

# **STATEMENT OF INVESTMENT POLICY GUIDELINES AND OBJECTIVES**

**April 27, 2006**



**P.O. Box 41069  
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# STATEMENT OF INVESTMENT POLICY GUIDELINES AND OBJECTIVES

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# STATEMENT OF INVESTMENT POLICY GUIDELINES AND OBJECTIVES

## I. DELEGATION OF RESPONSIBILITIES

### A. Responsibilities of the Trustees of the United Way of South Hampton Roads Foundation (the “Foundation”)

The Trustees recognize their responsibility to ensure that the assets of the various endowment funds are managed:

1. In a manner deemed best for the promotion of the purposes of the Foundation as set forth in its Bylaws;
2. In full compliance with all applicable laws.

The Trustees acknowledge that ultimate responsibility for satisfactory investment results rests with them. The Trustees believe that this responsibility is best discharged by delegating supervisory and operating responsibility to an Investment Committee and all major decisions made by the Investment Committee shall be reported to the Trustees.

### B. Responsibilities of the Investment Committee (the “Committee”)

The Committee is empowered by the Trustees to make certain decisions and take appropriate action regarding the Foundation. The responsibilities of the Committee include:

1. Developing and recommending sound and consistent investment policy guidelines;
2. Establishing reasonable investment objectives;
3. Communicating the investment policy guidelines and objectives to the Trustees and other committees and/or managers;
4. Selecting qualified investment managers;
5. Monitoring and evaluating performance results to assure that policy guidelines are being adhered to and that objectives are being met;
6. Discharging an investment manager and engaging a replacement;

7. Taking any other appropriate action.  
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Responsibilities of the Investment Manager(s) and Adherence to Policy Guidelines and Objectives

The assets of the Foundation are to be managed in accordance with policy guidelines and objectives expressed herein, or expressed in a separate written agreement approved by the Investment Committee when deviation is deemed prudent and desirable.

1. Discretionary Authority

The investment manager(s) - complete investment discretion is subject to guidelines and any separate written agreement between the Foundation and the Investment Manager. Such discretion includes decisions to buy, hold or sell equities or fixed-income securities (including cash equivalents) or other capital assets, in amounts and proportions reflective of the manager's investment strategy and compatible with the Committee's guidelines.

2. Communication

The investment manager(s) are responsible for communicating with the Committee regarding all significant matters pertaining to the investment of Foundation assets. The manager(s) will keep the Committee apprised of substantive changes in investment strategy, asset mix, portfolio structure, market value of fund assets and other matters affecting the investment of Fund assets. The Committee shall be informed of any significant changes in the ownership, organizational structure, financial condition or professional personnel staffing of the investment management organization. Documents, exhibits, written material, etc. which will be used during periodic conferences between the Committee and an investment manager should be submitted to and received by the Committee at least five (5) business days in advance of these conferences.

3. Reporting

The manager and/or the custodian shall notify the Committee of transactions on a timely basis. On a quarterly basis, or more frequently if the need arises, the manager should provide a summary of these transactions, a listing of portfolio holdings and a performance report.

4. Prudent Investing

The 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 so diversify. The manager shall invest the assets of the Foundation with the care,

skill, prudence and diligence under the circumstances then prevailing

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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.

### 5. Evaluation and Review

On a timely basis, but not less than four (4) times per year, the Committee will meet with the manager(s). The meetings should follow the agenda specified in Appendix B to assist the Committee in its review of actual results achieved (with a perspective toward a 3-5 year time horizon) to determine whether:

- a. The investment managers performed in adherence with the investment philosophy and policy guidelines set forth herein;
- b. Asset allocation, securities selectivity and market-timing decisions were reasonable;

The investment managers performed satisfactorily when compared with:

- \* the objectives established above as a primary consideration and
- \* other investment management organizations managing endowment funds with similar investment guidelines and recognized market indices, from a secondary perspective.

### D. Procedure for Revising Guidelines or Policies

The Committee recognizes that capital markets are dynamic and that this *Statement of Investment Policy Guidelines and Objectives* requires periodic examination and revision if it is to continue to serve as a working document to encourage effective investment management. The Investment Committee will recommend any change to policy to the Trustees for approval. The Investment Committee will have the responsibility of making changes in the Investment Manager(s). The manager(s) or the Committee are not precluded from suggesting a modification in any of the investment guidelines or policies.

