

**INVESTMENT GUIDELINES
FOR
NCPB PERMANENT AND BOARD-DESIGNATED ENDOWMENT FUNDS**

ADOPTED - August 20, 1996
Amended - September 2, 1999
Amended – March 6, 2003
Amended – May 7, 2009

MANAGEMENT AND INVESTMENT OBJECTIVES

- The primary long-term management objective is to preserve the real (i.e. inflation adjusted) purchasing power of Endowment funds, while providing an available, stable, and constant (in real terms) stream of earnings to help meet NCPB's spending needs.
- The primary investment objective is to earn an average annual total return exceeding the Performance Benchmark set forth below, net of all fees, over the long-term.

ASSET ALLOCATION

- Ranges for asset classes to be met over time are:

Stocks: 60% to 75%
Bonds: 25% to 40%
Cash: 0% to 5%

- Over time, the equity allocation will provide the portfolio with long-term capital appreciation that more than offsets inflation, and a growing stream of income. The fixed income allocation will provide higher current income, greater liquidity, a hedge against deflation, and more stable but lower total returns.

ACCEPTABLE INVESTMENTS

- In recognition of NCPB's desire to adequately diversify the Endowment, the funds will all be invested with a manager who invests in a diversified portfolio of no-load mutual funds to maintain a modest risk level.

PERFORMANCE BENCHMARK

- Outperform the stock/bond benchmark of 60% S&P 500 Index and 40% Lehman Bros. Intermediate Govt./Corp. Bond Index with less volatility as measured by standard deviation.
- Although the objective is to outperform the benchmark at any given time, the real gauge of performance is over a cumulative long-term basis.

FUNDS STRUCTURE

- The assets of NCPB's Permanent Endowment funds will be managed in separate account from Board-Designated Endowment funds so that the assets of each fund can be clearly identified.

TAX CONSIDERATIONS

- None

INVESTMENT DISCRETION

- The manager shall have investment discretion for the portfolios within the parameters established by these guidelines. The manager will report to NCPB on at least a quarterly basis with regard to asset allocation, performance, and strategy.

SPENDING RULE

- The general purposes of the Endowments' spending rule are to provide a stable, predictable stream of revenue and allow for a spending stream that grows over time with inflation. The purpose of these Investment Guidelines is to protect the purchasing power of the Endowments. The "Spending Rule Amount" is defined as the annual amount appropriated by the Board of Directors for inclusion in the subsequent year's budget as computed for each Endowment within the limitations set forth below.
- **Permanent Endowment Spending Rule.** NCPB may annually withdraw funds for Endowment stated purposes from the NCPB Permanent Endowment, provided that such withdrawals may not exceed 5% of the Endowment's

market value averaged over the prior 12 quarters calculated as of June 30 each year (the “Computed Withdrawal Amount”). If the Computed Withdrawal Amount would cause the NCPB Permanent Endowment’s value to fall below its original gift value level, then the annual Spending Rule Amount to be included in the subsequent fiscal year’s budget is limited to the amount in excess of the original gift value. Any such distributions of the Spending Rule Amount from the Permanent Endowment may be made in accordance with this policy even if the account balance in the Permanent Endowment falls below the original gift value level due to market fluctuations during the ensuing fiscal year. If the annual Spending Rule Amount becomes limited as so described, this may be considered a “financial emergency” for purposes of making supplemental payouts from the Board-Designated Endowment.

- **Board-Designated Endowment Spending Rule.** NCPB may annually withdraw funds from the NCPB Board-Designated Endowment, provided that such withdrawals may not exceed 5% of the Endowment's market value averaged over the prior 12 quarters calculated as of June 30 each year. In addition, NCPB may, in the case of a financial emergency, as may be determined by the Board of Directors in its reasonable discretion, spend additional amounts from the Board-Designated Endowment up to the entire principal balance in the Board-Designated Endowment.
- One-fourth of the annual Spending Rule Amount shall be withdrawn each quarter; the exact dates for which shall be determined by the Chief Financial Officer.