitable purposes consistent with the mission of the Foundation.

**II. Purpose of the Investment Policy**

The purpose of this investment policy is to assist the Board and its Investment Committee (“Committee”) in effectively supervising, monitoring and evaluating investments of the Foundation. This policy is intended to (i) document the Board’s expectations, objectives, and guidelines for the investment of its assets; (ii) set forth an investment structure for managing these assets (including assets classes and allocations, investment management styles, etc.); (iii) provide guidelines for each portfolio that control the level of overall risk and liquidity; (iv) encourage effective communication between the Committee, the Foundation staff, the Investment Consultant and Investment Managers; and, (v) establish formal criteria for monitoring, evaluating, and comparing the performance results of Investment Managers.

The Foundation shall manage its investments consistent with the Massachusetts Uniform Prudent Management of Institutional Funds Act. In doing so, the Board and Committee shall invest funds in good faith and with the care an ordinary prudent person would exercise under similar circumstances. The following factors shall guide investment decisions:

- General economic conditions;
- Possible effect of inflation or deflation;
- Expected tax consequences of investment decisions;
- The role of each investment in the entire portfolio;
- The expected total return from income and appreciation of investments;
- Other resources of the Foundation; and,
- The needs of the Foundation and its ability to make distributions and preserve capital.

This standard of prudence shall also apply to any delegation of management and investment responsibilities for the Foundation's funds. The Foundation shall only incur costs that are appropriate and reasonable in relation to the assets, the purposes of the Foundation, and the skills needed by the Foundation to properly manage and monitor its investments. The Foundation shall periodically review the performance of its managers and consultants to ensure that such costs are appropriate and reasonable. The Foundation shall also allocate its investment management costs on a reasonable basis to each fund.

This policy is intended to be a summary of an investment philosophy that provides guidance for the Foundation and its Investment Managers. It shall serve as the Investment Consultant and Investment Managers' principal source of guidance for developing appropriate strategies. In addition, it shall serve as the basis for performance evaluation.

### **III. Investment Responsibilities**

#### Board of Trustees

The Board has the ultimate responsibility for the prudent management of the Foundation's investment assets, and for establishing and modifying this policy.

The Board has constituted an Investment Committee and delegated to it certain responsibilities for investment management.

#### Investment Committee

The Committee's authority and responsibilities include:

- 1) Formulate the overall investment policies and guidelines of the Foundation, subject to approval by the Board.
- 2) Establish appropriate asset classes and asset allocation ranges for investments, subject to approval by the Board.
- 3) Allocate assets among asset classes and accounts.
- 4) Establish a list of prohibited investments subject to approval by the Board.
- 5) Recommend to the Board of Trustees the hiring or termination of investment managers, investment consultants, custodians and brokers.
- 6) Monitor the management of funds by reviewing written reports from investment managers/consultants and by discussions with investment managers/consultants at Committee meetings.
- 7) Review at least annually the selection of investment advisors, brokers and custodians and recommend changes in such selections to the Board of Trustees for their approval.
- 8) Evaluate investment performance of the fund based on a comparison of actual returns with the Foundation's absolute return objective, and with such other benchmarks as the Board or Committee may from time to time select.

- 9) Report investment results to the Board of Trustees no less than quarterly.

### Investment Managers

All Investment Managers engaged by the Foundation are expected to comply with the responsibilities included below:

- 1) Act in accordance with “prudent professional” principles with respect to the management of the Foundation’s assets.
- 2) Immediately report in writing, any violations of the portfolio level guidelines and restrictions as set forth in this or individual portfolio policies.
- 3) Immediately report: i) any findings against the firm or its principals, either by the Securities and Exchange Commission or any other regulatory authority, and, ii) any lawsuits brought against the firm or its principals.
- 4) Prepare quarterly written statements, including a report on performance, actions taken in the portfolio, and expected changes in the portfolio.
- 5) Attend meetings with the Investment Consultant, Committee and Management as needed.
- 6) Immediately communicate all pertinent changes in the Investment Manager’s firm to the Foundation. This includes, but is not limited to:
  - Changes in personnel involved in the Foundation relationship;
  - Changes in Investment Manager’s ownership;
  - Changes in senior investment professionals’ responsibilities;
  - Changes in Investment Manager’s investment style; and,
  - Significant changes in financial condition.
- 7) Adhere to the investment strategy or style and active management guidelines (Appendix C) for which the Investment Manager was selected.
- 8) Provide any other documents which support the Investment Manager is a registered professional investment manager with experience and expertise and the capacity to undertake the fiduciary responsibility for which they are being considered.

