Investment Policy for The TEP Foundation, Inc. ("the Foundation")
Adopted

Purpose

The purpose of this policy is to set forth the standards and guidelines governing the investment and management of the Foundation's financial assets. A separate appendix sets forth standards and guidance for the expenditure of the Foundation's endowment funds. This policy is intended to be in accordance with the New York Prudent Management of Institutional Funds Act ("NYPMIFA").

Financial Assets of the Foundation

The Foundation's financial assets consist of (a) funds intended to be used to cover its short- term operating and program expenses (the "Operating & Program Fund"), (b) reserve funds, which are funds to be held in reserve to support the Foundation's future operations, serve as a resource during economic downturns or provide an additional source of income to support and further the Foundation's mission (the "Reserve Funds"), (c) funds which have been restricted by the donor or the Foundation's Board of Trustees (the "Board of Trustees" or the "Board") for a specific purpose, but which do not have a restriction as to the timing of their expenditure (the "Restricted Funds"), and (d) funds received by the Foundation pursuant to a gift instrument4 that are not wholly expendable by the Foundation on a current basis (the "Endowment Funds" and together with the "Operating & Program Fund," the "Reserve Funds" and the "Restricted Funds," the "Funds"). Financial assets subject to a specific donor restriction as to the investment, management, use or expenditure of such assets shall be invested, managed, used and spent in accordance with the donor's restriction.

Investment and Management Objectives and Guidelines

Operating & Program Fund: The Operating & Program Fund shall be invested with the objective of preserving its assets to cover operating expenses and realizing earnings in a way that allows for immediate liquidity to meet the Foundation's ongoing programmatic and operational needs. Operating & Program Fund assets may be maintained in the checking account that the Foundation uses for day-to-day operations and may be invested in other cash-equivalent investments, such as savings accounts, money market accounts, certificates of deposit with maturities appropriate for expected needs, Treasury bills and other investments that are relatively easy to liquidate. The Foundation's professional staff from time to time will review the allocation (or the methodology of allocation) of Operating & Program Fund assets between the Foundation's checking account and its other cash-equivalent investments, determining the appropriate allocation based on the Foundation's cash-flow needs, and regularly report such allocation to the Board. The Board may direct that changes be made to such allocation and will also consider from time to time whether the Foundation's Operating & Program Fund assets are sufficient to allow for the designation of a portion of such assets to the Reserve Funds.

Reserve Funds: The Reserve Funds shall be invested with the objective of preserving the long-term real purchasing power of the Funds' assets while realizing appropriate investment income. Reserve Funds' assets may be invested in certificates of deposit, Treasury bills, mutual funds, exchange traded funds, equities, stocks traded on a U.S. public exchange, excluding stock not publicly traded on a U.S exchange, "preferred stock," "convertible securities," or other high risk investment as determined by The

Board of Trustees, fixed income securities and, as to an appropriate portion, cash equivalent investments. The asset allocation of each of the Reserve Funds shall be determined from time to time by the Board of Trustees, in consultation with any managers or advisors if desired (unless it delegates such task to an external manager), which allocation shall reflect a proper balance of such Fund's investment objective, any risk tolerance standard and the need for liquidity.

Restricted Funds: The Restricted Funds shall be invested with the objective of preserving and enhancing the purchasing power of the Funds' assets while ensuring that liquidity requirements can be met. Restricted Funds' assets may be invested in certificates of deposit, Treasury bills, mutual funds, exchange traded funds, equities, stocks traded on a U.S. public exchange, excluding stock not publicly traded on a U.S exchange, “preferred stock,” “convertible securities,” or other high risk investment as determined by The Board of Trustees, fixed income securities and, as to an appropriate portion, cash equivalent investments. The asset allocation of each of the Restricted Funds shall be determined from time to time by the Board of Trustees, in consultation with any managers or advisors if desired (unless it delegates such task to an external manager), which allocation shall reflect a proper balance of such Fund's investment objective, any risk tolerance standard and the need for liquidity.

