

Gaylord and Dorothy Donnelley Foundation Statement of Investment Objectives and Guidelines
Amended July 9, 2010

Section VIII. GUIDING PRINCIPLES FOR MISSION-ALIGNED INVESTMENTS

A. **PURPOSE**

To align a portion of the foundation's investment portfolio with its land conservation and artistic vitality mission. GDDF defines mission-aligned investments as both below-market program-related investments (PRIs) and market-rate mission-related investments (MRIs).

B. **Investment Criteria**

PRIs

A PRI is dependent on the transaction meeting certain requirements:

- 1) A grant is not the right tool for the project.
- 2) The project falls within one of the foundation's programmatic and geographic areas.
- 3) The foundation has a funding history with the organization the PRI is to be made.
- 4) If the investee is not a grantee, it is a financial institution or public charity with a proven track record of structuring, managing and monitoring cash, loan and guarantee investment products.
- 5) There is a designated cash stream for the payback or return of the PRI (for loans and equity) or for the relinquishment of obligations secured by guarantees and credit enhancements.

MRIs

An MRI is dependent on the transaction meeting certain requirements:

- 1) The investment falls within one of the foundation's programmatic areas (no geographic restrictions apply).
- 2) The investment must meet the foundation's due diligence standards applied to non mission-aligned investments.

C. **REVIEW**

At each finance & investment committee meeting the portfolio and performance of mission-aligned investments will be reviewed against financial and programmatic benchmarks.

D. **AUTHORITY AND REPORTING**

The finance & investment committee will conduct investigations of new mission-aligned investments. The quarterly meetings of the committee will most likely be sufficient to accommodate the timing of mission-aligned investment proposals that might be received. However, in the event that a faster response is required, a special meeting of the committee (or its delegation) may be called. Progress made against the parameters and guidelines for these investments will be reported to the board at each board meeting.

E. **INVESTMENT DECISIONS, PERFORMANCE AND COVENANT COMPLIANCE**

Mission-aligned investments will be spread across asset classes within the investment portfolio and returns will be measured against performance benchmarks. Returns will be calculated as part of the overall portfolio target return.

No more than 10 percent of the foundation's assets will be committed to mission-aligned investments, valued as follows:

Investment	% Valuation
Guarantees and credit enhancements	10% of current face value
Loans	100% of outstanding loan value
Public and Private Equity	100 % of invested equity

An amount equal to the above valuation of guarantees and credit enhancements may be set aside in below-market investments as loss reserves, thereby mitigating liquidity shortfalls and qualifying as part of the IRS-required 5 percent payout.

Analysis of an investment term sheet will precede any investment. Such term sheets will be drafted jointly by the foundation's investment advisor together with the foundation's finance and program staff and will include project description, parties involved, expected returns (both mission and investment), timeframe and fee/income structure.

Fees for credit enhancements and interest rates for loans will be determined by the foundation as follows:

Investment	Income
Guarantees and credit enhancements	Below-market fees
Loans	Below-market interest
Equity	Income distributions, gains to be discussed on a deal-by-deal basis

Positive Environmental Impact Screening

Alternative investments that provide commercial solutions to achieve positive environmental impact (as opposed to alignment with GDDF's land conservation mission), regardless of their specific environmental focus, will be sought where possible. Such investments, if purchased, will not be counted toward GDDF's mission-aligned allocation.

F. OUTSIDE CONSULTANTS

It is beneficial for staff to develop skills in mission-aligned investments but consultants will be necessary in the early stages of the foundation's development in this area. The staff's program expertise and local knowledge of the issues is highly beneficial to this type of investment so it is not deemed desirable to rely entirely on outside consultants for structuring and monitoring.