CALIFORNIA RENEWABLE ENERGY ACTION TEAM

INVESTMENT POLICY STATEMENT
FOR MITIGATION ENDOWMENT ACCOUNTS
HELD BY THE NATIONAL FISH AND WILDLIFE FOUNDATION

As of December 1, 2010

Definitions

"COMMITTEE"	The IDEA Endowment Committee of the Foundation.
"ENDOWMENT FUNDS"	These consist of assets held by the Foundation within its Impact-Directed Environmental Accounts program and designated by the REAT for long-term management with a growth and income focus. These are hereafter referred to as Endowment Funds or, collectively, the "Endowment."
"FOUNDATION"	The National Fish and Wildlife Foundation.
"IPS"	This investment policy statement for REAT mitigation endowment accounts held by the Foundation.
"MANAGER"	The investment management organization(s) engaged as the Foundation's investment manager. As of August 2010, the Manager is Commonfund.
"REAT"	The Renewable Energy Action Team, an intergovernmental entity comprised of representatives of the U.S. Fish and Wildlife Service, the U.S. Bureau of Land Management, the California Department of Fish and Game, and the California Energy Commission.

Broad Philosophy

This IPS governs the investment management of Endowment Funds that are generated as a component of required environmental mitigation as set forth in permits, licenses, authorizations, and/or other "decision documents" issued by, through, or otherwise subject to the jurisdiction of the REAT. The REAT was established to facilitate coordination between its constituent agencies in developing guidelines and a comprehensive conservation strategy to help reduce the timelines for siting, development, permitting, and construction of qualifying renewable energy projects in the Mojave and Colorado Desert regions of the State of California, while enhancing and maximizing environmental protections.

One action undertaken by the REAT in furtherance of its mission was the execution of a Memorandum of Agreement ("MOA") with the Foundation. The MOA contemplates the establishment of a series of accounts at the Foundation that may be used by REAT-regulated project developers for the deposit of funding for specified environmental mitigation measures. A specific category of funding that may be required by the REAT, and deposited into one or more accounts at the Foundation, is referred to as "long-term management and maintenance" or "endowment" funding. These funds are intended to provide a source of long-term, perhaps perpetual, yearly funding for the parcels of real property with which they are associated. It is the REAT's expectation that such funds will be managed by the Foundation and invested by the Manager in a manner that enhances the likelihood that the initial principal amount of endowment funding for a particular parcel will provide sufficient investment growth and income to pay for required management and maintenance of that property over an indefinite period of time. Such funds will comprise the Endowment addressed by this IPS.

The Endowment Funds governed by this IPS will be maintained in financial accounts held at the Foundation, which will administer the Endowment in accordance with the terms hereof. Except to the extent provided otherwise in this IPS or specified by the REAT, the Foundation will manage the Endowment in accordance with the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), codified in California at Cal. Prob. Code §18501 et seq. This IPS will remain in effect until modified at the direction of the REAT, acting in consultation with the Committee. The Committee will monitor the performance of the Endowment Funds and of the Manager and may make recommendations to the REAT, from time to time as warranted, for potential changes in the objectives and policies set forth herein. Final responsibility for the provisions of this IPS and any changes hereto will at all times remain with the REAT. The Manager is expected to propose to the Foundation any revisions to these objectives and policies at any time that the Manager deems appropriate or advisable, and the Foundation will thereafter convey such proposed revisions to the REAT for its consideration.

The Foundation has delegated to the Manager the day-to-day management and investment of the Endowment Funds. Under the scope of this delegation, the Manager shall have discretion to manage the Endowment Funds in a manner that best achieves the investment objectives within the guidelines set forth in this IPS. In discharging its duties as investment manager, the Manager shall invest and manage the Endowment Funds in good faith and as a prudent investor would, exercising reasonable care, skill, and caution. The Foundation has delegated the investment management authority it might otherwise have to the Manager in the good faith belief that the Manager will achieve the objectives set forth in this IPS. The REAT has approved this delegation and has reserved the right to request and/or approve future delegation(s) to other investment managers of the day-to-day management and investment of the Endowment Funds.

Overall Objectives

This IPS is designed to:

- Establish appropriate **risk and return objectives** in light of the risk tolerance and the indefinite investment time horizon for the Endowment.
- Establish **asset allocation guidelines** and suitable investments for the Endowment, consistent with the risk and return objectives of

this IPS.