## **II. INVESTMENT POLICY GUIDELINES**

### A. Investment Philosophy

The Committee's attitude regarding Foundation assets combines both the preservation of principal and moderate risk-taking. The Committee recognizes that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values),

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and the potential of loss in purchasing power (due to inflation) are present to some degree with *all* types of investment vehicles. While high levels of risk are to be avoided, the assumption of a moderate level of risk is warranted and encouraged in order to allow the professional investment manager the opportunity to achieve satisfactory results consistent with the objectives and the fiduciary character of the Foundation over a full market cycle. The Committee believes that Foundation assets should be managed in a manner which reflects the following statements. In addition, equity exposure guidelines, policy guidelines and investment objectives outlined in the following sections are established for the Foundation. The manager(s) retained by the Foundation is expected to adhere to the equity exposure guidelines and individual manager guidelines outlined in Appendix A.

B. Attitudes Regarding the Investment of Fund Assets; Attitudes Regarding Risk, Volatility, and Loss

1. Avoiding large risks is preferred with the result of possibly limiting large gains. This may mean sacrificing some opportunities for gain during rising markets in order to avoid large potential losses during declining markets.
2. Consistent year-to-year results are preferred to large fluctuations in return.
3. The Committee adheres to capital market theory which maintains that, over the very long term, the risk of owning equities should be rewarded with a somewhat greater return than available from fixed-incomes investments. Consequently, moderate risk taking is justifiable as a method of improving returns over the long term.

\* Attitudes Regarding Asset Allocation

1. The Committee believes that the following equity exposure guidelines are reasonable and consistent with its objectives for each segment of the Foundation:

Category of Plan	Low	Average	High
Endowment Fund	50%	60%	70%

2. An equity exposure approximating the higher end of the appropriate range should signify that the manager has a high degree of confidence in the intermediate term (6-18 months) prospects of the stock market. An equity exposure approximating the lower end of the appropriate range should signify that the manager has a high degree of uncertainty regarding the intermediate

prospects of the stock market.

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3. These guidelines are meant as *guidelines*. The manager is not precluded from suggesting (or recommending) a modification in these guidelines as long as the manager presents a reasonable rationale and subsequently receives Committee approval.

\* Attitudes Regarding Market-Timing

The Committee believes that market-timing is not an objective but rather a consequence of the manager's shifting the asset mix within the appropriate ranges indicated above, based on fundamental rather than purely technical criteria.

### III. OBJECTIVES

#### A. Economic Sensitivity of the Endowment Fund

The Trustees utilize a budgetary process which targets planned expenditures at 4% of the market value of the Foundation (1% per quarter) utilizing a three-year rolling average. The Committee recognizes that there may be a correlation between the state of the economy, the resultant conditions of the capital markets and the financial/charitable demands on the Foundation.

During poor economic conditions, the social, educational and welfare needs of the community tend to increase. In the past, the results of annual fundraising campaigns (new contributions and bequests) have been little affected by external economic conditions. However, poor economic conditions tend to negatively impact the capital markets and, thus, affect the market value of the Foundation portfolio. The Committee recognizes that the financial/charitable demands on the Foundation tend to be greatest when investment experience is least favorable because the 4% budgetary target is calculated on a diminishing asset base.

In view of these factors, and to help provide the stability of investment returns necessary to enable the Committee to be responsive to the needs of the community under all economic conditions, it is desired that the investment manager achieve a substantial part of the 4% "budgetary discipline" in the form of current income. Also, the portion which is invested in common stocks may be shifted somewhat to those securities which tend to be characterized by high current yields and low price/earnings ratios. **(Deleted 8.11.05)**

#### B. Performance Expectations--Managed Portfolio

The desired investment objective is a long-term rate of return on assets that is at least 5%

greater than the anticipated rate of inflation as measured by the Consumer Price Index (CPI). The target rate of return for the Foundation has been based upon the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in guidelines.

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The Committee realizes that market performance varies and that this desired rate of return may not be meaningful during some periods. Accordingly, relative performance benchmarks for the managers are set forth in the “Control Procedures” section.

C. Loss Containment\*

The Investment Committee’s goal is to reduce the volatility (Beta) of the portfolio through diversification in asset classes, styles and geography. The Investment Committee will monitor performance quarterly and take appropriate action.

The Committee recognizes that the capital markets are unpredictable and than any investment posture may result in periods during which the market value of Foundation assets decline in value.