In order to access top Investment Managers and lower investment costs, the Foundation may invest in collective investment vehicles (mutual funds, commingled funds, limited partnerships, etc.). While the managers of these vehicles are subject to the standards set forth in this policy, the underlying investments are not governed by these policies, but by their own offering documents or prospectus. The offering documents, prospectus and analytical research on such funds will be reviewed by the Foundation prior to investing and upon any significant changes.

### Investment Consultant

The Investment Consultant provides consulting advice to the Investment Committee and management. Specific functions of the Investment Consultant are:

- 1) Evaluate and report investment performance of Investment Managers individually and the portfolio as a whole relative to appropriate market benchmarks.
- 2) Monitor this policy and recommend changes in investment restrictions, asset allocation strategy or Investment Managers as needed.
- 3) Monitor portfolio exposures versus asset allocation and manager targets, recommending re-balancing strategies to management as needed.
- 4) Assist management with the process of allocating deposits/withdrawals in a manner that is consistent with the asset allocation targets.
- 5) Aid in the selection and termination of Investment Managers.
- 6) Monitor and inform of any material changes in the Investment Managers' organizations, such as philosophical or personnel changes.

## **V. Performance Objectives**

In order to support its program, grantmaking responsibilities, and its administrative and investment expenses, the Foundation seeks a nominal rate of return, net of all fees, at least equal to the rate of inflation plus the Foundation's spending rate. The Foundation's annual spending rate for grants, programs, and administrative expenses is established by the Board of Trustees before the start of the fiscal year. In general, spending is projected to be 5% of the value of the Foundation's assets.

The Committee has established the return objectives outlined below in order to provide the Committee with a means to evaluate the performance of the overall fund as well as each individual asset class within it. The Fund's investment performance will be evaluated against the objectives at least annually. The results will be measured after adjusting returns for management fees. A three-year moving, annualized, time-weighted total rate of return will be the primary measurement calculation.

### **Total Fund Objective:**

- The total return, net of management fees and spending, is intended to equal or exceed inflation to maintain the purchasing power of Fund assets.
- The Fund's overall net return should exceed the total return on a target composite comprised of each segment's index benchmark weighted by the fund's target allocation.
- The total return should rank in the top half of the Investment Consultant's universe of balanced endowment/foundation funds with similar asset allocations.

Manager Objective:

- The total return of the portfolio, net of management fees, should exceed the total return of the respective benchmark. Target asset allocations, ranges and index benchmarks are presented in the appendix.

## **VI. Investment Philosophy**

As a long-term investor, the Foundation favors an investment model that brings diversification to the portfolio, while also minimizing volatility and risk. To accomplish this, the Foundation will employ modern portfolio theory in the management of its portfolio. Decisions about an individual asset shall not be made in isolation, but rather in the context of the portfolio of investments as a whole. The Foundation believes that the most effective way to achieve its return objective is through its asset allocation.

### Asset Allocation

The Foundation strongly believes in the long term benefits of diversifying its portfolio into a number of different asset classes and investment strategies. To achieve the long-term benefits of a widely diversified portfolio, the Foundation, with the advice of its Investment Consultant, has adopted strategic targets for each asset class that it utilizes. It expects that the portfolio weight for each asset class will remain within minimum and maximum percentages established for each asset class. The current strategic asset allocation including targets and acceptable ranges are outlined in Appendix A of this Exhibit.

Within each asset class, the Foundation seeks to earn the most efficient rate of return possible. Investments will be well diversified by investment style and strategy. The actual asset allocations shall be reviewed at least annually and updated as often as necessary to meet the investment objectives of the Foundation. The basis for reallocation of assets will be as follows:

- In the event any Asset Class reaches its maximum or minimum allocation, the Investment Committee must, at its next Committee meeting, discuss the reallocation of the assets back to within the long-term policy target ranges.
- It is expected that periodically the Committee will also discuss and possibly make changes in asset mix levels even if percentages are within the minimum/maximum bands.

### Risk Management Strategies

In order to achieve a rate of return that will support the Foundation's spending while also protecting the assets from inflation, the Foundation must be willing to take some investment risk. The Foundation can assume and tolerate a moderate degree of volatility in its investments. However, the Committee, in the development of these policies and the asset allocation shall

outline steps to mitigate risk by including an allocation to cash or cash equivalents, and by limiting the amount of assets that can be invested in any one manager, industry sector or company.