- Provide a framework for **ongoing monitoring** of investment performance of the Endowment.

Risk and Return Objectives

Return Objectives. The overall objective with respect to the investment of Endowment Funds hereunder is to generate a level of financial support sufficient to pay the annual costs of long-term management and maintenance for indefinite periods of time on parcels of real property secured as "mitigation parcels" in connection with permits, authorizations, and other proceedings of the REAT. It is the REAT's expectation that these costs will be funded exclusively from the corresponding Endowment Funds deposited for each parcel and, thus, that no other funding sources will contribute to defraying these costs.

The REAT calculates the principal amount of each tranche of Endowment Funds (each corresponding to an individual parcel of real property) using an assumed net annual drawdown rate of 3.25%. The REAT has also assumed 3% annually as an estimate of long-term inflation and 1% annually as an estimate of the administrative costs of operating the Endowment. Accordingly, in investing Endowment Funds, the Manager will seek to attain an average annual total return, net of any fees charged by the Manager or any underlying investment managers, of at least seven and one-quarter percent (7.25%) over the long term. This target average annual return is referred to hereinafter as the "Return Goal."

This IPS is based on the assumption that the spending on a REAT mitigation parcel for land management activities over the long term will average no more than 3.25% annually of the average market value of the parcel's corresponding Endowment Funds. This approach is intended to preserve the principal of the Endowment Funds to the extent practicable while generating a level of income that will be available to fund land management activities on the mitigation parcels. To the extent the REAT deems it necessary or desirable to allow a spending level greater than that projected for any particular parcel (which projection will be based on an assumed annual spend rate of 3.25%), the likelihood will increase that investment earnings alone (both appreciation and income) on the corresponding Endowment Funds will be insufficient to fund management activities on the relevant parcel in perpetuity. Thus, a decision by the REAT to allow a spending level greater than that projected for any particular parcel will decrease the statistical likelihood that the Endowment Funds for that parcel will exist in perpetuity.

In addition to using the Return Goal, the Committee will evaluate the Manager's performance on a relative basis by comparing it against market performance benchmarks and appropriate capital market measures, such as securities indices. The Manager's performance relative to these benchmarks and measures is referred to hereinafter as the "Relative Performance Goal." The Relative Performance Goal will be measured by comparing actual Endowment investment results over the current quarter – as well as over moving, annualized one, three, and five year time periods – against a weighted Endowment portfolio benchmark.

The weighted Endowment portfolio benchmark will be created by including in the benchmark appropriate indexed returns (e.g., Barclays Aggregate, S&P 500, etc.), pro rata, according to the asset class weightings in the Endowment's target allocation. The overall Endowment benchmark for a period may be adjusted if there are disparities in asset allocations during any single time frame caused by very large Endowment inflows or outflows and/or tactical allocations that would cause the benchmark to be inappropriate for the time period being examined.

Risk Objectives. The acceptable risk profile for the Endowment should generally be for the Manager to assume the lowest possible risk consistent with achieving the Return Goal. While negative returns in any single year may be unavoidable, over longer terms, the Manager should select asset allocations that are expected to achieve overall positive portfolio returns. In order to allow ongoing assessment and monitoring of portfolio risk, the Manager will prepare and present to the Committee at least annually a report on the overall risk profile of the portfolio based on the then-existing asset allocation thereof. This report will also be made available to the REAT.

Risk can be construed to include multiple different outcomes including loss of principal, failure to meet an expected return, or, most commonly, volatility of investment returns around an expected mean (also known as "standard deviation"). The REAT's policy regarding investment risk, consistent with modern portfolio theory and UPMIFA's express preference for diversification in endowment portfolios, is that risk cannot be eliminated but should be managed.

The Committee is delegating to the Manager the responsibility of understanding the risks inherent in the investment strategy selected to attempt to achieve the Return Goal, ensuring that the Endowment portfolio is properly compensated for these risks, measuring and monitoring those risks, and periodically communicating this risk information to the Committee and, to the extent requested, the REAT. Most importantly, the level of overall Endowment portfolio risk taken should be consistent with the statistically-likely achievement of the overall Return Goal.