(\*Policy amended UWF Investment Committee January 26, 2006. Board of Trustee action February 23, 2006.)

**IV. SECURITIES GUIDELINES**

Every separate money manager selected to manage Foundation assets must adhere to the following guidelines.

The following securities and transactions are not authorized, unless receiving prior Committee approval:

1. Letter stock and other unregistered securities; commodities or other commodity contracts; and short sales or margin transactions;
2. Securities lending; pledging or hypothecating securities;
3. Investments in equity securities of any company with a record of less than three years’ continuous operation, including operation of any predecessor; and investments for the purpose of exercising control of management are all restricted;

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4. Purchase of securities of companies considered repugnant to the Foundation. The Foundation may provide the manager with a list of such companies. Managers are expected to divest the portfolios of securities of any such companies and refrain from buying those securities until otherwise notified by the Foundation.

A. Domestic Equities

- \* Equity holdings in any one company should not exceed more than 5% of the market value of the manager's equity portfolio. Note: In the event of an extraordinary run-up in the value of an individual stock, the 5% may be exceeded. Consultation with the Investment Committee would be in order should the Investment Manager wish to avoid a forced sale.
- \* Not more than 25% of the market value of the portfolio should be invested in any one industry category. See Note, above.
- \* The managers shall emphasize quality in security selection and shall avoid risk of large loss through diversification.
- \* The managers shall have the discretion to invest a portion of the assets in cash reserves when they deem it appropriate. However, the managers will be evaluated against their peers on the performance of total funds under their direct management.
- \* Holdings of individual securities shall be large enough (round lots) for easy liquidation.

B. International Equities

- \* Holdings in international equities shall not exceed 30% of the portfolio.
- \* Equity holdings in any one company shall not exceed more than 5% of the International Equity portfolio.
- \* No more than 25% of the portfolio shall be invested in one industry category.
- \* Allocations to any specific country shall not be excessive relative to a broadly diversified international equity manager peer group. It is expected that the non-

U.S. equity portfolio will have no more than 30% in any one country.

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- \* The manager may enter into foreign exchange contracts on currency provided that use of such contracts is limited to hedging currency exposure existing within the manager's portfolio. There shall be no direct foreign currency speculation or any related investment activity.

**C. Domestic Fixed Income**

- \* All fixed-income securities held in a portfolio shall have a Moody's, Standard & Poor's and/or Fitch's credit quality rating of no less than "BBB." U.S. Treasury and U.S. government agencies, rated or unrated, are qualified for inclusion in the portfolio.
- \* No more than 20% of the market value of the fixed income portfolio shall be rated less than single "A" quality, unless the manager has specific written authorization.
- \* The exposure of the portfolio to any one issuer, other than securities of the U.S. government or its agencies, shall not exceed 10% of the market value of the fixed income portfolio.
- \* Holdings of individual issues shall be large enough (round lots) for easy liquidation

**D. Cash/Cash Equivalents**

- \* Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1 or P-1. Eurodollar Certificates of Deposit, time deposits, and repurchase agreements are also acceptable vehicles.
- \* Any idle cash not invested by the investment managers shall be invested daily through an automatic interest bearing sweep vehicle managed by the custodian.

**V. SELECTION OF MONEY MANAGERS**

The Committee will select appropriate money managers to manage the Foundation assets. To be considered, managers must meet the following minimum criteria:

1. Be a bank, insurance company, investment management company, or

investment adviser as defined by the Registered Investment Advisers Act of 1940.

2. Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of **INVESTMENT POLICY GUIDELINES AND OBJECTIVES**  
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similar investment style, and reported net and gross fees.

3. Provide periodic performance evaluation reports that are fully disclosed in accordance with generally accepted reporting standards.
4. Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel. This information can be a copy of a recent Request for Proposal (RFP) completed by the manager.
5. Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
6. Selected firms shall have no outstanding legal judgments or past judgments which may reflect negatively upon the firm.

## **VI. CONTROL PROCEDURES**

### Duties and Responsibilities of an Investment Management Consultant

The duties and responsibilities of an Investment Consultant when retained by the Committee include the following:

1. Advising the Committee in the maintenance of the Investment Policy statement.
2. Evaluating the investment performance results, and the investment program on a regular basis, and advising the Committee as to the performance and continuing appropriateness of managers;
3. Recommending modifications in the investment policies, objectives, guidelines or management structure as appropriate to the Trustees and the Committee;
4. Keeping the Committee informed of current investment trends and issues.

