

**INVESTMENT MANAGER GUIDELINES**  
**U.S. EQUITY GENERAL PARTNERSHIP II**  
**OF THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL AND ROTARY INTERNATIONAL**  
Adopted June 2001; Amended April 2005

The following guidelines have been developed to be used in the management of the U.S. Equity General Partnership II (Partnership) assets. Where mutual or commingled funds are used, it is expected that the portfolios generally conform to these guidelines, though the prospectus or guidelines of the fund supersede those of the Partnership. On a quarterly basis, the investment managers of mutual or commingled funds will review the guidelines of the commingled funds and the guidelines set forth below. If the fund's portfolio differs from the below reference standards in any material respect, the investment manager will notify the Partnership in its next quarterly report.

**Manager Responsibilities**

The duties and responsibilities of the investment managers include:

- Investing the assets entrusted to them in accordance with these investment guidelines and with the care, skill, prudence, and diligence that a prudent professional investment manager, familiar with such matters and acting in like capacity, would use in the investment of such assets.
- Voting all proxies after careful assessment of the issues involved. The managers should pay particular attention to items that may reduce the economic value of stockholders' rights of ownership and thereby impact adversely the performance of the Partnership's assets.
- Initiating written communication with the Partnership whenever the investment manager believes the guidelines should be changed.

**Guidelines**

- It is expected that the portfolio will normally be fully invested in stocks that trade on U.S. exchanges, but managers may also use cash equivalent securities at their discretion. At no time should cash equivalent securities exceed 10% of the portfolio's market value.
- When investing in cash equivalents, managers generally are expected to utilize a high quality, broadly diversified commingled fund or other high quality vehicle developed internally or made available by the custodian bank.
- The portfolio is to be diversified in a manner to reduce the impact of large losses in individual securities.
- Futures and options positions will be permitted in the management of the Partnership's assets, but should be limited to covered hedges or equitization of cash balances only. Leveraging portfolio positions through borrowing, short sales, or other encumbrances of the Partnership's assets is prohibited.

## **Performance Measurement Standards**

### *Total Partnership*

Over a three-to-five-year period, the annualized return on a net-of-fee basis should:

- exceed the rate of return of the Wilshire 5000 Stock Index
- rank in the upper 50 percent of the consultant's broad equity manager universe

### *Trust Company of the West (Large Cap Growth Equity)*

Over a three-to-five-year period, the annualized return on a net-of-fee basis should:

- exceed the rate of return of the Russell 1000 Growth Index
- rank in the upper 50 percent of the consultant's large cap growth equity manager universe

### *Institutional Capital (Large Cap Value Equity)*

Over a three-to-five-year period, the annualized return on a net-of-fee basis should:

- exceed the rate of return of the Russell 1000 Value Index
- rank in the upper 50 percent of the consultant's large cap value equity manager universe

### *M.A. Weatherbie & Co. (Small Cap Growth Equity)*

Over a three-to-five-year period, the annualized return on a net-of-fee basis should:

- exceed the rate of return of the Russell 2000 Growth Index
- rank in the upper 50 percent of the consultant's small cap growth equity manager universe

### *J.L. Kaplan Associates (Small Cap Value Equity)*

Over a three-to-five-year period, the annualized return on a net-of-fee basis should:

- exceed the rate of return of the Russell 2000 Value Index
- rank in the upper 50 percent of the consultant's small cap value equity manager universe

### *Barclays Global Investors (Index Fund)*

Over a three-to-five-year period, the annualized return on a net-of-fee basis should:

- match the rate of return of the Wilshire 5000 Stock Index

### *Western Asset Management Company (Enhanced Index Fund)*

Over a three-to-five-year period, the annualized return on a net-of-fee basis should:

- exceed the rate of the S&P 500 Index

## **Reporting Requirements**

Within four weeks after the end of each calendar quarter, each active investment manager will be required to submit a quarterly report containing the following information:

- Overview of financial markets with comments on economic and market factors, which have impacted the performance of the portfolio manager's decisions.
- Review of investment performance (net of fees) for the quarter, fiscal year-to-date (June 30) and since-inception of the account with comments on any policy or strategy changes, which contributed either positively or negatively to that performance.

- Discussion of those factors, which the manager believes are likely to impact performance over the next 12 months, and what, the manager's strategy is likely to be in response to those factors.
- Where appropriate, the use of any derivative product during the quarter, including information concerning the rationale behind the position and the size of the transaction.
- List of the securities in the portfolio at the end of the quarter.

The passive manager will be required to submit a report with four weeks after each calendar quarter reviewing investment performance (net of fees) for the quarter, fiscal year-to-date (June 30) and since-inception of the account.

Additionally, each manager has the responsibility to promptly advise the Partnership of any pertinent information potentially affecting performance including:

- change in ownership, affiliations, organization structure, financial condition, and key investment personnel
- substantive changes in investment strategy or portfolio structure

On an annual basis, the investment manager shall provide Part II of Form ADV for the most recent year to the Partnership.