Asset Allocation Guidelines

General. Endowment Funds shall be invested in a diversified, balanced portfolio that may include fixed income instruments, equity instruments, real assets, alternative investments, and cash. The Endowment Funds may be invested in any combination of individual securities, separately managed accounts with investment managers, commingled funds, or mutual funds. In the case of investments by third-party investment managers, those managers will have full discretion over their own portfolio management decisions consistent with the guidelines provided by this IPS. In the case of investments in commingled funds and mutual funds, their management will be carried out within their respective structures and in accordance with their applicable prospectus materials.

The specific asset allocations within the Endowment portfolio, including necessary or appropriate rebalancing among the asset classes from time to time, will remain the responsibility of the Manager, exercising reasonable judgment in light of prevailing market conditions and the objectives of this IPS, including the permissible asset allocation ranges that follow.

During Transition Period. The REAT has determined that the Endowment Funds designated for a particular mitigation parcel should not be drawn upon at all during the first three years after which such Endowment Funds have been received. (Funding for land management activities on mitigation parcels during this three-year transition period (hereafter, the "Transition Period") will be drawn from sources other than the Endowment Funds.) Given this determination, the REAT and the Committee are delegating to the Manager the discretion to deviate from the asset allocation that would otherwise apply under this IPS for Endowment Funds held during their Transition Period.

In particular, it is possible that certain minimum asset allocation bands (as set forth below) will not be met with respect to Endowment Funds held during their Transition Period. While it is expected that new Endowment Funds will generally be invested in the standard asset allocation incrementally (i.e., averaged in) over the course of the Transition Period, the REAT and the Committee recognize that there may be market conditions that warrant slower or faster investment of new Endowment Funds in the standard asset allocation. Given that the Manager may determine it best not to fully deploy a certain tranche of Endowment Funds in the standard asset allocation immediately, the REAT and the Committee are delegating to the Manager the discretion to decide in what short-term investment vehicle(s) such Endowment Funds should be invested during the Transition Period pending deployment into the standard asset allocation.

Asset Allocation Ranges. The permissible asset allocation ranges for the asset classes in which the Manager will invest the Endowment, consistent with the overall risk and return objectives of this IPS, are as follows:

Asset Class	**Minimum**	**Target**	**Maximum**	**Benchmark**
Total Equity	**15%**	**25%**	**50%**	
Domestic Equity		7%		Russell 3000
International Equity		6%		MSCI World x US
Emerging Markets Equity		7%		MSCI EM
Private Equity		5%		S&P 500 + 4%
Total Fixed Income	**15%**	**25%**	**50%**	
Core Bonds		10%		Barclays Aggregate
Global Sovereign Debt		15%		World Govt Bond
Real Assets	**5%**	**25%**	**40%**	
TIPs		7%		Barclays TIPs
Commodities		8%		DJ UBS Commodities
Natural Resources		5%		S&P Energy + 4%
Real Estate		5%		NCREIF
Marketable Alternatives	**5%**	**25%**	**40%**	
Directional Hedge Funds		13%		HFRI Hedged Equity
Relative Value Funds		12%		HFRI FOF Conservative
Cash	0%	0%	10%	3 month TBill

1. The primary purpose of the equity and real asset portion of the Endowment portfolio is to provide the potential for growth of principal and protect the purchasing power of the portfolio.
2. The equity and real asset portion should normally represent approximately 50% of the total Endowment assets. It is recognized that the equity and real asset portion entails the assumption of greater risk from market variability.
3. The primary purpose of the fixed income portion is to provide a deflation hedge and to reduce overall volatility in the portfolio.
4. The fixed income portion should normally represent approximately 25% of the total Endowment assets. This ratio may be changed from time to time to take advantage of variations in market conditions. Variances from the 50%/25% ratio of equity to fixed income may occur as the Manager brings the portfolio into balance or attempts to capitalize upon valuation shifts in the market.
5. Alternative investments should normally represent approximately 25% of the portfolio.
6. Although cash is recognized as an asset class hereunder, Endowment Funds will generally be fully invested at all times and cash will generally be held only to meet liquidity needs or during the portfolio rebalancing process.
7. The ratios above are <u>targets</u> for the allocation of Endowment Funds to the various asset classes. Actual allocation of Endowment Funds among the asset classes will vary based upon market conditions and the Manager's exercise of discretion in attempting to best meet the objectives of this IPS.
8. Endowment Funds will be diversified both by asset class and within these asset classes as noted above. The fixed income portion will typically be diversified with regard to credit, maturity, and sector. The equity and real asset portion will typically be diversified by sector, industry, asset type, and market capitalization. The alternative investment portion will typically be diversified by manager, style, and objective. These added elements of diversification will have the goal of preventing any single security, sector, or asset type from having a disproportionately large impact on the performance of the total Endowment portfolio.

