Investment Policy

1. Introduction

   The Rotary Club of Santa Rosa Foundation (hereinafter referred to as the "Foundation") was created to increase the Santa Rosa Rotary Club's charitable giving to the community and to provide a stable base for future grant distributions. The purpose of this Investment Policy Statement is to establish guidelines for the Foundation investment portfolio (the "Portfolio"). The statement also incorporates accountability standards that will be used for monitoring the progress of the Portfolio's investment program and for evaluating the contributions of the manager(s) hired on behalf of the Foundation and its beneficiaries.

2. Role of the Investment Committee

   The Investment Committee (the "Committee") is acting in a fiduciary capacity with respect to the Portfolio and is accountable to the Board of the Foundation and to the Executive Committee, for overseeing the investment of all assets owned by, or held in trust for, the Portfolio.

   a. This Investment Policy Statement sets forth the investment objectives, distribution policies and Investment guidelines that govern the activities of the Committee and any other parties to whom the Committee has delegated investment management responsibility for Portfolio assets.
   b. The investment policies for the Portfolio contained herein have been formulated consistent with The Foundation's anticipated financial needs and in consideration of the Foundation's tolerance for assuming investment and financial risk, as reflected in the majority opinion of the Committee.
   c. Policies contained in this statement are intended to provide guidelines, where necessary, for ensuring that the Portfolio's investments are managed consistent with the short-term and long-term financial goals of the Foundation.
   d. The Committee will review this Investment Policy Statement at least once per year. Changes to this Investment Policy Statement can be made only by affirmation of a majority of the Foundation Board and written confirmation of the changes will be provided to all Board members and to any other parties hired on behalf of the Portfolio as soon thereafter as is practical.

3. Investment objective and spending policy

   a. The Portfolio is to be invested with the objective of preserving the long-term, real purchasing power of assets while providing a relatively predictable and growing stream of annual distributions in support of the Foundation.

b. The distribution of Foundation assets will be in conformance with distribution policies established by the Foundation Board. The Committee will seek to reduce the variability of annual Foundation distributions by factoring past spending and Portfolio asset values into its current spending decisions. The Committee will review its spending assumptions annually for the purpose of recommending to the Foundation Board whether any changes therein necessitate amending the Foundation's distribution policy, its target asset allocation, or both.

c. Periodic cash flow, either into or out of the Portfolio, will be used to better align the investment portfolio to the target asset allocation, or both.

4. Portfolio investment policies

    a. Asset allocation policy

        i. The Committee recognizes that the strategic allocation of Portfolio assets across broadly defined financial asset categories with varying degrees of risk, return, and return correlation will be the most significant determinant of long-term investment returns and Portfolio asset value stability.

        ii. The Committee expects that actual returns and return volatility may vary from expectations and return objectives across short periods of time. While the Committee wishes to retain flexibility with respect to making periodic changes to the Portfolio's asset allocation, it expects to do so only in the event of material changes to the Foundation, to the assumptions underlying Foundation spending policies, and/or to the capital markets and asset classes in which the Portfolio invests.

        iii. Foundation assets will be managed as a balanced portfolio composed of two major components: an equity portion and a fixed income portion. The expected role of the Foundation equity investments will be to maximize the long-term real growth of Portfolio assets, while the role of fixed income investments will be to generate current income, provide for more stable periodic returns, and provide some protection against a prolonged decline in the market value of Portfolio equity investments, with a long-term goal of high, single-digit returns.

        iv. Cash investments will, under normal circumstances, only be considered as temporary Portfolio holdings, and will be used for Foundation liquidity needs or to facilitate a planned program of dollar-cost averaging into investments in either or both of the equity and fixed income assets classes.

v. Outlined below are the long-term strategic asset allocation guidelines, determined by the Committee to be the most appropriate, given the Foundation's long-term objectives and short-term constraints. Portfolio assets will, under normal circumstances, be allocated across broad asset classes in accordance with the following guidelines:

Asset class	Target allocation range	Benchmarks
Equity	30% to 60%	S&P 500 Index
Fixed income	30% to 60%	B of A / ML Corp Master Index
Cash	0% to 30 %	

5. Diversification policy

   a. Diversification across and within asset classes is the primary means by which the Committee expects the Portfolio to avoid undue risk of large losses over long time periods. To protect the Portfolio against unfavorable outcomes within an asset class due to the assumption of large risks, the Committee will take reasonable precautions to avoid excessive investment concentrations, Specifically, the following guidelines will be in place:

      i. With the exception of fixed income investments explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of total Portfolio assets.

      ii. With the exception of passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single investment pool or investment company (mutual fund) shall comprise more than 20% of total Portfolio assets.

      iii. With respect to fixed income investments, for individual bonds and preferred stocks, the minimum average credit quality of these investments shall be investment grade (Standard & Poor's BB- or Moody's Ba3 or higher).

6. Rebalancing
    a. It is expected that the Portfolio's actual assets allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset and sub-asset classes. The Portfolio will be rebalanced to its target normal asset allocation under the following procedures:
        i. The investment manager will use incoming cash flow (contributions) or outgoing money movements (disbursements) of the Portfolio to realign the current weightings closer to the target weightings for the Portfolio.
        ii. The investment manager will review the Portfolio semiannually (June 30 and December 31) to determine the deviation from target weightings. During each semiannual review, the following parameters will be applied:
            1. If any asset class (equity or fixed income) within the Portfolio is +/-5 percentage points from its target weighting, the Portfolio will be rebalanced.
            2. If any fund within the Portfolio has increased or decreased by greater than 20% of its target weighting, the fund will be rebalanced.
        iii. The investment manager may provide a rebalancing recommendation at any time.
        iv. The investment manager shall act within a reasonable period of time to evaluate deviation from these ranges.

7. Other investment policies
    a. Unless expressly authorized by the Committee, the Portfolio and its investment managers are prohibited from:
        i. Purchasing securities on margin or executing short sales.
        ii. Pledging or hypothecating securities, except for loans of securities that are fully collateralized.
        iii. Purchasing or selling derivative securities for speculation or leverage.
        iv. Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected, given the objectives of their Portfolio.

8. Monitoring portfolio investments and performance
    a. The Committee will monitor the Portfolio's investment performance against the Foundation's stated investment objectives. At a frequency to be decided by the Committee, it will formally assess the Portfolio and the performance of its underlying investments as follows:
        i. The Foundation's composite investment performance (net of fees) will be judged against the following standard:
            1. The Portfolio's absolute long-term real return objective.
        ii. The performance of professional investment managers hired on behalf of the Portfolio will be judged against the following standards:
            1. A market-based index appropriately selected or tailored to the manager's agreed-upon investment objective and the normal investment characteristics of the manager's portfolio.
            2. The performance of other investment managers having similar investment objectives.
    b. In keeping with the Foundation's overall long-term financial objective, the Committee will evaluate Portfolio and manager performance over a suitably long-term investment horizon, generally across full market cycles or, at a minimum, on a rolling five-year basis.
    c. Investment reports shall be provided by the investment manager(s) on a (calendar) quarterly basis or as more frequently requested by the Committee. Each investment manager is expected to be available to meet with the Committee at least once per year or more frequently upon the request of the Committee to review Portfolio structure, strategy, and investment performance.

Changes to policy or other investment questions that arise are dealt with by the Investment Committee and advisors at Merrill Lynch.