### B. Duties and Responsibilities of Money Managers

The duties and responsibilities of each separate money manager retained by the

Committee include the following:

1. Managing the Foundation assets under its care, custody and/or control in accordance with objectives and guidelines set forth herein, and also expressed in separate written agreements when deviation is deemed prudent and desirable by the Committee.

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2. Exercising investment discretion (including holding cash equivalents as an alternative) within the objectives and guidelines set forth herein.
3. Promptly informing the Committee, in writing, regarding all significant and/or material matters and changes pertaining to the investment of Foundation assets, including but not limited to:
  - a. Investment strategy
  - b. Portfolio structure
  - c. Tactical approaches
  - d. Ownership
  - e. Organizational structure
  - f. Financial condition
  - g. Professional staff
  - h. Recommendations for guideline changes
  - i. All legal material, SEC and other regulatory agency proceedings affecting the firm
4. Promptly voting all proxies and related actions in a manner consistent with the long term interests and objectives of the Foundation set forth herein. Each manager shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto.
5. Utilize the same care, skill, prudence and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like endowment funds with like aims in accordance and compliance with all applicable laws, rules and regulations from local, state, federal and international political entities as it pertains to fiduciary duties and responsibilities.
6. Acknowledge and agree in writing to their fiduciary responsibility to fully comply with all of the guidelines set forth herein, and as modified in the future.

**C. Duties and Responsibilities of Mutual Fund Managers**

Mutual funds are selected based on the investment objectives and constraints set forth in the respective prospectuses for each fund. The managers are expected to adhere to these

objectives and constraints. In addition, the custody account will provide access to a custodial interest-bearing account for investment of discretionary cash reserves and to provide for a daily automatic sweep of idle cash and investment income for each mutual fund's sub-account.

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**D. Brokerage Policy**

All transactions effected for the Foundation will be *subject to the best price and execution*. If a manager utilizes brokerage from the plan assets to effect “soft dollar” transactions, detailed records will be kept and communicated to the Committee.

**E. Review of Investment Objectives**

Investment performance relative to the Foundation’s long-term total return target will be reviewed at least annually by the Trustees and by the Investment Committee with reports to the Trustees and Member. The continued feasibility of achieving the investment objectives and the appropriateness of the guidelines for achieving those objectives will also be considered.

It is not expected that the guidelines will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the guidelines.

**F. Monitoring of Money Managers and Mutual Funds**

On a timely basis, but not less than four (4) times a year, the Committee will meet to focus on:

1. Manager’s adherence to the Foundation’s investment policy guidelines;
2. Material changes in the manager’s organization, investment philosophy and/or personnel;
3. Comparisons of the manager’s results to appropriate indices and peer groups, i.e.:

<b><i>ASSET CATEGORY</i></b>	<b><i>INDEX</i></b>	<b><i>PEER GROUP</i></b>
<b><i>UNIVERSE</i></b>		
<b>Domestic Core Equities &amp; Fixed Income</b>	S & P 500 (60%)	Balanced Database
<b>(Balanced Manager)</b>	Lehman Bros.	Gov’t/Cor (Int) (40%)

**Domestic Small  
Capitalization Equities**

DFA 9/10 Small  
Capitalization Index or

Small Capitalization Equity  
Russell 2000

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**International Equity**

MSCI EAFE and/or MSACWxUS INT'L Equity

**Domestic Fixed Income**

Lehman Bros. Gov't/ Corp (Int) Total F/I Database

Quarterly performance will be evaluated to test progress toward the attainments of longer term targets. It is understood that there are likely to be short-term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on *peer*-performance comparisons with managers employing similar styles.

In addition to the information covered during the quarterly reviews, the Committee and the Trustees will meet as least annually to focus on:

1. The risk associated with each manager's portfolio, as measured by the variability of quarterly returns (standard deviation). The manager's risk must not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group.
2. The manager's performance relative to managers of like investment style or strategy. each manager is expected to perform above the median of the manager's respective style universe.

The Committee is aware that the ongoing review and analysis of money managers is just as important as the due diligence implemented during the manager selection process. Accordingly, a thorough review and analysis of a money manager will be conducted, should:

1. Manager performs in the bottom quartile (25th percentile) of their peer group over a quarterly or annual period;
2. Manager falls in the southeast quadrant of a risk/return scatterplot (or equivalent measurement) for 3-5 year time periods.