The Foundation further understands that some “riskier” investments as defined by less liquidity, marketability, or higher volatility may serve to offset the overall risk within the total portfolio. However, it is the Foundation’s desire to limit its exposure to such investments to no more than 25% of the portfolio. The Foundation shall also ensure that at least 40% of the portfolio has daily or monthly liquidity.

Derivative instruments should not be used to fundamentally change the risk/return profile of the portfolio relative to the benchmark for the portfolio, or be used to invest in asset classes that are not consistent with the benchmark of the approved strategy for the portfolio without approval by the Committee.

### Mission Related Investing

The Foundation believes in the importance of integrating mission related investing (“MRI”) options into its investment portfolios. These investments may be in the form of equity capital and/or loans. Such investments will be diversified in terms of risk (credit risk, security risk, property risk, etc.) and will earn returns that properly balance the objective of supporting and promoting the portfolio’s investment objectives while also accounting for the level of risk exposure.

### Prohibited Investments

In support of its mission to address health care needs, the Foundation, within its actively managed portfolio, and to the extent possible, shall not make investments in companies that manufacture tobacco products, handguns used for non-military/law enforcement purposes, or alcoholic beverages.

## **VII. Monitoring & Evaluation**

The Investment Consultant will continuously monitor Investment Managers and review their performance and that of the total fund with the Committee at regular intervals. These reviews will include performance reported for the most recent month, quarter, year, three, five and 10-year periods, if available. Investment returns will be compared to benchmarks at the investment manager level, at the asset class level, and at the total Foundation level.

The Committee will periodically evaluate its performance by measuring investment returns against its investment objectives. This review will focus on the continuing feasibility of

achieving the objectives and continued appropriateness of the investment policy, asset allocation and manager selection. The Foundation will also benchmark its performance against that of its peers on a regular basis.

#### **VIII. Conflicts of Interest**

If any member of the Committee, Staff or the Consultant shall have, or appear to have a conflict that impairs or appears to impair the respective member's ability to exercise independent and unbiased judgment in the good faith discharge of his or her duties, he or she shall disclose such conflicts prior to meaningful discussion and abstain from any votes on such matters. All parties must also comply with any other conflict of interest policies adopted by the Foundation.

#### **IX. Investment Policy Review**

The Committee shall review the Investment Policy and submit changes for ratification by the Board on an annual basis.

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*Approved by the Investment Committee on May 14, 2015*  
*Approved by the Board of Trustees on May 28, 2015*

## Appendix A

### Approved Asset Allocation

	Target (%)	Range	
		Lower (%)	Upper (%)
Domestic Equity	25.0	15.0	35.0
International Equity	22.5	12.5	32.5
Absolute Return	10.0	0.0	20.0
Directional Hedge	15.0	0.5	25.0
Total Fixed Income	15.0	5.0	25.0
Total Inflation Hedging	10.0	0.0	20.0
Total Liquid Capital	2.5	0.0	10.0
<b>TOTAL FUND</b>	<b>100.0</b>		

## Appendix B

### Portfolio Benchmarks

Asset Class	Market Index
Domestic Equity	<ul style="list-style-type: none"> <li>• S&amp;P 500 Index</li> <li>• Russell 3000 Index</li> </ul>
International Equity	<ul style="list-style-type: none"> <li>• MSCI AC World ex US</li> </ul>
Absolute Return	<ul style="list-style-type: none"> <li>• HFRI FOF: Conservative</li> <li>• HFRI FOF: Diversified</li> </ul>
Directional Hedge	<ul style="list-style-type: none"> <li>• HFRI FOF: Strategic</li> </ul>
Total Fixed Income	<ul style="list-style-type: none"> <li>• Composite of:  <ul style="list-style-type: none"> <li>Barclay's Aggregate (60%)</li> <li>Barclay's Float Adjusted Composite (20%)</li> <li>Citicorp World Government Bond (20%)</li> </ul> </li> </ul>
Total Inflation Hedging	<ul style="list-style-type: none"> <li>• Composite of:  <ul style="list-style-type: none"> <li>Bloomberg Commodity Index (80%)</li> <li>Spliced Energy Index (20%)</li> </ul> </li> </ul>
Liquid Capital	<ul style="list-style-type: none"> <li>• Citigroup 3 Month T-Bill</li> </ul>
Total Fund	<ul style="list-style-type: none"> <li>• Composite of Above</li> <li>• MSCI AC World (65%) Barclay's Aggregate (35%)</li> </ul>