Endowment Funds: The Endowment Funds shall be invested with the objective of preserving the long-term real purchasing power of the Funds' assets while realizing appropriate investment income. Endowment Fund assets may be invested in certificates of deposit, Treasury bills, commercial paper, bankers acceptances, repurchase agreements, mutual funds, exchange traded funds, equities (including common stock, preferred stock, convertible securities and other equities, whether traded on an exchange or not publicly traded), fixed income securities, real estate, commodities, natural-resource related stock, hedge funds, derivatives, alternate investment vehicles and, as to an appropriate portion, cash equivalent investments. The asset allocation of each of the Endowment Funds shall be determined from time to time by the Board of Trustees, in consultation with any managers or advisors if desired (unless the Board delegates such task to an external manager), which allocation shall reflect a proper balance of such Fund's investment objective, any risk tolerance standard and the need for liquidity.

Diversification

Investments of each Fund will be diversified to limit the risk of loss resulting from the concentration of assets in a specific type of investment, specific maturity, specific issuer or sector unless the Board prudently determines that, because of special circumstances, the purposes of the Fund are better served without diversification. The Board shall review the diversification strategy periodically, provided, however, that it shall review any decision to not diversify as frequently as circumstances require but, at a minimum, annually. Responsibilities of the Board of Trustees in Managing and Investing the Foundation’s Financial Assets.

In managing the financial assets of the Foundation, the Board of Trustees will act in good faith and with the care an ordinarily prudent person in like position would exercise under similar circumstances. When making investment and management decisions, the Board shall consider the Foundation's purposes, as well as the purposes of the specific Funds. In making decisions regarding management and investment of the Foundation’s financial assets, the Board of Trustees, as required by applicable law, shall consider the following factors, if relevant:

(1) general economic conditions;
(2) the possible effect of inflation or deflation;
(3) the expected tax consequences, if any, of investment decisions or strategies;
(4) the role that each investment or course of action plays within the overall investment portfolio of the specific Fund;
(5) the expected total return from income and the appreciation of its investments;
(6) other resources of the Foundation;

(7) the needs of the Foundation and the specific Fund to make distributions and to preserve capital; and
(8) an asset's special relationship or special value, if any, to the purposes of the Foundation.

The Board of Trustees shall not make management and investment decisions regarding an individual asset in isolation but rather in the context of the specific Fund's portfolio of investments as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the Fund and the Foundation. The Board shall make reasonable efforts to verify facts relevant to the management and investment of the Funds and may incur only costs that are appropriate and reasonable in relation to the assets, the purpose of the Foundation and the skills available to the Foundation.

Within a reasonable time after the Foundation's receipt of a gift of property or other financial assets, the Board shall make and carry out decisions regarding retaining or disposing of the property, or the rebalancing of the Fund or Funds applicable to such gift in order to ensure compliance with the purposes, terms, and distribution requirements of the Foundation (including the diversification requirements and other aspects of this policy) as necessary to meet other circumstances of the Foundation and the requirements of applicable law, subject to any restrictions imposed by the terms of the gift.

The Board may delegate one or more of its responsibilities with respect to the management and investment of the Foundation's financial assets to a committee of the Board or an officer or employee of the Foundation. Any such committee or individual to whom such responsibility is delegated shall report to the Board on a regular basis and shall be subject to direction by the Board. If such responsibilities are delegated to a committee or individual, the rights and obligations set forth in this policy applicable to the Board (other than the right to amend this policy) shall also apply to such committee or individual, subject to the right of the Board to review and revise any decision of such committee or individual, and reports required under this policy to be made to the Board may instead be made to the committee or individual, which or who shall in turn report to the Board on a regular basis.

Delegation of Management and Investment Authority to an External Agent

To the extent it considers prudent, the Board may delegate management and investment decisions to one or more external agents, such as a bank, investment advisor, investment manager or custodian, except where prohibited by the terms of a gift instrument. The Board will act in good faith and with the care an ordinarily prudent person in like position would exercise under similar circumstances in (i) selecting, continuing or terminating any external agent (including assessing the agent’s independence, including any conflicts of interest such agent has or may have;7 (ii) establishing the scope and terms of the delegation, including the compensation to be paid; and (iii) monitoring the agent’s performance and compliance with the scope and terms of the delegation. The Board, in making the decision as to whether to delegate such functions to a specific external agent, shall conduct such due diligence as the Board deems appropriate, such as reviewing information regarding the external agent’s experience, personnel, track record and proposed compensation as compared to appropriate peers. Any external agent to which management and investment authority is delegated owes a duty to the Foundation to exercise reasonable care, skill and caution to comply with the scope and terms of the delegation.