Guidelines for Equities and Real Assets

1. The equity and real asset portion will be diversified over sectors, industries, assets, and size of organizations. In no event and at no time will the securities of any one issuer exceed 5% at cost and 8% at market of the total Endowment portfolio.
2. Decisions regarding sectors, industries, asset types, or specific securities will be left to the discretion of the Manager, who will exercise care and diligence in discharging its fiduciary responsibility.
3. Performance will be monitored (including up to quarterly evaluation of core managers) on a regular basis and evaluated over a rolling three-year period.

Guidelines for Fixed Income

1. The Manager should employ active management techniques with respect to the fixed income portion of the Endowment portfolio but changes in the average maturity of fixed income instruments should be moderate and incremental. The Manager should discuss liquidity needs with the Committee as appropriate.
2. The fixed income portion should be diversified such that the securities of any one issuer, with the exception of the United States Government or its agencies, are limited at any time to 5% at cost and 8% at market of the total portfolio. Further, fixed income securities should generally be of investment grade. The use of high yield bonds is permitted, provided such bonds are held within a commingled fund or mutual fund and used to further diversify the Endowment portfolio. However, no more than 10% (at market) of the total Endowment portfolio may be allocated to high yield bonds. If a security already held in the portfolio is downgraded, the Manager will evaluate it carefully to determine whether the security should be kept in the portfolio or eliminated within a prudent time frame.
3. Performance will be monitored on a regular basis and evaluated over a rolling three-year period.

Guidelines for Alternative Investments

1. The alternative investment portion of the Endowment portfolio may be included or excluded at the discretion of the Manager at any time the total balance of the Endowment is equal to or less than thirty million dollars ($30,000,000).
2. In no event and at no time will the securities, units, or other assets of any one issuer of alternative investments exceed 3% at cost and 5% at market of the total portfolio.
3. Decisions regarding specific alternative investments will be left to the discretion of the Manager, who will exercise care and diligence in discharging its fiduciary responsibility.
4. Performance will be monitored on a regular basis and evaluated over a rolling three-year period.

Guidelines for Cash

1. The Manager will periodically discuss liquidity needs with the Committee.
2. Beyond cash needed for liquidity purposes, the cash portion will be included or excluded at the discretion of the Manager in seeking to achieve the objectives of this IPS.

Ongoing Monitoring

Performance Objectives

1. The benchmark objective for the asset classes will be as follows:
   Equities: MSCI All Country World Index
   Fixed Income: (weighted) 40% Barclays Aggregate, 60% World Government Bond Index
   Real Assets: CPI + 4%
   Marketable Alternatives: HFRI Fund of Fund Composite

2. The benchmark objectives for the individual investment strategies are defined in the asset allocation table above.

3. With respect to each individual asset class, performance will also be measured by a benchmark objective that total return rank above the 50th percentile against a universe of similar funds.

4. All benchmarks and objectives will apply to a three-year rolling period.

Guidelines for Transactions

As a general guideline, all transactions shall be entered into on the basis of the best execution which is interpreted to mean the best realized price.

Monitoring of Objectives and Results

1. All objectives and policies set forth in this IPS remain in effect until modified by the REAT in consultation with the Committee. The Committee will promptly communicate any such modifications to the Manager in writing.
2. If the Manager believes that the policies or guidelines inhibit the investment performance or are otherwise inconsistent with any objectives set forth in this IPS, it is the responsibility of the Manager to so notify the Committee.
3. The Endowment portfolio will be monitored on a continual basis for consistency in asset allocation and return objectives. Asset concentrations will also be monitored for exposure to sectors, industries, and individual securities, notwithstanding the fact the Manager is responsible for investment decisions. The REAT and the Committee may evaluate the Manager to ensure that the factors underlying the performance expectations remain in place.
4. The Manager will report on the following to the Committee quarterly with respect to both the Endowment as a whole and each parcel-specific sub-account within the Endowment:
   a. Current holdings at cost and market
   b. Purchases and sales during the period being reported
   c. Additions and withdrawals during the period being reported

d. Total return net of commissions and fees

e. Changes in staff or ownership of the Manager to the extent these changes potentially impact the ability of the Manager to fulfill its duties hereunder