## **Appendix C**

### **Investment Guidelines for Actively Managed Accounts**

#### **I. General Guidelines for Actively Managed Accounts**

1. At time of purchase, no more than 5% of total assets can be invested in any one company's security, and no more than 15% in any one industry unless authorized by the Investment Committee. (Managers may employ any acceptable industry classification approach.) This restriction does not apply to investments made in U.S. Government securities.
2. No more than 5% of a corporation's outstanding issues in a given security class may be purchased.
3. Futures, covered options or any other derivative investments may be used for hedging or defensive purposes only. Use of these investments to leverage the portfolio is prohibited, except in alternative investment portfolios.
4. Investments in securities of the investment manager or any other security which would be considered a self-dealing transaction are prohibited.
5. Consistent with the mission of the Foundation, and to the extent feasible, investments shall not knowingly be made in corporations that manufacture tobacco products, handguns used for non-military or non-law enforcement purposes, or alcoholic beverages.
6. Private Placements are prohibited.

#### **II. Domestic Equity Guidelines**

1. Equity issues must be traded on the New York Stock Exchange (NYSE) or NASDAQ-OMX.
2. American Depositary Receipts (ADRs) should be limited to 10% of the domestic equity portfolio.
3. Short sales are prohibited.

#### **III. International Equity Guidelines**

1. The portfolio should be well diversified by country and by number of securities. At least 75% of the market value of the international equity portfolio must be invested in securities of companies domiciled in EAFE countries and/or Canada.
2. Securities must be traded on major, recognized exchanges within each country.

#### **IV. Alternative Fund of Fund Investment Guidelines**

1. The fund-of-funds portfolios should be well diversified both in terms of number of managers and types of strategies.
2. The portfolios should have transparency with regard to the underlying managers and their strategies.
3. The underlying managers are allowed to use prudent leverage in managing the portfolio. There should be no additional leverage at the Fund-of-Funds level.

#### **V. Fixed-Income Guidelines**

1. No more than 15% of the fixed income portfolio may be invested in an individual U.S. Agency's securities. There can be no more than a 10 percentage point overweight in mortgage-backed issues, and no more than 15% overweight in an individual corporate sector.
2. Except as stated below, all issues must be investment grade quality and be denominated in U.S. dollars. The portfolio must have an average quality rating of at least "A" by a recognized rating agency.
3. Up to 15% of the fixed income portfolio may be invested in issues that are rated less than investment grade ("junk bonds").
4. Up to 25% of the fixed income portfolio may be invested in foreign bonds, dollar or non-dollar denominated.
5. The average duration of the fixed income portfolio must be within one year of the Barclay's Aggregate Bond Index.
6. Up to 60% of the fixed income portfolio may be investments in structured products that include Mortgage Backed Securities (MBS), Commercial Mortgage Backed Securities (CMBS), and Asset Backed Securities (ABS), provided that CMBS issues shall not exceed 15% of the fixed income portfolio and ABS issues shall not exceed 15% of the fixed income portfolio.

## **VI. Real Asset Guidelines**

1. Investments in real estate should be well diversified in terms of property type and geography. Real estate investments should focus on high quality, well-located properties with stable income streams. Publicly-traded real estate investments (REITs) may not exceed 50% of the real asset portfolio.
2. The foundation may invest in specific strategies that provide inflation hedging during times of unexpected or rising inflation. These inflation hedging strategies may include investment in commodities, REITs, natural resources and TIPS. This portion of the investment portfolio should provide a return stream with low correlation to other asset classes.

## **VII. Cash Equivalents Guidelines**

1. All cash and cash equivalents should be of high quality and carry minimal default risk. Examples of permitted investments include Treasury bills, commercial paper (rated A-1 by Standard & Poor's and Prime-1 by Moody's), and money market funds invested in the above allowed securities.
2. Bank debt including Banker's Acceptances and Certificates of Deposit may only be purchased if the issuing bank has a long-term issue rating of AA or better by Standard & Poor's or Moody's.
3. Repurchase agreements and reverse repos may not be held as individual securities by the portfolio.
4. Cash balances in foreign currencies may be held only to the extent necessary for trade settlement.