Any external agents shall provide the Board with reports on investment performance on a quarterly basis, at a minimum, and more frequently if so requested by the Board. The Board will assess at least annually the performance and independence of any external agent, including any conflicts of interest it may have. Any actual or potential conflicts of interest involving a member of the Board or officer or key employee of the Foundation with respect to the external agent must be disclosed and resolved pursuant to the Foundation’s conflict of interest policy and any conflicts of interest the agent may have involving service to the Foundation (e.g., investment in deposits of a bank owned by the agent’s brother) must also be disclosed to the Foundation. Any contract between the Foundation and an external agent involving delegation of investment authority shall be terminable by the Foundation at any time, without penalty, upon no more than 60 days' notice.

The Board of Trustees will also review from time to time the Foundation's arrangements with any investment managers, investment advisors, custodians and the banks and other entities with which the Foundation maintains its financial assets to ensure that the costs and fees associated with each such arrangement are appropriate and reasonable in relation to the assets, the Foundation's purposes and the skills available to the Foundation. The Foundation will seek to ensure that any investment managers retained by the Foundation invest the Foundation's investment assets in accordance with this policy and any specific guidelines for the investment manager established by the Board of Trustees, which may include return and risk expectations, asset allocations and investment strategies (including allowed and prohibited investments). Specific guidelines established for investment managers will be reviewed from time to time by the Board of Trustees and revised as necessary. Decisions as to the selection of individual investments, security size and quality, number of industries and holdings shall be left to the broad discretion of the investment manager, within the limits set forth in this policy and any specific guidelines established by the Board, and subject to the prudence standards under NYPMIFA.

Spending from Endowment Funds

Decisions with respect to spending from the Foundation's endowment funds shall be made in accordance with the Endowment Spending Policy set forth in Appendix A of this policy.

Review of Investment Policy

The Board will review this policy, and shall amend the policy, from time to time as necessary to reflect developments affecting the Foundation's finances and activities.

Additional Provisions That Might Be Considered for Inclusion

If the Board of Trustees wishes to include in the organization's policy more detailed guidance, such guidance could address items such as, but not limited to:

- Investment philosophies, asset allocation guidelines, prohibited investments, and risk and return expectations for the Reserve, Restricted and Endowment Funds;
- Specific caps intended to promote diversification of the nonprofit's investment portfolio, such as caps on the market value of the portfolio that may be invested in any one industry, in the securities of any one company or in any asset class;
- Responsibilities of board committees, officers and/or staff if your Board of Trustees has delegated management and investment authority to such internal delegates;
- Responsibilities of investment managers and custodians if your Board of Trustees has delegated management and investment authority to such external agents;
- Guidance on the basic standards, rules and requirements that must be reflected in any specific guidelines established for investment managers;
- Whether restrictions should be imposed on the types of permitted investments for non-financial reasons (e.g., prohibitions on investments in certain industries, such as tobacco);
- Criteria for selecting and evaluating investment managers; or
- Criteria/benchmarks that will be used to evaluate the investment performance of the Reserve, Restricted and Endowment Funds.

Appendix A

Endowment Spending Policy
For The TEP Foundation, Inc.(the “Foundation”)

I. Purpose

The purpose of this Endowment Spending Policy is to set forth the standards and guidelines governing spending from the endowment funds of the Foundation. An endowment fund is any fund, or a part of a fund, that, under the terms of the gift instrument, is not wholly expendable by the Foundation on a current basis. Funds that are not restricted as to expenditure under the terms of a gift instrument but have been so restricted by action of the Foundation's Board of Trustees (the "Board of Trustees" or the Board") are not endowment funds.