It is the intention of the Committee to utilize volunteers in this process until such time as

the fund balance of the Foundation reaches significant levels.

## VII. OTHER CONSIDERATIONS

The Committee believes that its performance expectations and objectives *cannot* be “indexed” to the rate of inflation. It recognizes that the higher the rate of inflation, the more difficult it is to achieve *any* degree of positive performance (regardless of mix of

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stocks and bonds).

The Committee further recognizes that, under varying market conditions, certain of these parameters might impinge on the fulfillment of others and, therefore, urges open communication between the manager (s) and the Committee in order to adjust priorities in a timely manner.

## APPENDIX A

### Investment Structure

#### Endowment Funds

In an effort to achieve its overall Foundation objectives, the Committee envisions the investment structure illustrated below:

Cash Equivalent	*\$100,000
Bonds	40%
Equities	60%

Individual equity exposure guidelines are designed to ensure that the total Foundation assets are exposed to the stock market in compliance with the total Foundation equity exposure guidelines (50%-70%).

The Committee may, at its discretion, periodically reconsider the allocation of Foundation assets in a proration different from noted above.

\* Under certain conditions increased holding in cash equivalents may be an appropriate investment decision. The Committee shall be so notified when such a decision is taken.

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**APPENDIX B -Example  
Investment Committee Agenda**

**I. CHAIR'S REPORT**

- A. Introductions if necessary
- B. Recent recommendations and/or actions taken by the Committee

**II. PRESENTATIONS BY INVESTMENT MANAGER/CONSULTANT**

(Limited to 30 minutes; cover materials sent in advance to Committee members)

- A. Performance evaluations
  - 1. Absolute performance -- current period; year-to-date
  - 2. Performances relevant to applicable market indices; year-to-date
  - 3. Other relevant performance data
- B. Economic outlook (brief; cover major points only)
  - 1. Overall conditions; implications and manager's forecasts
  - 2. Equity and/or bond market outlook
- C. Portfolio structure (should be consistent with economic outlook)
  - 1. Current and projected asset mix (should relate to manager's philosophy)
  - 2. Areas of sector and industry concentration and underweighing
  - 3. Other relevant information
- D. Compliance with Foundation guidelines
- E. Manager's recommendations
  - 1. Changes in guidelines
  - 2. Other

F. Summary

1. Projected changes in portfolio structure
2. Projected changes in manager philosophy
3. Other

**III. EXECUTIVE SESSION--if required**  
(excuse Investment Manager/Consultant)

**IV. ADJOURNMENT**

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**APPENDIX C**

**Investment Policy Endorsement**

Accepted by the United Way of South Hampton Roads Foundation  
Board of Trustees, on the 29 day of April, 1999 by:

JAMES L. MILLER  
CHAIR, BOARD OF TRUSTEES

**ADDENDUM 1**

With due consideration of paragraph VII (above) the Committee declares that the long-term rate of return on assets desired should be at least 8.5%, which represents 5% more than the anticipated rate of inflation for the intermediate term.

Approved April 1999:

\_\_\_\_\_  
Foundation Chair

Addendum II  
Page 7, B:  
International Holdings 15%  
Approved May 27, 2004  
Frederick V. Martin  
Chair, Board of Trustees  
United Way of South Hampton Roads Foundation

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Addendum III  
Page 5, A, Line 1  
4% of the market value of the Foundation (1% per quarter) utilizing a three-year rolling average.  
Approved August 12, 2004  
Frederick V. Martin  
Chair, Board of Trustees  
The United Way of South Hampton Roads Foundation

Addendum IV  
Page 7, B:  
Approved February 24, 2005  
Mark B. Warlick, Chair, Board of Trustees  
Holdings in international equities shall not exceed 18% of the portfolio.

Addendum V  
Page 5, Objectives: III, A: Delete Paragraph 3  
Page 7, Securities Guidelines IV, B. International Equities  
“shall not exceed 30% of the portfolio”  
Approved August 11, 2005  
Eric L. Fox, Vice-Chair and Treasurer

Addendum VI  
Page 6, Loss Containment  
Approved January 26, 2006/February 23, 2006 Board of Trustees Approval  
The Investment Committee’s goal is to reduce the volatility (Beta) of the portfolio through diversification in asset classes, styles and geography. The Investment Committee will monitor performance quarterly and take appropriate action.  
Eric L. Fox, Vice-Chair, Chair, Investment Committee  
Mark B. Warlick, Chair