II. Appropriating Endowment Funds for Expenditure

All spending from each of the Foundation's endowment funds will comply with any donor restrictions on spending imposed on such fund and with the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). In creating an endowment fund, the donor also may have restricted the purpose or purposes for which funds from the endowment may be spent. All decisions regarding expenditures from an endowment fund restricted as to purpose must comply with such purpose restrictions. Expenditures from endowment funds that are not restricted as to purpose may be used for any purposes of the Foundation. Decisions to appropriate funds from each endowment for expenditure2 or to accumulate such funds shall be made only by the Board of Trustees. The Board may authorize a committee of the Board to assist the Board in carrying out its responsibilities with respect to the expenditure of the Foundation's endowment funds. Such committee may be authorized to make recommendations to the Board of Trustees regarding the expenditure of the Foundation's endowment funds but the final decision as to such matters shall be made by the Board. The Board committee, in making a recommendation to appropriate funds from each endowment for expenditure or to accumulate such funds, and the Board of Trustees, in making a decision to appropriate funds from each endowment for expenditure or to cumulate such funds, must act in good faith with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and must (a) consider the uses, benefits, purposes and duration for which the endowment fund was established and(b) consider each of the following factors, if relevant:

(1) the duration and preservation of the endowment fund;
(2) the purposes of the Foundation and the endowment fund;
(3) general economic conditions;
(4) the possible effect of inflation or deflation;
(5) the expected total return from income and the appreciation of investments;
(6) other resources of the Foundation;
(7) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Foundation; and
(8) the Foundation's investment policy.

In accordance with NYPMIFA, decisions to appropriate endowment funds will be made on a fund-by-fund basis and in accordance with any specific directives on spending that the donor has imposed. Should the number of the Foundation's endowment funds become large enough that making annual appropriation decisions on a fund-by-fund basis becomes unduly burdensome or cumbersome, the Board of Trustees or a Board committee so authorized by the Board, may classify the Foundation's endowment funds into groups of similarly situated funds for the purpose of allowing the Board, in accordance with the prudence standard set forth above, to determine each year an appropriate spending rate that should be applied to each such group of similarly situated funds. The factors that the Board or Board committee may consider in determining classes of similarly situated funds include: (i) the purposes of the funds as stated in the gift instruments; (ii) spending restrictions imposed by donors in the gift instruments; (iii) the durations of the funds; (iv) whether the funds are invested similarly; (v) the financial conditions of the funds; and (vi) such other factors as the Board or Board committee determines are relevant under the circumstances.

The Board of Trustees or the Board committee shall review from time to time the classes of similarly situated funds and the composition of each such group to ensure that such funds are properly classified.

Specific donor directives on spending may preclude classification of an endowment fund into any class of similarly situated funds. When making an appropriation recommendation or decision from an endowment fund that includes such specific donor directives on spending, the Board committee, in making its recommendation, and the Board of Trustees, in making its decision, shall consider the endowment fund separately and appropriations from such endowment fund will be made in accordance with any specific directives on spending that the donor has imposed.

III. Documenting Spending Deliberations

The Board committee, if any, and the Board of Trustees each shall keep a contemporaneous record of its decisions regarding the appropriation of endowment funds for expenditure, describing the nature and extent of the consideration that the committee or Board gave to each of the eight factors listed in Section II above.

Under NYPMIFA, unless permitted by the donor in the gift instrument, an annual distribution from an endowment fund created on or after September 17, 2010 in an amount exceeding seven (7) percent of the fair market value of the fund, calculated based on market values determined at least quarterly and averaged over a period of at least the last twenty quarters ending with the last quarter of the fiscal year preceding the distribution (or for the number of quarters in existence for endowments more recently created), will create a rebuttable presumption that such distribution was imprudent. Accordingly, should the Board committee recommend and/or the Board of Trustees decide, after acting in accordance with NYPMIFA's prudence standard as set forth above, that making an annual distribution in excess of seven (7) percent from such endowment fund is prudent, the Board committee and the Board each shall ensure that the contemporaneous written record documenting its recommendation or decision includes a detailed statement of the basis upon which the Board committee and/or Board determined that such annual distribution was prudent.